

# **Parchment School District**

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**Financial Report  
with Supplemental Information  
June 30, 2012**

# Parchment School District

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## Independent Auditor's Report

To the Board of Education  
Parchment School District

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, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Parchment School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012 and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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.

To the Board of Education  
Parchment School District

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

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated October 16, 2012 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 opinions 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* and should be considered in assessing the results of our audit.

*Plante & Morse, PLLC*

October 16, 2012

# **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, 2012. 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 assets and liabilities, 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 assets 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

## Management's Discussion and Analysis (Continued)

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - 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 assets - 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 assets 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 assets 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 assets and liabilities. 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 assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2012 and 2011:

	Governmental Activities	
	June 30	
	2012	2011
	(in millions)	
<b>Assets</b>		
Current and other assets	\$ 4.3	\$ 4.8
Capital assets	<u>35.1</u>	<u>36.1</u>
Total assets	39.4	40.9
<b>Liabilities</b>		
Current liabilities	4.1	4.0
Long-term liabilities	<u>33.5</u>	<u>33.5</u>
Total liabilities	<u>37.6</u>	<u>37.5</u>
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	3.2	3.1
Restricted	0.1	-
Unrestricted	<u>(1.5)</u>	<u>0.3</u>
Total net assets	<u>\$ 1.8</u>	<u>\$ 3.4</u>

The above analysis focuses on the net assets (see Table I). The change in net assets of the School District's governmental activities is discussed below (see Table 2). The School District's net assets were \$1.8 million at June 30, 2012. 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 assets are reported separately to show legal constraints from debt covenants and enabling legislation that limits the School District's ability to use those net assets for day-to-day operations.

The \$1.8 million in net assets 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 assets 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 assets for fiscal years 2012 and 2011 (see Table 2).

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2012	2011
	(in millions)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 0.7	\$ 0.6
Operating grants and contributions	3.9	3.6
General revenue:		
Property taxes	2.6	2.5
State foundation allowance	10.7	10.7
Other	0.3	0.7
Total revenue	<u>18.2</u>	<u>18.1</u>
<b>Functions/Program Expenses</b>		
Instruction	9.3	9.0
Support services	6.2	6.2
Athletics	0.3	0.2
Food services	0.8	0.7
Community services	0.5	0.2
Interest on long-term debt	1.6	1.6
Depreciation (unallocated)	1.1	1.1
Total functions/program expenses	<u>19.8</u>	<u>19.0</u>
<b>Decrease in Net Assets</b>	(1.6)	(0.9)
<b>Net Assets - Beginning of year</b>	<u>3.4</u>	<u>4.3</u>
<b>Net Assets - End of year</b>	<u><u>\$ 1.8</u></u>	<u><u>\$ 3.4</u></u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$19.8 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 (\$3.9 million). We paid for the remaining "public benefit" portion of our governmental activities with \$2.6 million in taxes, \$10.7 million in state foundation allowance, and with our other revenue (i.e., interest and general entitlements).



# **Parchment School District**

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

The School District experienced a decrease in net assets. Key reasons for the decrease in net assets 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 \$1.6 million, which is a decrease of \$0.4 million from last year. The primary reasons for the decrease are as follows:

- In the General Fund, our principal operating fund, the fund balance decreased \$434,031 to approximately \$1.5 million. The change is mainly due to increased or ongoing current educational programming while revenues have remained relatively steady.
- 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 \$41,651 to \$10,919. The change is mainly due to an indirect cost allocation charge to those funds.

Combined, the debt service funds showed a fund balance increase of \$152,729 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. Durant debt obligations are funded by annual state appropriation, and no fund balance exists at year end. Debt service funds fund balances are reserved since they can only be used to pay debt service obligations.

The Capital Projects Fund fund balances decreased \$88,519 as the School District's capital improvement plan was implemented to update and improve present facilities needs and planned projects, including the high school construction project.

# 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 2011-2012 General Fund original budget included an increase in budgeted state revenue of \$331,000 due to an increase in student count. Budgeted federal revenue was increased, though largely offsetting this increase was federal program expenditures. Budgeted local revenue was increased by approximately \$200,000 due to increased enrollment in the daycare program. Budgeted expenditures were increased primarily due to planned facility operations and management as well as increased student programming.

There were no significant variances between the final budget and actual amounts in the General Fund.

### Capital Assets and Debt Administration

#### *Capital Assets*

As of June 30, 2012, the School District had \$35.1 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 \$1.0 million, or 2.8 percent, from last year.

	2012	2011
Land	\$ 166,778	\$ 166,778
Construction in progress	-	199,577
Buildings and building improvements	43,079,554	42,879,977
Buses and other vehicles	1,191,626	1,191,626
Furniture and equipment	6,661,879	6,675,592
Total capital assets	51,099,837	51,113,550
Less accumulated depreciation	15,988,521	14,978,886
Net capital assets	<u>\$ 35,111,316</u>	<u>\$ 36,134,664</u>

We anticipate capital additions for the 2012-2013 fiscal year will be lower than the 2011-2012 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 \$31.3 million in bonds outstanding versus \$32.1 million in the previous year - a change of 2.4 percent. Those bonds consisted of the following:

	<u>2012</u>	<u>2011</u>
General obligation bonds	<u>\$ 31,303,851</u>	<u>\$ 32,075,845</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 installment 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 2012/2013 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 2013 fiscal year is 10 percent and 90 percent of the February 2012 and September 2012 student counts, respectively. The 2012-2013 budget was adopted in June 2012, based on an estimate of students that will be enrolled in September 2012. 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 2012-2013 school year, we anticipate that the fall student count will be slightly higher compared to the estimates used in creating the 2012-2013 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.

During 2012, the School District settled labor contracts with all of the school bargaining units. The financial impact on 2012-2013 operations is estimated by the School District to be reduced expenditures of approximately \$50,000 at this time.

# Parchment School District

## Statement of Net Assets June 30, 2012

	Primary Government - Governmental Activities
<b>Assets</b>	
Cash and investments (Note 3)	\$ 1,706,710
Receivables - Net (Note 4)	2,351,306
Due from other funds (Note 6)	55,951
Inventories	38,422
Prepaid costs	42,492
Restricted assets - Cash and investments (Note 3)	121,604
Capital assets - Net (Note 5)	<u>35,111,316</u>
Total assets	39,427,801
<b>Liabilities</b>	
Accounts payable	193,734
Accrued payroll and other liabilities	1,467,520
State aid anticipation notes (Note 10)	1,006,706
Other accrued liabilities	436,807
Long-term liabilities (Note 7):	
Due within one year	985,490
Due in more than one year	<u>33,488,353</u>
Total liabilities	<u>37,578,610</u>
<b>Net Assets</b>	
Invested in capital assets - Net of related debt	3,266,956
Restricted:	
Debt service	121,279
Food service	10,919
Unrestricted	<u>(1,549,963)</u>
Total net assets	<u><u>\$ 1,849,191</u></u>

# Parchment School District

## Statement of Activities Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenue		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Assets
Primary government - Governmental activities:				
Instruction	\$ 9,296,399	\$ -	\$ 3,285,704	\$ (6,010,695)
Support services	6,192,781	69,235	12,000	(6,111,546)
Athletics	285,823	32,428	8,500	(244,895)
Food services	748,195	232,308	526,810	10,923
Community services	509,367	362,350	-	(147,017)
Payments to other public schools	27,921	-	-	(27,921)
Interest	1,569,285	-	97,496	(1,471,789)
Depreciation expense (unallocated) (Note 5)	1,144,865	-	-	(1,144,865)
Total primary government	<b>\$ 19,774,636</b>	<b>\$ 696,321</b>	<b>\$ 3,930,510</b>	(15,147,805)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				1,016,489
Property taxes, levied for debt service				1,553,722
State aid not restricted to specific purposes				10,682,854
Federal sources - Unrestricted				258,483
Interest and investment earnings				1,285
Other				45,761
Total general revenue				<u>13,558,594</u>
<b>Change in Net Assets</b>				(1,589,211)
<b>Net Assets - Beginning of year</b>				<u>3,438,402</u>
<b>Net Assets - End of year</b>				<b><u>\$ 1,849,191</u></b>

# Parchment School District

## Governmental Funds Balance Sheet June 30, 2012

	General Fund	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>			
Cash and investments (Note 3)	\$ 1,547,237	\$ 159,473	\$ 1,706,710
Receivables - Net (Note 4)	2,332,187	19,119	2,351,306
Due from other funds (Note 6)	159,248	-	159,248
Inventories	22,918	15,504	38,422
Prepaid costs and deposits	42,248	244	42,492
Restricted assets - Cash and investments (Note 3)	-	121,604	121,604
	<u>\$ 4,103,838</u>	<u>\$ 315,944</u>	<u>\$ 4,419,782</u>
Total assets			
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 157,093	\$ 36,641	\$ 193,734
Accrued payroll and other liabilities	1,467,520	-	1,467,520
State aid anticipation notes (Note 10)	1,006,706	-	1,006,706
Due to other funds (Note 6)	-	103,297	103,297
	<u>2,631,319</u>	<u>139,938</u>	<u>2,771,257</u>
Total liabilities			
<b>Fund Balances</b>			
Nonspendable:			
Inventory	22,918	15,504	38,422
Prepaid assets	42,248	244	42,492
Restricted - Debt service	-	121,279	121,279
Assigned:			
Capital projects (nonbonded)	-	43,808	43,808
Budgeted use of fund balance in subsequent year	665,757	-	665,757
Unassigned	741,596	(4,829)	736,767
	<u>1,472,519</u>	<u>176,006</u>	<u>1,648,525</u>
Total fund balances			
Total liabilities and fund balances	<u>\$ 4,103,838</u>	<u>\$ 315,944</u>	<u>\$ 4,419,782</u>

# Parchment School District

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2012

<b>Fund Balance Reported in Governmental Funds</b>	\$	1,648,525
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Cost of capital assets	\$	51,099,837
Accumulated depreciation	<u>(15,988,521)</u>	35,111,316
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	(34,183,843)	
Compensated absences and other termination benefits	<u>(290,000)</u>	(34,473,843)
Accrued interest payable is not included as a liability in governmental funds		<u>(436,807)</u>
<b>Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>1,849,191</u></b>

# Parchment School District

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2012

	General Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenue</b>			
Local sources	\$ 1,545,799	\$ 1,788,279	\$ 3,334,078
State sources	11,881,474	130,205	12,011,679
Federal sources	833,352	494,101	1,327,453
Intergovernmental	1,592,290	-	1,592,290
Total revenue	15,852,915	2,412,585	18,265,500
<b>Expenditures</b>			
Current:			
Instruction	9,185,220	-	9,185,220
Support services	6,095,922	-	6,095,922
Athletics	285,823	-	285,823
Food services	24,549	721,237	745,786
Community services	509,367	-	509,367
Interfund reimbursement	(74,294)	74,294	-
Debt service:			
Principal	136,292	771,994	908,286
Interest	20,390	1,518,380	1,538,770
Capital outlay	98,160	143,804	241,964
Payments to other public schools	27,921	-	27,921
Total expenditures	16,309,350	3,229,709	19,539,059
<b>Excess of Expenditures Over Revenue</b>	(456,435)	(817,124)	(1,273,559)
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	50,000	50,000
Transfers out	(50,000)	-	(50,000)
Value of capital lease financing	72,404	-	72,404
School Loan Revolving Fund proceeds	-	789,683	789,683
Total other financing sources	22,404	839,683	862,087
<b>Net Change in Fund Balances</b>	(434,031)	22,559	(411,472)
<b>Fund Balances - Beginning of year</b>	1,906,550	153,447	2,059,997
<b>Fund Balances - End of year</b>	<u>\$ 1,472,519</u>	<u>\$ 176,006</u>	<u>\$ 1,648,525</u>



# 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, 2012

**Net Change in Fund Balances - Total Governmental Funds** \$ (411,472)

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	\$ (1,144,865)	
Capitalized capital outlay	<u>121,517</u>	(1,023,348)

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	(80,075)
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School Loan Revolving Fund and installment note proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities	(862,087)
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Underwriter's premium net of deferred charges reported as expenditures in the funds and amortized in the statement of activities	(1,660)
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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)	908,286
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Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(28,855)
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Compensated absences are recorded when earned in the statement of activities. In the current year, more was earned than paid out	<u>(90,000)</u>
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**Change in Net Assets of Governmental Activities** \$ (1,589,211)

# Parchment School District

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## Fiduciary Funds Statement of Fiduciary Assets and Liabilities June 30, 2012

	<u>Agency Funds</u>
<b>Assets -</b> Cash and investments	<u>\$ 152,953</u>
<b>Liabilities</b>	
Due to student activities	\$ 97,002
Due to other funds (Note 6)	<u>55,951</u>
Total liabilities	<u>\$ 152,953</u>

# Parchment School District

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## Notes to Financial Statements June 30, 2012

### 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 assets 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, 2012

### 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 assets 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, (2) operating grants and contributions, and (3) capital 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. 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, 2012

### 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:

**2007 Capital Projects Fund** - The 2007 Capital Projects Fund is used to record bond proceeds and related investment earnings and the disbursement of invoices specifically designated for construction of major capital projects. The fund is retained until the purpose for which it was created is accomplished.

**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 Services 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, 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. The Durant Debt Service Fund is used to record the state aid revenue for payment of interest and principal on the Durant Non-Plaintiff Bond.

**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 Assets or Equity**

**Cash and Investments** - Cash and investments include cash on hand, demand deposits, bank investment pools, cash management funds, and investments in U.S. agency notes with varying maturity periods when acquired. Investments are stated at fair value.

# Parchment School District

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## Notes to Financial Statements June 30, 2012

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

**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."

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.

# Parchment School District

## Notes to Financial Statements June 30, 2012

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

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

**Compensated Absences (Vacation and Sick Leave) and Early Termination Benefits** - The liability for compensated absences reported in the government-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 assets. Bond premiums and discounts, as well as issuance costs, 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 and issuance costs. 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** - 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

# Parchment School District

## Notes to Financial Statements June 30, 2012

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

- 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.
- 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 have not been assigned to other funds and have not been restricted, committed, or assigned to specific purposes in the General Fund.

**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.

The budget document presents information by fund and function. 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** - The School District did not have significant expenditure budget variances.

**Capital Projects Fund Compliance** - The 2007 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code. The project for which the 2007 bonds were issued was considered complete on June 30, 2010.



### 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:

**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 \$2,153,902 included no bank deposits (certificates of deposit, checking, and savings 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, 2012, 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.

**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.

# Parchment School District

## Notes to Financial Statements June 30, 2012

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

At year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

**Concentration of Credit Risk** - The School District places no limit on the amount the School District may invest in any one issuer. The School District does not have a policy to minimize concentration of credit risk.

**Foreign Currency Risk** - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

### Note 4 - Receivables and Deferred Revenue

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

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:			
Due from other governmental units	\$ 2,325,481	\$ 19,119	\$ 2,344,600
Other receivables	<u>6,706</u>	<u>-</u>	<u>6,706</u>
Total receivables	<u>\$ 2,332,187</u>	<u>\$ 19,119</u>	<u>\$ 2,351,306</u>

# Parchment School District

## Notes to Financial Statements June 30, 2012

### Note 5 - Capital Assets

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

	Balance July 1, 2011	Reclassifications	Additions/ Transfers	Disposals/ Transfers	Balance June 30, 2012
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	\$ 166,778	\$ -	\$ -	\$ -	\$ 166,778
Construction in progress	199,577	(199,577)	-	-	-
Subtotal	366,355	(199,577)	-	-	166,778
Capital assets being depreciated:					
Buildings and improvements	42,879,977	199,577	-	-	43,079,554
Furniture and equipment	6,675,592	-	121,517	135,230	6,661,879
Buses and other vehicles	1,191,626	-	-	-	1,191,626
Subtotal	50,747,195	199,577	121,517	135,230	50,933,059
Accumulated depreciation:					
Buildings and improvements	9,811,604	-	760,709	-	10,572,313
Furniture and equipment	4,664,607	92,314	226,136	135,230	4,847,827
Buses and other vehicles	502,675	(92,314)	158,020	-	568,381
Subtotal	14,978,886	-	1,144,865	135,230	15,988,521
Net capital assets being depreciated	35,768,309	199,577	(1,023,348)	-	34,944,538
Net capital assets	\$ 36,134,664	\$ -	\$ (1,023,348)	\$ -	\$ 35,111,316

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

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

The composition of interfund balances is as follows:

Fund Due To	Fund Due From		Total
	Nonmajor Governmental Funds	Agency Fund	
General Fund	\$ 103,297	\$ 55,951	\$ 159,248

# Parchment School District

## Notes to Financial Statements June 30, 2012

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

The General Fund has recorded an interfund receivable which represents expenditures paid by the General Fund on behalf of other funds, to be reimbursed by the other funds.

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

Fund Transferred To	Fund Transferred From General Fund
Capital Improvement Fund	\$ 50,000

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 \$74,294 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.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds	\$ 32,075,845	\$ -	\$ 771,994	\$ 31,303,851	\$ 838,851
Issuance premiums	450,367	-	41,675	408,692	41,675
Refunding deferred charges	(296,123)	-	(43,335)	(252,788)	(43,335)
Total bonds payable	32,230,089	-	770,334	31,459,755	837,191
Notes payable	448,493	-	132,007	316,486	135,232
Capital lease payable	-	72,404	4,285	68,119	13,067
School Loan Revolving Fund	1,549,800	789,683	-	2,339,483	-
Compensated absences and other termination benefits	200,000	90,000	-	290,000	-
Total governmental activities	\$ 34,428,382	\$ 952,087	\$ 906,626	\$ 34,473,843	\$ 985,490

# Parchment School District

## Notes to Financial Statements June 30, 2012

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

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

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2013	\$ 974,085	\$ 1,471,258	\$ 2,445,343
2014	998,884	1,424,036	2,422,920
2015	1,122,368	980,302	2,102,670
2016	1,155,000	926,331	2,081,331
2017	1,260,000	880,131	2,140,131
2018-2022	7,380,000	5,098,649	12,478,649
2023-2027	7,055,000	3,630,144	10,685,144
2028-2032	5,820,000	2,260,762	8,080,762
2033-2036	5,855,000	699,912	6,554,912
Total	<u>\$ 31,620,337</u>	<u>\$ 17,371,525</u>	<u>\$ 48,991,862</u>

### Governmental Activities

General obligation bonds consist of the following:

\$7,715,000 serial bonds due in annual installments of \$765,000 to \$1,085,000 through May 1, 2018; interest ranging from 3.0% to 5.0%	\$ 5,660,000
\$19,130,000 serial bonds due in annual installments of \$1,130,000 from May 1, 2019 through May 1, 2025; interest ranging from 4.7% to 6.625%	7,910,000
\$17,770,000 serial bonds due in annual installments of \$60,000 to \$1,500,000 through May 1, 2036; interest ranging from 4.0% to 4.75%	17,720,000
\$206,639 Durant Non-Plaintiff serial bonds due in an annual installment of \$13,851 through May 15, 2013; interest at 4.76%	<u>13,851</u>
Total bonded debt	<u>\$ 31,303,851</u>
\$248,508 installment purchase due in annual installments of \$49,702, plus interest, through August 13, 2013; interest at 5.15%	\$ 49,700
\$428,290 installment purchase due in annual installments of \$95,989, including interest, through July 9, 2015; interest at 3.92%	<u>266,786</u>
Total notes payable	<u>\$ 316,486</u>

# Parchment School District

## Notes to Financial Statements June 30, 2012

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

**Durant Non-Plaintiff Bond** - Included in governmental activities general obligation bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) associated with this bond are funded by the State of Michigan via specifically appropriated state aid and will not require any School District debt levy or utilization of any other School District financial resources.

**Capital Leases** - During the year, the School District 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:

<u>Years Ending June 30</u>	<u>Amount</u>
2013	\$ 16,783
2014	16,783
2015	16,783
2016	16,783
2017	<u>11,189</u>
Total	78,321
Less amount representing interest	<u>10,202</u>
Present value of net minimum lease payments	<u>\$ 68,119</u>

**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, as amended by Public Act 92 of 2005, 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. An interest rate of 3.0 percent has been assessed for the year ended June 30, 2012. 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.

# Parchment School District

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## Notes to Financial Statements June 30, 2012

### 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 (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

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

**Pension Benefits** - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate for basic plan members was 12.16 percent of covered payroll for the period from July 1, 2011 through September 30, 2011 and 15.96 percent for the period from October 1, 2011 through June 30, 2012. The employer contribution rate for pension plus plan members was 10.66 percent for the period from July 1, 2011 through September 30, 2011 and 14.73 percent from October 1, 2011 through June 30, 2012. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages, or up to 6.4 percent of gross wages for members entering the MIP plus plan on or after July 1, 2008. The School District's required and actual contributions to the plan for the years ended June 30, 2012, 2011, and 2010 were approximately \$1,299,000, \$1,010,000, and \$891,000, respectively.

# Parchment School District

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## Notes to Financial Statements June 30, 2012

### **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 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 was 8.50 percent of covered payroll for the period from July 1, 2011 through June 30, 2012. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2012, 2011, and 2010 were approximately \$735,000, \$691,000, and \$605,000, respectively.

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

On August 20, 2011, the School District borrowed \$800,000 at 0.60 percent interest and \$1,000,000 at 0.311 percent interest on state aid anticipation notes. The notes, plus interest, are due August 20, 2012. Set-aside payments totaling \$804,773 made from January to May 2012 are being held in trust and have been accounted for as a reduction of the School District's liability. At June 30, 2012, the School District had accrued interest payable of \$6,706 on these notes, making the total liability \$1,006,706 at June 30, 2012. The notes were repaid in full subsequent to June 30, 2012.

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

On August 20, 2012, the School District borrowed \$1,100,000 at 0.27 percent interest and \$900,000 at 1.46 percent on state aid anticipation notes. The notes, plus interest, are due in August 2013.

### **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

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued by the GASB in June 2011 and will be effective for the School District's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the School District as of June 30, 2014.

In June 2012, the GASB issued GASB 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 government-wide, proprietary, and discretely presented component units 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, 2012

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Local sources	\$ 1,345,750	\$ 1,545,700	\$ 1,545,799	\$ 99
State sources	11,545,800	11,877,350	11,881,474	4,124
Federal sources	561,854	778,086	833,352	55,266
Intergovernmental	1,304,000	1,577,709	1,592,290	14,581
Total revenue	14,757,404	15,778,845	15,852,915	74,070
<b>Expenditures</b>				
Current:				
Instruction:				
Basic program	7,461,965	7,486,439	7,573,336	86,897
Added needs	1,658,701	1,709,024	1,709,459	435
Support services:				
Pupil	848,075	885,630	824,814	(60,816)
Instructional staff	606,809	599,290	600,112	822
General administration	397,175	427,625	415,980	(11,645)
School administration	1,348,000	1,394,895	1,376,528	(18,367)
Business services	370,460	401,861	388,082	(13,779)
Operations and maintenance	1,583,540	1,719,290	1,701,750	(17,540)
Pupil transportation	669,100	679,605	686,040	6,435
Technology	108,110	108,500	103,201	(5,299)
Athletics	265,750	283,645	285,823	2,178
Food services	25,000	25,000	24,549	(451)
Community services	164,552	502,350	509,367	7,017
Interfund reimbursement	(72,000)	(72,000)	(74,294)	(2,294)
Debt service	177,500	156,600	156,682	82
Payments to other public schools	8,000	8,000	27,921	19,921
Total expenditures	15,620,737	16,315,754	16,309,350	(6,404)
<b>Other Financing (Uses) Sources</b>				
Transfers out	(50,000)	(50,000)	(50,000)	-
Value of capital lease financing	-	-	72,404	72,404
Total other financing (uses) sources	(50,000)	(50,000)	22,404	72,404
<b>Net Change in Fund Balance</b>	(913,333)	(586,909)	(434,031)	152,878
<b>Fund Balance - Beginning of year</b>	1,906,550	1,906,550	1,906,550	-
<b>Fund Balance - End of year</b>	<u>\$ 993,217</u>	<u>\$ 1,319,641</u>	<u>\$ 1,472,519</u>	<u>\$ 152,878</u>

## **Other Supplemental Information**

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# Parchment School District

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2012

	Special Revenue	Debt Service Funds				Capital Projects Fund		Total Nonmajor Governmental Funds
	Fund							
	Food Service	1998 Debt	2005 Debt	2007 Debt	Durant	2007 Capital Projects	Capital Improvement	
<b>Assets</b>								
Cash and cash equivalents	\$ 115,665	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,808	\$ 159,473
Receivables	19,119	-	-	-	-	-	-	19,119
Inventories	15,504	-	-	-	-	-	-	15,504
Prepaid costs and other assets	244	-	-	-	-	-	-	244
Restricted assets	-	28,073	40,458	53,073	-	-	-	121,604
<b>Total assets</b>	<b>\$ 150,532</b>	<b>\$ 28,073</b>	<b>\$ 40,458</b>	<b>\$ 53,073</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 43,808</b>	<b>\$ 315,944</b>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities</b>								
Accounts payable	\$ 36,641	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,641
Due to other funds	102,972	-	-	325	-	-	-	103,297
<b>Total liabilities</b>	<b>139,613</b>	<b>-</b>	<b>-</b>	<b>325</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>139,938</b>
<b>Fund Balances</b>								
Nonspendable:								
Inventory	15,504	-	-	-	-	-	-	15,504
Prepaid assets	244	-	-	-	-	-	-	244
Restricted - Debt service	-	28,073	40,458	52,748	-	-	-	121,279
Assigned - Capital projects (nonbonded)	-	-	-	-	-	-	43,808	43,808
Unassigned	(4,829)	-	-	-	-	-	-	(4,829)
<b>Total fund balances</b>	<b>10,919</b>	<b>28,073</b>	<b>40,458</b>	<b>52,748</b>	<b>-</b>	<b>-</b>	<b>43,808</b>	<b>176,006</b>
<b>Total liabilities and fund balances</b>	<b>\$ 150,532</b>	<b>\$ 28,073</b>	<b>\$ 40,458</b>	<b>\$ 53,073</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 43,808</b>	<b>\$ 315,944</b>

# Parchment School District

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Nonmajor Governmental Funds Year Ended June 30, 2012

	Special Revenue	Debt Service Funds				Capital Projects Fund		Total Nonmajor Governmental Funds
	Fund							
	Food Service	1998 Debt	2005 Debt	2007 Debt	Durant	2007 Capital Projects	Capital Improvement	
<b>Revenue</b>								
Local sources	\$ 232,355	\$ 292,061	\$ 711,184	\$ 552,679	\$ -	\$ -	\$ -	\$ 1,788,279
State sources	32,709	-	-	-	97,496	-	-	130,205
Federal sources	494,101	-	-	-	-	-	-	494,101
Total revenue	759,165	292,061	711,184	552,679	97,496	-	-	2,412,585
<b>Expenditures</b>								
Current:								
Food services	721,237	-	-	-	-	-	-	721,237
Interfund reimbursement	74,294	-	-	-	-	-	-	74,294
Debt service:								
Principal	-	-	675,000	25,000	71,994	-	-	771,994
Interest	-	395,500	285,300	812,078	25,502	-	-	1,518,380
Capital outlay	5,285	-	-	-	-	93,444	45,075	143,804
Total expenditures	800,816	395,500	960,300	837,078	97,496	93,444	45,075	3,229,709
<b>Excess of Expenditures Over Revenue</b>	(41,651)	(103,439)	(249,116)	(284,399)	-	(93,444)	(45,075)	(817,124)
<b>Other Financing Sources</b>								
Transfers in	-	-	-	-	-	-	50,000	50,000
School Loan Revolving Fund proceeds	-	105,342	221,776	462,565	-	-	-	789,683
Total other financing sources	-	105,342	221,776	462,565	-	-	50,000	839,683
<b>Net Change in Fund Balances</b>	(41,651)	1,903	(27,340)	178,166	-	(93,444)	4,925	22,559
<b>Fund Balances - Beginning of year</b>	52,570	26,170	67,798	(125,418)	-	93,444	38,883	153,447
<b>Fund Balances - End of year</b>	<u>\$ 10,919</u>	<u>\$ 28,073</u>	<u>\$ 40,458</u>	<u>\$ 52,748</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,808</u>	<u>\$ 176,006</u>

# Parchment School District

## Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2012

June 30	Durant Principal	98 Debt Principal	2005 Debt Principal	2007 Debt Principal
2013	\$ 13,851	\$ -	\$ 765,000	\$ 60,000
2014	-	-	835,000	75,000
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
<b>Total principal</b>	<b>\$ 13,851</b>	<b>\$ 7,910,000</b>	<b>\$ 5,660,000</b>	<b>\$ 17,720,000</b>
Principal payments due	May 15	May 1	May 1	May 1
Interest payments due	May 15	May 1 and November 1	May 1 and November 1	May 1 and November 1
Interest rate	4.76%	4.7% to 6.625%	3.0% to 5.0%	4.0% to 4.75%
<b>Original issue</b>	<b>\$ 206,639</b>	<b>\$ 19,130,000</b>	<b>\$ 7,715,000</b>	<b>\$ 17,770,000</b>