FENNVILLE PUBLIC SCHOOLS

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

YEAR ENDED JUNE 30, 2013

Maner Costerisan
Certified Public Accountants
Business & Technology Advisors

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Fennville Public Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fennville Public Schools, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issue 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fennville Public Schools as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 12 to the financial statements, Fennville Public Schools implemented Governmental Accounting Standards Board Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements,* and Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fennville Public Schools basic financial statements. The supplementary information, as identified in the table of contents, and schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated September 24, 2013 on our consideration of Fennville Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fennville Public Schools' internal control over financial reporting and compliance.

Maner Costerisan PC

September 24, 2013

FENNVILLE PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION & ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2013

Fennville Public Schools, a K-12 school district located in Allegan County, Michigan, is in its tenth year of implementation for the provisions of Governmental Accounting Standards Board Statement #34 (GASB #34) with the enclosed financial statements.

FINANCIAL HIGHLIGHTS

Below is a table showing the fund balances for the past ten years.

DATE	GENERAL FUND, FUND BALANCE	CHANGE
June 30, 2004	$ 1,149,200	$ 242,552
June 30, 2005	1,479,503	330,303
June 30, 2006	1,254,283	(225,220)
June 30, 2007	1,006,356	(247,927)
June 30, 2008	1,058,854	52,498
June 30, 2009	971,741	(87,113)
June 30, 2010	1,463,183	491,442
June 30, 2011	1,803,110	339,927
June 30, 2012	2,773,951	970,841
June 30, 2013	3,017,763	243,812

In 2012-13 the total general fund revenues exceeded $12.28 million dollars with expenditures approximately $12.07 million dollars. In 2011-12 the total general fund revenues exceeded $12.42 million dollars with expenditures approximately $11.49 million dollars. General fund revenues decreased from the 2011-12 school year revenues from local and federal sources, meaning that property tax and federal grant revenues decreased. General fund expenditures increased by $580,029. This increase reflects the cost of needed updates to the District's technology infrastructure and transportation bus fleet. The State Legislature also allocated additional funds to school districts to put more funds into the school employee pension plan to address the underfunded balance of the retirement fund which also increased expenses.

The District continues to participate in short-term borrowing and borrowed $1.5 million dollars during the year that was repaid in August 2013. The reliance on short-term borrowings to finance operations during the school year, especially until the first State Aid payment in October and the receipt of property taxes beginning in December will require state aid borrowing in 2013-14, with $1.0 million dollars being borrowed to meet cash flow needs.

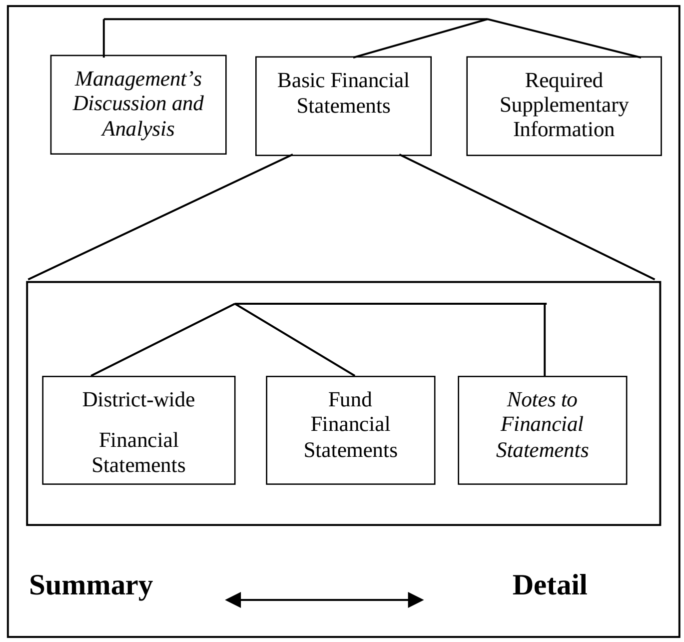
The food service department finished the fiscal year with a decrease of approximately $14,000 largely due to increased operational costs associated with food costs. Food service continues with an enviable fund balance of approximately $150,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Figure A-1
Organization of Fennville Public Schools' Annual Financial Report



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

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

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

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

DISTRICT WIDE FINANCIAL STATEMENTS:

All of the District's assets, deferred outflows of resources and liabilities are reported in the district-wide financial statements and are on a full accrual basis that is similar to those used by private-sector companies. For example, capital assets and long-term obligations of the District are reported in the statement of net position of the district-wide financial statements. The difference between the District's assets, deferred outflows of resources and liabilities (net position) are one way to measure the District's financial position. However, you need to consider other non-financial factors such as changes in the District's property tax base and the condition and age of the school buildings and other facilities.

The current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Most of the District's basic services are included here, such as regular and special education, transportation and administration. These activities are financed through the state foundation grant, property taxes and various federal and state programs.

The District's combined net position at the beginning of the fiscal year were $4,776,829 and on June 30, 2013 they were $5,528,885 which represents an increase of $752,263 as recorded in the statement of activities.

FUND FINANCIAL STATEMENTS

The fund financial statements are reported on a modified accrual basis and consist of governmental funds and fiduciary funds. Governmental funds include most of the District's basic services which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending on future District programs.

Fiduciary funds are for assets that belong to others, such as the scholarship fund and the student activities fund where the District is the trustee or fiduciary. The District cannot use these assets to finance its operations but it is responsible to ensure that these funds are used for their intended purposes. Only measurable and currently available funds are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources. Some of these funds are established by State law and by bond covenants while others can be established for the District to control and manage money for a particular purpose such as school lunch and athletics.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position - The District's combined net position as of June 30, 2013 totaled $5,528,885 which was an increase over the June 30, 2012 balance of $4,776,829.

Table A-3
Fennville Public Schools

	2013	2012 (as restated)
Current assets	$ 5,276,096	$ 5,041,855
Capital assets	24,042,320	24,556,006
Total assets	29,318,416	29,597,861
Deferred outflows of resources	1,755,361	378,135
Long-term debt outstanding	23,930,400	23,728,925
Other liabilities	1,614,492	1,470,242
Total liabilities	25,544,892	25,199,167
Net position:		
Net investment in capital assets	1,892,820	1,234,452
Restricted for debt service	494,185	633,631
Restricted for special revenue (food service)	115,939	152,777
Unrestricted	3,025,941	2,755,969
Total net position	$ 5,528,885	$ 4,776,829

Table A-4 Changes in Fennville Public Schools' Net Position		
	2013	2012 (as restated)
Revenues:		
Program revenues:		
Charges for services	$ 235,609	$ 222,677
Federal and state categorical grants	1,870,718	1,797,687
General revenues:		
Property taxes	3,977,616	4,038,120
Investment	3,620	5,571
State aid - unrestricted	8,077,165	7,961,266
Federal Education Jobs Fund - unrestricted	24,828	328,661
Intermediate sources	489,615	407,594
Gain on sale of capital assets	23,140	-
Other	48,599	110,721
Total revenues	14,750,910	14,872,297
Expenses:		
Instruction	7,096,004	7,432,027
Support services	5,084,627	4,671,392
Community services	177,021	173,267
Food services	812,326	826,270
Interest on long-term debt	828,876	1,067,526
Total expenses	13,998,854	14,170,482
Change in net position	$ 752,056	$ 701,815

STATE OF MICHIGAN UNRESTRICTED AID (State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

a. The Michigan State Aid Act per student foundation allowance which was established under Proposal A has increased from $4,754 per student in 1995 to $6,966 per student in 2012-2013. The per student State foundation allowance increased by $120 from 2011-12. However, this is still below the foundation allowance paid to the districts in 2010-11 of $7,316.

b. Student Enrollment - The blended count is 90 percent of current year's fall count and 10 percent of prior year's February count.

c. The District's non-homestead levy for 2012-13 was 18.0000 mills which the voters approved in May 2012.

Student Enrollment

Student enrollment decreased from 1,473 in 2011-12 to 1,433 in 2012-13. A decrease of pupils is expected in the fall of 2013.

GOVERNMENTAL FUNDS

Results of Operations:

For the fiscal years ended June 30, 2013 and 2012, the district-wide results of operations were:

	2013	2012
REVENUES:		
Local sources:		
Property taxes	$ 3,977,616	$ 4,039,685
Investment earnings	3,620	5,571
Food sales, athletics, community service and transportation	224,482	211,101
Other	59,102	98,356
Total local sources	4,264,820	4,354,713
State sources	8,712,456	8,506,847
Federal sources	1,260,255	1,580,767
Intermediate sources	513,379	431,535
TOTAL REVENUES	$ 14,750,910	$ 14,873,862
EXPENDITURES:		
Current:		
Instruction	$ 6,696,677	$ 6,743,166
Supporting services	5,076,345	4,543,677
Food service activities	801,684	815,184
Community service activities	85,283	63,750
Debt service:		
Principal	814,853	711,655
Interest expense	716,147	1,065,564
Other	89,548	746
TOTAL EXPENDITURES	$ 14,280,537	$ 13,943,742

The following summarizes the revenues and expenses by comparing fiscal year 2013 to 2012 as shown in the previous results of operations.

- Property taxes decreased slightly due to a decrease in taxable values and assessments.
- Interest earnings decreased with the reduction of interest rates the District was able to obtain on their own investment opportunities due to the state of our economy.
- State sources increased due to the State Legislature’s flow of funds restricted to the school employee’s pension fund and one-time funding pots given to districts that achieve certain requirements.
- Federal sources showed a decrease due to decreases in Title I allocation and federal Education Jobs funding.

- Intermediate sources increased over the previous year as the result of the AAESA changing the Special Ed Act 18 funding policy which now shares more funds with local districts.
- The continued success of the food service department is a two edged sword. Too much fund equity can jeopardize federal funding, yet the desire to offer more food options to students requires greater startup costs. The District charges an indirect cost to recover some of the cleaning and utility costs paid by the general fund.
- The teacher's union contract ended June 30, 2012 and was ratified by the union and approved by the Board of Education in June 2103. Due to new laws teacher pay increases are no longer retroactive back to the beginning of the new contract. Teachers received a $350 stipend each in lieu of any pay increases for the 2012-13 school year. Teachers scheduled step advancements for 2012-13 and 2013-14 will be added to their contract for the 2013-14 school year. They will also receive a 2% increase on their salary schedule and increase the number of work days by 3 days for 2013-14.

The Fennville Public School District voters approved the 18 mill renewal in May 2012. The State of Michigan allows each school district to levy 18 mills on Non-PRE property, formally known as non-homestead property, and the foundation grant is calculated after the 18 mills. The approval of this renewal resulted in over two million in revenue for the District in fiscal year 2012-13.

Following is a table showing the past ten years of property taxes collected on Non-PRE property, formerly known non-homestead property.

Fiscal year	Levy	Mills
2012 - 2013	$ 2,324,439	18.0000
2011 - 2012	2,344,947	18.0000
2010 - 2011	2,316,278	18.0000
2009 - 2010	2,255,711	18.0000
2008 - 2009	2,096,333	18.0000
2007 - 2008	1,999,760	18.0000
2006 - 2007	1,891,005	18.0000
2005 - 2006	1,739,017	18.0000
2004 - 2005	1,564,900	17.5338
2003 - 2004	1,516,817	18.0000

GENERAL FUND AND BUDGET HIGHLIGHTS

Original vs. Final Budget:

The Uniform Budget Act of the State of MI requires that the local BOE approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. The 2012-13 budget was approved on June 18, 2012.

The 2012-13 budget was revised three times throughout the fiscal year, with the final revision approved on June 17, 2013, representing changes that were estimated during the month of March 2013. The final budget revision anticipated higher revenues and higher expenses than was expected in June 2012 when the original budget was approved. The increase in revenues was a result of receiving more state funding due to additional funding for the pension plan offered by the State. The Allegan Area ESA also directed more Special Ed Act 18 funds to local districts than has been pass practice. The increase in expenses was the result of the additional retirement expense that reflects the additional funding from the State to address the underfunded pension plan as well as investing in the District's technology infrastructure.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2013, the District had invested $35.4 million in a broad range of capital assets.

Table A-5
Fennville Public Schools' Capital Assets

	2013			2012
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 337,337	$ -	$ 337,337	$ 337,337
Buildings and additions	29,427,934	7,574,028	21,853,906	22,494,780
Land improvements	1,735,401	574,898	1,160,503	1,247,148
Computer and office	2,141,347	1,885,315	256,032	124,214
Outdoor equipment	573,527	417,369	156,158	154,795
Transportation equipment	1,161,244	882,860	278,384	197,732
Total	$ 35,376,790	$ 11,334,470	$ 24,042,320	$ 24,556,006

LONG-TERM DEBT

The 2004 construction and remodeling bond was approved by the voters on June 14, 2004 in the amount of $25,760,000. The bond debt was refinanced in 2007 and again in the summer of 2012 which reduced the debt obligations of the taxpayers. The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. See Note 7 for more information.

Table A-6
Fennville Public Schools
Outstanding Long-Term Debt

	2013	2012 (as restated)
General obligation bonds - net	$ 23,174,338	$ 22,739,520
Limited obligation bonds	-	19,405
Compensated absences	25,539	29,236
Other loans	730,523	940,764
	$ 23,930,400	$ 23,728,925

FACTORS BEARING ON THE DISTRICT'S FUTURE

There are several factors that could significantly affect the financial health of the District in the future.

- The funding received from the State of Michigan continues to be of concern. While the foundation allowance will be increased for 2013-14, it is still below the high of 2010-11 at $7,316. The current practice by the State is to give "one-time" pots of funding to districts that meet certain criteria. Districts cannot plan from year to year on those "one-time" funds being available for the following year. Another set of Best Practice incentives are available in 2013-14 to enhance State funding that Fennville PS may be in compliance.
- The District refinanced the 2004 construction bond for a second time which resulted in a $1.3 million savings to the communities' taxpayers. The debt millage was reduced from 4.9 mills in 2012 to 4.6 mill for tax year 2013.
- The District's bid for a Sinking Fund was approved by voters in May 2013 for .5 mill for 10 years. This will help the district address several facility and grounds issues and the District won't have to borrow additional funds or use future general operating funds to address these issues.
- The teacher's contract ended June 30, 2012. A new two year contract was approved by both the FEA and Board of Education in June 2103 that will end June 30, 2014. It is uncertain how the negotiations will evolve during the coming year to know the impact on the District's finances going forward. The teachers will receive a 2013-14 contract that will include step advancements for both 2012-13 and 2013-14 along with a 2% increase on their pay schedule. The number of teacher work days for the 2013-14 school year increased by 3 days.

- A student enrollment decrease is anticipated for the upcoming school year, which will play a role in the District's balancing of their budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the revenues it receives. If you have any questions about this report or need any additional information, please contact Business Services Office, Fennville Public Schools, Fennville, Michigan 49408, phone 269-561-7331.

BASIC FINANCIAL STATEMENTS

FENNVILLE PUBLIC SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental activities
ASSETS:	
Cash and cash equivalents	$ 2,305,255
Investments	1,022,426
Receivables:	
Accounts receivable	9,499
Intergovernmental	1,795,656
Inventories	110,290
Prepaids	32,970
Capital assets not being depreciated	337,337
Capital assets, net of accumulated depreciation	23,704,983
TOTAL ASSETS	29,318,416
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred charge on refunding	1,755,361
LIABILITIES:	
Accounts payable	88,070
Note payable	209,143
Accrued interest	151,039
Accrued salaries and related items	1,048,248
Unearned revenue	117,992
Noncurrent liabilities:	
Due within one year	826,640
Due in more than one year	23,103,760
TOTAL LIABILITIES	25,544,892
NET POSITION:	
Net investment in capital assets	1,892,820
Restricted for debt service	494,185
Restricted for special revenue (food service)	115,939
Unrestricted	3,025,941
TOTAL NET POSITION	$ 5,528,885

See notes to financial statements.

FENNVILLE PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Functions/programs	Expenses	Program revenues: Charges for services	Program revenues: Operating grants	Governmental activities: Net (expense) revenue and changes in net position
Governmental activities:				
Instruction	$ 7,096,004	$ -	$ 981,820	$ (6,114,184)
Support services	5,084,627	65,364	218,445	(4,800,818)
Community services	177,021	17,373	9,112	(150,536)
Food services	812,326	152,872	661,341	1,887
Interest on long-term debt	828,876	-	-	(828,876)
Total governmental activities	$ 13,998,854	$ 235,609	$ 1,870,718	(11,892,527)
General revenues:				
Property taxes, levied for general purposes				2,361,730
Property taxes, levied for debt service				1,615,886
Investment earnings				3,620
State sources				8,077,165
Federal Education Jobs Fund - unrestricted				24,828
Intermediate sources				489,615
Gain on sale of capital assets				23,140
Other				48,599
Total general revenues				12,644,583
CHANGE IN NET POSITION				752,056
NET POSITION, beginning of year (as restated)				4,776,829
NET POSITION, end of year				$ 5,528,885

See notes to financial statements.

FENNVILLE PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General Fund	2005 Debt service	Total nonmajor funds	Total governmental funds
ASSETS				
ASSETS:				
Cash and cash equivalents	$ 1,538,726	$ 640,224	$ 126,305	$ 2,305,255
Investments	1,022,426	-	-	1,022,426
Receivables:				
Accounts receivable	226	-	9,273	9,499
Intergovernmental	1,780,669	-	14,987	1,795,656
Due from other funds	3,069	-	-	3,069
Inventories	104,223	-	6,067	110,290
Prepaids	32,970	-	-	32,970
TOTAL ASSETS	$ 4,482,309	$ 640,224	$ 156,632	$ 5,279,165
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	$ 88,070	$ -	$ -	$ 88,070
Due to other funds	-	-	3,069	3,069
Note payable	209,143	-	-	209,143
Accrued interest	5,000	-	-	5,000
Accrued salaries and related items	1,048,248	-	-	1,048,248
Unearned revenue	114,085	-	3,907	117,992
TOTAL LIABILITIES	1,464,546	-	6,976	1,471,522
FUND BALANCES:				
Nonspendable:				
Inventories	104,223	-	6,067	110,290
Prepaids	32,970	-	-	32,970

See notes to financial statements.

	General Fund	2005 Debt service	Total nonmajor funds	Total governmental funds
FUND BALANCES (Concluded):				
Restricted for:				
Debt service	$ -	$ 640,224	$ -	$ 640,224
Food service	-	-	115,939	115,939
Assigned for subsequent year expenditures	496,275	-	27,650	523,925
Unassigned	2,384,295	-	-	2,384,295
TOTAL FUND BALANCES	3,017,763	640,224	149,656	3,807,643
TOTAL LIABILITIES AND FUND BALANCES	$ 4,482,309	$ 640,224	$ 156,632	$ 5,279,165
Total governmental fund balances				$ 3,807,643
Amounts reported for governmental activities in the statement of net position are different because:				
Deferred charges on refunding			$ 1,940,644	
Accumulated amortization			(185,283)	
				1,755,361
Capital assets used in governmental activities are not financial resources and are not reported in the funds				
The cost of the capital assets is			35,376,790	
Accumulated depreciation is			(11,334,470)	
				24,042,320
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Bonds payable				(23,174,338)
Other long-term debt				(730,523)
Compensated absences				(25,539)
Accrued interest is not included as a liability in government funds, it is recorded when paid				(146,039)
Net position of governmental activities				$ 5,528,885

See notes to financial statements.

FENNVILLE PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General Fund	2005 Debt service	Total nonmajor funds	Total governmental funds
REVENUES:				
Local sources:				
Property taxes	$ 2,347,586	$ 1,630,030	$ -	$ 3,977,616
Tuition	17,373	-	-	17,373
Investment earnings	2,890	677	53	3,620
Food sales	-	-	150,280	150,280
Athletics	42,536	-	-	42,536
Transportation	14,293	-	-	14,293
Other	52,917	-	6,185	59,102
Total local sources	2,477,595	1,630,707	156,518	4,264,820
State sources	8,656,677	-	55,779	8,712,456
Federal sources	634,363	-	625,892	1,260,255
Intermediate school districts	513,379	-	-	513,379
Total revenues	12,282,014	1,630,707	838,189	14,750,910
EXPENDITURES:				
Current:				
Instruction	6,696,677	-	-	6,696,677
Supporting services	5,076,345	-	-	5,076,345
Food service activities	-	-	801,684	801,684
Community service activities	85,283	-	-	85,283

See notes to financial statements.

	General Fund	2005 Debt service	Total nonmajor funds	Total governmental funds
EXPENDITURES (Concluded):				
Debt service:				
Principal repayment	$ 210,447	$ 585,000	$ 19,406	$ 814,853
Interest	-	715,223	924	716,147
Bond issuance cost	-	88,822	-	88,822
Other	-	726	-	726
Total expenditures	12,068,752	1,389,771	822,014	14,280,537
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	213,262	240,936	16,175	470,373
OTHER FINANCING SOURCES (USES):				
Transfers in	30,550	-	-	30,550
Transfers out	-	-	(30,550)	(30,550)
Refunding bonds issued	-	14,095,000	-	14,095,000
Premiums on refunding bonds issued	-	854,228	-	854,228
Payment to refunded bond escrow agent	-	(15,360,513)	-	(15,360,513)
Total other financing sources (uses)	30,550	(411,285)	(30,550)	(411,285)
NET CHANGE IN FUND BALANCES	243,812	(170,349)	(14,375)	59,088
FUND BALANCES:				
Beginning of year	2,773,951	810,573	164,031	3,748,555
End of year	$ 3,017,763	$ 640,224	$ 149,656	$ 3,807,643

See notes to financial statements.

FENNVILLE PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Net change in fund balances total governmental funds	$ 59,088
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(886,265)
Capital outlay	372,579
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable, beginning of the year	176,942
Accrued interest payable, end of the year	(146,039)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:	
Proceeds from long-term debt	(14,095,000)
Payments on bonded debt	14,650,000
Payments on other long-term debt	229,646
Premium on issuance of bonds	(854,228)
Deferred charge on refunding	1,295,513
Amortization of deferred charges on refunding	(94,012)
Amortization of bond premium	44,491
Amortization of bond discount	(4,356)
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Accrued compensated absences, beginning of the year	29,236
Accrued compensated absences, end of the year	(25,539)
Change in net position of governmental activities	$ 752,056

See notes to financial statements.

FENNVILLE PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITES
JUNE 30, 2013

		Agency fund
ASSETS:		
Cash and cash equivalents	$	125,753
LIABILITIES:		
Accounts payable	$	3,314
Due to student and other groups		122,439
	$	125,753

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

B. Reporting Entity

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

C. Basis of Presentation - Government-wide Financial Statements

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

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

D. Basis of Presentation - Fund Financial Statements

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The District reports the following major governmental funds:

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

The *2005 debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

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

The *debt service fund* - Durant accounts for the resources accumulated and payments made for principal and interest on long-term limited obligation debt as a result of the Durant settlement.

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the current year ended, the foundation allowance was based on pupil membership counts taken in February and October of the previous calendar year.

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

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

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

F. Budgetary Information

Budgetary basis of accounting:

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information (Concluded)

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

2. Public hearings are conducted to obtain taxpayer comments.

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

5. The budget was amended during the year with supplemental appropriations, the last one approved prior to year end June 30, 2013. The District does not consider these amendments to be significant.

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

1. Cash and cash equivalents

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

2. Investments

   Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Investments (Concluded)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

3. Inventories and prepaid items

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

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

4. Capital assets

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

4. Capital assets (Concluded)

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

Capital asset classes	Lives
Building and additions	20 - 50 years
Land improvements	5 - 20 years
Computer and office equipment	5 - 10 years
Outdoor equipment	5 - 20 years
Transportation equipment	10 years

5. Deferred outflows/inflows of resources

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

6. Net position flow assumption

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

7. Fund balance flow assumptions

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

8. Fund balance policies

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

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

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

In the general fund, the goal of the District shall be to maintain a minimum unassigned fund balance of no less than 5% of the preceding year's expenditures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenues and Expenditures/Expenses

1. Program revenues

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

2. Property taxes

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

For the year ended June 30, 2013, the District levied the following amounts per $1,000 of assessed valuation:

Fund	Mills
General fund:	
Non-Principal Residence Exemption (PRE)	18.00
Commercial Personal Property	6.00
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	4.90

3. Compensated absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee leaves, resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses (Concluded)

4. Long-term obligations

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2013, the District had the following investments:

Investment Type	Fair value	Weighted average maturity (years)	Standard & Poor's Rating	%
MILAF External Investment pool - CMF	$ 2,552	0.0027	AA+	0.1%
MILAF External Investment pool - MAX	19,874	0.0027	AA+	2.0%
Federal National Mortgage Association	1,000,000	0.0432	AA+	97.9%
Total fair value	$ 1,022,426			100.0%
Portfolio weighted average maturity		0.0162		

1 day maturity equals approximately .0027 years.

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2013, the fair value of the District’s investments is the same as the value of the pool shares.

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2013, $2,262,878 of the District's bank balance of $2,762,878 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. The carrying value on the books for deposits at the end of the year was $2,431,008.

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

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

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

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of $125,753	$ 2,431,008
Investments	1,022,426
	$ 3,453,434

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

The above amounts are reported in the financial statements as listed below. Certain interest bearing deposits have been reported as investments.

Fiduciary fund:	
Cash and cash equivalents	$ 125,753
District wide:	
Current assets:	
Cash and cash equivalents	2,305,255
Investments	1,022,426
	$ 3,453,434

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2013 consist of the following:

	Government wide
State aid	$ 1,661,704
Federal revenue	133,952
	$ 1,795,656

No allowance for doubtful accounts is considered necessary based on previous experience.

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Assets not being depreciated:				
Land	$ 337,337	$ -	$ -	$ 337,337
Other capital assets:				
Building and additions	29,427,934	-	-	29,427,934
Land improvements	1,735,401	-	-	1,735,401
Computer and office equipment	1,946,822	194,525	-	2,141,347
Outdoor equipment	573,387	16,270	16,130	573,527
Transportation equipment	1,287,927	161,784	288,467	1,161,244
Subtotal	34,971,471	372,579	304,597	35,039,453
Accumulated depreciation:				
Building and additions	6,933,154	640,874	-	7,574,028
Land improvements	488,253	86,645	-	574,898
Computer and office equipment	1,822,608	62,707	-	1,885,315
Outdoor equipment	418,592	14,907	16,130	417,369
Transportation equipment	1,090,195	81,132	288,467	882,860
Total accumulated depreciation	10,752,802	886,265	304,597	11,334,470
Net capital assets being depreciated	24,218,669	(513,686)	-	23,704,983
Net governmental capital assets	$ 24,556,006	$ (513,686)	$ -	$ 24,042,320

Depreciation for the fiscal year ended June 30, 2013 amounted to $886,265. The District allocated depreciation to the various activities as follows:

Instruction	$ 401,792
Support services	382,093
Community services	91,738
Food service	10,642
	$ 886,265

NOTE 5 - NOTE PAYABLE

At June 30, 2013, the District has issued a state aid note payable in the amount of $1,500,000 which has an interest rate of .40% and matures August 20, 2013. The note is secured by the full faith and credit of the District as well as pledged as state aid. The note required payments to an irrevocable set-aside account of $1,290,857 at June 30, 2013. At year end the balance of these payments are considered defeased debt are not included in the year-end balance.

Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
$ 275,486	$ 1,500,000	$ 1,566,343	$ 209,143

NOTE 6 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of long-term obligations for the District for the year ended June 30, 2013:

	General obligation bonds	Limited obligation bonds	Compensated absences	Roof replacement loan
Balance July 1, 2012 (as restated)	$ 22,739,520	$ 19,405	$ 29,236	$ 349,614
Additions	14,949,228	-	-	-
Deletions	(14,514,410)	(19,405)	(3,697)	(132,555)
Balance June 30, 2013	23,174,338	-	25,539	217,059
Due within one year	(690,000)	-	(2,128)	(54,072)
Due in more than one year	$ 22,484,338	$ -	$ 23,411	$ 162,987

	Land purchase	Energy notes	Total
Balance July 1, 2012 (as restated)	$ 140,499	$ 450,651	$ 23,728,925
Additions	-	-	14,949,228
Deletions	(28,036)	(49,650)	(14,747,753)
Balance June 30, 2013	112,463	401,001	23,930,400
Due within one year	(29,766)	(50,674)	(826,640)
Due in more than one year	$ 82,697	$ 350,327	$ 23,103,760

NOTE 6 - LONG-TERM DEBT (Continued)

Bonds payable at June 30, 2013 is comprised of the following issues:

2004 serial bonds due in annual installments of $615,000 through May 1, 2014 with interest of 4.00%.	$ 615,000
2007 serial bonds due in annual installments of $35,000 to $1,640,000 through May 1, 2034 with interest from 4.00% to 4.20%.	7,745,000
2012 serial bonds due in annual installments of $75,000 to $1,150,000 through May 2029 with interest from 2.00% to 5.00%.	14,095,000
Land purchase - January 2007 purchase of land. Loan due in monthly installments of $2,975 through December 14, 2017 with an interest rate of 6.00%.	112,463
Roof replacement - March 2007 replacement of the high school roof. Loan due in annual installments of $51,913 to $60,364 through May 10, 2017 with an interest rate of 2.79%.	217,059
Energy notes - September 2008 purchase of energy conservation materials and equipment. Loan due in monthly installments of $5,725 through May 1, 2020 with an interest rate of 4.49%.	401,001
Less: issuance discount	(90,399)
Add: issuance premium	809,737
Total bonded debt and other long-term obligations	23,904,861
Compensated absences	25,539
Total general long-term debt	$ 23,930,400

On August 28, 2012, Fennville Public Schools issued general obligation bonds of $14,095,000 with interest rates ranging from 2.00% to 5.00% to advance refund a portion of the District's outstanding 2004 bonds with interest rates from 3.75% to 5.00%. The bonds mature at various times through May 1, 2029. The general obligation bonds were issued at a premium after paying issuance costs of $88,822, the net proceeds were $14,860,407. The net proceeds from the issuance of the general obligation bonds, along with a $501,000 contribution from the District, were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refunding met the requirements of an in-substance defeasance and the term bonds were removed from the District's government-wide financial statements. The reacquisition price was more than the net carrying amount of the old debt by $1,295,514. This amount is being included in the debt footnoted and is amortized over the remaining life of the refunded debt.

As a result of the advance refunding, the District reduced its total debt service requirements by $1,820,012, which resulted in an economic gain (difference between the present value of the old debt service payment on the old and new debt) of $1,361,345.

NOTE 6 - LONG-TERM DEBT (Concluded)

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2013, $21,410,000 of bonds outstanding are considered defeased.

The annual requirements to amortize long-term obligations outstanding exclusive of compensated absences payments as of June 30, 2013, including interest of $11,103,403 are as follows:

Year ending June 30,	Principal	Interest	Total
2014	$ 824,512	$ 887,437	$ 1,711,949
2015	855,180	855,669	1,710,849
2016	886,108	828,292	1,714,400
2017	890,796	800,110	1,690,906
2018	855,624	764,907	1,620,531
2019 - 2023	4,603,303	3,297,264	7,900,567
2024 - 2028	5,450,000	2,328,100	7,778,100
2029 - 2033	7,180,000	1,272,744	8,452,744
2034	1,640,000	68,880	1,708,880
	23,185,523	11,103,403	34,288,926
Issuance discount	(90,399)	-	(90,399)
Issuance premium	809,737	-	809,737
Compensated absences	25,539	-	25,539
	$ 23,930,400	$ 11,103,403	$ 35,033,803

Interest expense (all funds) for the year ended June 30, 2013 was approximately $820,000

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2013 are as follows:

Receivable fund		Payable fund	
General Fund	$ 3,069	Food Service	$ 3,069

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS

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

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

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

Benefit Provisions - Pension

Introduction

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

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

Benefit Provisions - Pension (Continued)

Pension Reform 2010

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

Pension Reform 2012

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

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

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

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

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

Benefit Provisions - Pension (Concluded)

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

Option 4 - members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their *total* years of service), they would also receive a pension (calculated based on years of service and Final Average Compensation as of the day before their transition date and a 1.5% pension factor).

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

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

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

Funding Policy

Member Contributions

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

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

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

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

Employer Contributions

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

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

Fiscal Year Ending June 30,	Contributions to MPSERS
2013	$ 1,490,551
2012	1,351,107
2011	1,218,810

Included in the amounts paid above, the District received $107,280 of section 147(c) State Aid for the sole purpose of making supplemental payments to MPSERS. The District has recorded this amount as state revenue and additional pension expenditures/expenses for the year ended June 30, 2013.

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

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

Contribution rates

Fiscal Year 2013

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

Public School Employee Pension Rates (FYE Sept. 30th)	4 months ended 1/31/2013			
	First worked before 7/1/10	First worked between 6/30/10 and 9/3/12	Pension Plus and First worked after 9/3/12	Elected DC and First worked after 9/3/12
Pension Normal Cost (Prefunded)	3.47%	2.24%	2.24%	0.00%
Pension Unfunded Accrued Liability	11.42%	11.42%	11.42%	11.42%
Early Retirement Incentive Program	1.36%	1.36%	1.36%	1.36%
Pension Total Rate	**16.25%**	**15.02%**	**15.02%**	**12.78%**
Retiree Health Care Contribution (Cash basis)	0.93%	0.93%	0.00%	0.00%
Surcharge due to Injunction	8.18%	8.18%	8.18%	8.18%
Health Total Rate	**9.11%**	**9.11%**	**8.18%**	**8.18%**
Total	**25.36%**	**24.13%**	**23.20%**	**20.96%**

Fiscal Years 2012 and 2011

Public School Employee Pension Rates (FYE Sept. 30th)	FY 2011 - 2012		11 months ended 9/30/11		1 month ended 10/31/10	
	before 7/1/10	First worked after 6/30/10	First worked before 7/1/10	First worked after 6/30/10	First worked before 7/1/10	First worked after 6/30/10
Pension Normal Cost (Prefunded)	3.47%	2.24%	3.74%	2.24%	3.74%	2.24%
Pension Unfunded Accrued Liability	12.49%	12.49%	8.42%	8.42%	8.42%	8.42%
Early Retirement Incentive Program	0.00%	0.00%	N/A	N/A	N/A	N/A
Pension Total Rate	**15.96%**	**14.73%**	**12.16%**	**10.66%**	**12.16%**	**10.66%**
Retiree Health Care Contribution (Cash basis)	5.50%	5.50%	5.50%	5.50%	7.25%	7.25%
Surcharge due to Injunction	3.00%	3.00%	3.00%	3.00%	N/A	N/A
Health Total Rate	**8.50%**	**8.50%**	**8.50%**	**8.50%**	**7.25%**	**7.25%**
Total	**24.46%**	**23.23%**	**20.66%**	**19.16%**	**19.41%**	**17.91%**

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

Benefit Provisions - Other Postemployment

Introduction

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

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

Retiree Healthcare Reform of 2012

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

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

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

Benefit Provisions - Other Postemployment (Continued)

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

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

1. Retirees with at least 21 years of service, who terminate employment after October 31, 1980, with vested deferred benefits, are eligible for subsidized employer paid health benefit coverage.

2. A delayed subsidy applies to retirees who became a member of the retirement system before July 1, 2008 and who purchased service credit on or after July 1, 2008. Such individuals are eligible for premium subsidy benefits at age 60 or when they would have been eligible to retire without having made a service purchase, whichever comes first. They may enroll in the insurances earlier, but are responsible for the full premium until the premium subsidy begins.

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

- ➢ They will be automatically enrolled in a 2% employee contribution into a 457 account as of their date of hire, earning them a 2% employer match into a 401(k) account.

- ➢ They will receive a credit into a Health Reimbursement Account (HRA) at termination if they have at least 10 years of service at termination. The credit will be $2,000 for participants who are at least 60 years of age at termination or $1,000 for participants who are less than 60 years of age at termination.

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

Benefit Provisions - Other Postemployment (Concluded)

Participants in the Personal Healthcare Fund, who become disabled for any reason, are not eligible for any employer funded health insurance premium subsidy. If a PHF participant suffers a non-duty related death, his or her health benefit dependents are not eligible to participate in any employer funded health insurance premium subsidy. If a PHF participant suffers a duty death, the state will pay the maximum health premium allowed by statute for the surviving spouse and health benefit dependents. The spouses' insurance subsidy may continue until his or her death, the dependents' subsidy may continue until their eligibility ends (through marriage, age, or other event). Upon eligibility for a duty death benefit, the 2% employer matching contributions and related earnings in the PHF 401(k) are forfeited and the state will pay for the subsidy payments. The beneficiaries receive the member's personal contributions and related earnings in the PHF 457 account.

Other Information

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

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

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of $500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2013 or any of the prior three years.

NOTE 10 - TRANSFERS

During the year the food service fund transferred $40,000 to the general fund for indirect cost reimbursement. The general fund transferred $9,450 of At-Risk funding to the food service fund to cover their Paid Lunch Equity portion. The net amount was $30,550 to the general fund from the food service fund.

NOTE 11 - SUBSEQUENT EVENTS

The District has approved borrowing $1,000,000 for fiscal year 2014 to replace the note payable as described in Note 6.

The District passed a sinking fund millage for .5 mills beginning winter 2013.

NOTE 12 - NEW ACCOUNTING STANDARDS

For the year end June 30, 2013 the District implemented the following new pronouncements:

GASB Statement 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

NOTE 12 - NEW ACCOUNTING STANDARDS (Concluded)

Summary:

The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure

GASB Statements 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and 65 Items previously reported as Assets and Liabilities.*

Summary:

These Statements provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement 65 also states that bond issuance costs should be expensed in the year which they are incurred. As a result, the remaining unamortized bond issuance costs were written off as of July 1, 2012. The restatement of the beginning of the year net position is follows:

	Governmental activities
Net position as previously stated, July 1, 2012	$ 4,932,818
Adoption of GASB 65	(155,989)
Net position as restated, July 1, 2012	$ 4,776,829

NOTE 13 - UPCOMING ACCOUNTING PRONOUNCEMENT

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

REQUIRED SUPPLEMENTARY INFORMATION

FENNVILLE PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2013

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	$ 2,486,082	$ 2,472,583	$ 2,477,595	$ 5,012
State sources	8,547,148	8,659,016	8,656,677	(2,339)
Federal sources	706,123	833,655	634,363	(199,292)
Intermediate school districts	430,450	549,604	513,379	(36,225)
Total revenues	12,169,803	12,514,858	12,282,014	(232,844)
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	5,594,559	5,316,419	5,193,035	123,384
Added needs	1,522,128	1,587,803	1,460,387	127,416
Adult and continuing education	76,738	75,000	43,255	31,745
Total instruction	7,193,425	6,979,222	6,696,677	282,545
Supporting services:				
Pupil	341,010	350,457	346,772	3,685
Instructional staff	459,902	405,990	293,819	112,171
General administration	439,868	451,484	508,785	(57,301)
School administration	571,995	538,025	535,651	2,374
Business	291,356	301,026	300,746	280
Operation/maintenance	1,437,066	1,597,443	1,496,120	101,323
Pupil transportation	893,349	973,982	905,569	68,413
Central	283,063	417,271	401,998	15,273
Athletics	252,087	292,943	286,885	6,058
Total supporting services	4,969,696	5,328,621	5,076,345	252,276
Community services	62,234	100,611	85,283	15,328
Outgoing transfers and other	-	45,351	-	45,351
Debt service	214,823	209,096	210,447	(1,351)
Total expenditures	12,440,178	12,662,901	12,068,752	594,149
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(270,375)	(148,043)	213,262	361,305
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	30,550	30,550
NET CHANGE IN FUND BALANCE	$ (270,375)	$ (148,043)	243,812	$ 391,855
FUND BALANCE:				
Beginning of year			2,773,951	
End of year			$ 3,017,763	

ADDITIONAL SUPPLEMENTARY INFORMATION

FENNVILLE PUBLIC SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2013

	Special revenue
	Food service
ASSETS	
ASSETS:	
Cash and cash equivalents	$ 126,305
Accounts receivable	9,273
Intergovernmental receivable	14,987
Inventories	6,067
TOTAL ASSETS	$ 156,632
LIABILITIES AND FUND BALANCES	
LIABILITIES:	
Unearned revenue	$ 3,907
Due to other funds	3,069
TOTAL LIABILITIES	6,976
FUND BALANCES:	
Nonspendable:	
Inventories	6,067
Restricted	115,939
Assigned for subsequent year expenditures	27,650
TOTAL FUND BALANCES	149,656
TOTAL LIABILITIES AND FUND BALANCES	$ 156,632

FENNVILLE PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2013

	Special revenue	Debt service	
	Food Service	**Durant**	**Total nonmajor funds**
REVENUES:			
Sales	$ 150,280	$ -	$ 150,280
State aid	35,449	20,330	55,779
Federal aid	625,892	-	625,892
Investment earnings	53	-	53
Other	6,185	-	6,185
Total revenues	817,859	20,330	838,189
EXPENDITURES:			
Current:			
Salaries	240,933	-	240,933
Benefits	107,097	-	107,097
Purchased services	12,419	-	12,419
Supplies and materials	31,857	-	31,857
Food purchase	366,180	-	366,180
Donated commodities	42,063	-	42,063
Capital outlay	889	-	889
Other expenses	246	-	246
Debt service:			
Principal	-	19,406	19,406
Interest	-	924	924
Total expenditures	801,684	20,330	822,014
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	16,175	-	16,175
OTHER FINANCING SOURCES (USES):			
Transfers out	(30,550)	-	(30,550)
NET CHANGE IN FUND BALANCES	(14,375)	-	(14,375)
FUND BALANCES:			
Beginning of year	164,031	-	164,031
End of year	$ 149,656	$ -	$ 149,656

FENNVILLE PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2013

$25,760,000 Bonds issued August 1, 2004 ($7,740,000 was refunded in 2007 and $14,095,000 was refunded in 2013.)

	Interest due		Debt service requirement for fiscal year	
Principal due May 1,	May 1,	November 1,	June 30,	Amount
$ 615,000	$ 12,300	$ 12,300	2014	$ 639,600

The above bonds were authorized at an election June 14, 2004 and have interest rates from 4.00% to 5.00%. The bonds were issued for the purpose of erecting, furnishing and equipping a new elementary school; erecting, furnishing and equipping an addition or additions to, and partially remodeling and re-equipping the middle school and high school buildings; partially remodeling a portion of the existing elementary building to use for adult/alternative education and administrative office purposes; erecting, furnishing and equipping a community athletic center; acquiring and installing education technology; constructing and equipping improvements to the outdoor athletic facilities, including a running track, soccer field and playground; and developing and improving sites.

FENNVILLE PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2013

$7,825,000 Refunding bonds issued March 31, 2007

	Interest due		Debt service requirement for fiscal year	
Principal due May 1,	May 1,	November 1,	June 30,	Amount
$ -	$ 161,898	$ 161,897	2014	$ 323,795
-	161,897	161,898	2015	323,795
-	161,898	161,897	2016	323,795
-	161,897	161,898	2017	323,795
-	161,898	161,897	2018	323,795
-	161,897	161,898	2019	323,795
-	161,898	161,897	2020	323,795
-	161,897	161,898	2021	323,795
-	161,898	161,897	2022	323,795
-	161,897	161,898	2023	323,795
-	161,898	161,897	2024	323,795
-	161,897	161,898	2025	323,795
-	161,898	161,897	2026	323,795
35,000	161,897	161,898	2027	358,795
40,000	161,172	161,171	2028	362,343
45,000	160,341	160,342	2029	365,683
1,405,000	159,408	159,408	2030	1,723,816
1,465,000	130,254	130,253	2031	1,725,507
1,525,000	99,855	99,855	2032	1,724,710
1,590,000	67,830	67,830	2033	1,725,660
1,640,000	34,440	34,440	2034	1,708,880
$ 7,745,000	$ 3,079,865	$ 3,079,864		$ 13,904,729

The bonds were approved by the board of education at the December 6, 2006 meeting to refinance $7,740,000 of the 2004 bond issuance. The bonds will refinance the 2029 through 2034 payments. The bonds will carry interest rates from 4.00% to 4.20%.

FENNVILLE PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2013

$14,095,000 Refunding bonds issued August 28, 2012

	Interest due		Debt service requirement for fiscal year	
Principal due May 1,	May 1,	November 1,	June 30,	Amount
$ 75,000	$ 254,394	$ 254,394	2014	$ 583,788
715,000	253,644	253,644	2015	1,222,288
740,000	242,919	242,919	2016	1,225,838
765,000	231,819	231,819	2017	1,228,638
795,000	216,519	216,519	2018	1,228,038
830,000	200,619	200,619	2019	1,231,238
860,000	184,019	184,019	2020	1,228,038
895,000	166,819	166,819	2021	1,228,638
930,000	148,919	148,919	2022	1,227,838
965,000	134,969	134,969	2023	1,234,938
1,015,000	110,844	110,844	2024	1,236,688
1,060,000	85,469	85,469	2025	1,230,938
1,090,000	69,569	69,569	2026	1,229,138
1,090,000	53,219	53,219	2027	1,196,438
1,120,000	36,188	36,188	2028	1,192,376
1,150,000	18,684	18,684	2029	1,187,368
$ 14,095,000	$ 2,408,613	$ 2,408,613		$ 18,912,226

The bonds were approved by the board of education at the May 21, 2012 meeting to refinance $14,095,000 of the 2004 bond issuance. The bonds will refinance the 2013 through 2029 payments. The bonds will carry interest rates from 2.00% to 5.00%.

FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF LAND PURCHASE
JUNE 30, 2013

$268,000 for purchase of 33.5 acres of land, loan dated January 14, 2007

Principal	Interest	June 30,	Amount
$ 29,766	$ 5,938	2014	$ 35,704
31,602	4,102	2015	35,704
33,551	2,153	2016	35,704
17,544	308	2017	17,852
$ 112,463	$ 12,501		$ 124,964

FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF ROOF REPLACEMENT LOAN
JUNE 30, 2013

$650,000 for the replacement of the high school roof, loan dated March 10, 2007.

Principal	Interest	June 30,	Amount
$ 54,072	$ 6,292	2014	$ 60,364
55,581	4,783	2015	60,364
57,131	3,232	2016	60,363
50,275	1,638	2017	51,913
$ 217,059	$ 15,945		$ 233,004

FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF ENERGY NOTES
JUNE 30, 2013

$637,000 for the purchase of energy conservation materials and equipment

Principal	Interest	June 30,	Amount
$ 50,674	$ 18,024	2014	$ 68,698
52,997	15,701	2015	68,698
55,426	13,274	2016	68,700
57,977	10,731	2017	68,708
60,624	8,074	2018	68,698
63,403	5,295	2019	68,698
59,900	2,304	2020	62,204
$ 401,001	$ 73,403		$ 474,404

FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass-through grantor's number	Approved grant award amount	Accrued revenue July 1, 2012	(Memo only) Prior year expenditures	Adjustments	Current year expenditures	Current year cash receipts	Accrued revenue June 30, 2013
U.S. Department of Agriculture:									
Passed through Michigan Department of Education:									
Child Nutrition Cluster:									
Non-cash assistance (donated foods):									
National School Lunch Program - Non-bonus	10.555		$ 42,063	$ -	$ -	$ -	$ 42,063	$ 42,063	$ -
Cash Assistance:									
School Breakfast Program	10.553	131970	110,976	-	-	-	110,976	110,976	-
School Breakfast Program		121970	13,555	-	-	-	13,555	13,555	-
			124,531	-	-	-	124,531	124,531	-
National School Lunch Program - Section 11	10.555	131960	380,755	-	-	-	380,755	371,589	9,166
National School Lunch Program - Section 11		121960	51,596	-	-	-	51,596	51,596	-
National School Lunch Program - Snacks		131980	1,653	-	-	-	1,653	1,653	-
National School Lunch Program - Snacks		121980	80	-	-	-	80	80	-
			434,084	-	-	-	434,084	424,918	9,166
Summer Food Service Program For Children	10.559	121900	2,392	-	-	-	2,392	2,392	-
Summer Food Service Program For Children		120900	22,822	-	-	-	22,822	22,822	-
			25,214	-	-	-	25,214	25,214	-
Total cash assistance			583,829	-	-	-	583,829	574,663	9,166
Total Child Nutrition Cluster			625,892	-	-	-	625,892	616,726	9,166
Total U.S. Department of Agriculture			625,892	-	-	-	625,892	616,726	9,166

The accompanying notes are an integral part of this schedule.

FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass-through grantor's number	Approved grant award amount	Accrued revenue July 1, 2012	(Memo only) Prior year expenditures	Adjustments	Current year expenditures	Current year cash receipts	Accrued revenue June 30, 2013
U.S. Department of Education:									
Passed through Michigan Department of Education:									
E.C.I.A. Title I	84.010	131530-1213	$ 513,954	$ -	$ -	$ -	$ 272,390	$ 208,473	$ 63,917
E.C.I.A. Title I		121530-1112	389,011	34,482	222,654	-	60,568	95,050	-
			902,965	34,482	222,654	-	332,958	303,523	63,917
Migrant Summer Formula	84.011	131830-1213	91,379	-	-	-	10,024	-	10,024
Migrant Summer Formula		121830-1112	109,454	21,500	26,940	-	82,514	104,014	-
Migrant Regular Formula		131890-1213	121,077	-	-	-	100,463	71,072	29,391
Migrant Regular Formula		121890-1112	88,723	4,684	81,814	-	232	4,916	-
			410,633	26,184	108,754	-	193,233	180,002	39,415
English Language Acquisition	84.365A	130580-1213	48,208	-	-	-	19,329	15,133	4,196
English Language Acquisition		120580-1112	51,913	1,904	33,853	-	1,577	3,481	-
			100,121	1,904	33,853	-	20,906	18,614	4,196
Title IIA, Improving Teacher Quality	84.367	130520-1213	137,588	-	-	-	51,875	34,617	17,258
Title IIA, Improving Teacher Quality		120520-1112	152,629	15,449	70,867	(2,199)	-	13,250	-
			290,217	15,449	70,867	(2,199)	51,875	47,867	17,258
Education Jobs Fund	84.410	112545-1112	24,828	-	-	-	24,828	24,828	-
Total passed through Michigan Department of Education			1,728,764	78,019	436,128	(2,199)	623,800	574,834	124,786

The accompanying notes are an integral part of this schedule.

FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass-through grantor's number	Approved grant award amount	Accrued revenue July 1, 2012	(Memo only) Prior year expenditures	Adjustments	Current year expenditures	Current year cash receipts	Accrued revenue June 30, 2013
Passed through Allegan Area Education Service Agency:									
Special Education Cluster:									
Pre School Incentive	84.173	060660/1	$ 10,539	$ -	$ -	$ -	$ 10,539	$ 10,539	$ -
Total Special Education Cluster:			10,539	-	-	-	10,539	10,539	-
Medicaid - Administration Outreach Program	93.778		2,223	-	-	-	2,223	2,223	-
Total passed through Allegan Area Education Service Agency			12,762	-	-	-	12,762	12,762	-
Total U.S. Department of Education			1,741,526	78,019	436,128	(2,199)	636,562	587,596	124,786
TOTAL FEDERAL AWARDS			$ 2,367,418	$ 78,019	$ 436,128	$ (2,199)	$ 1,262,454	$ 1,204,322	$ 133,952

The accompanying notes are an integral part of this schedule.

FENNVILLE PUBLIC SCHOOLS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Fennville Public Schools under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Fennville Public Schools, it is not intended to and does not present the financial position or changes in net position of Fennville Public Schools.

2. Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

3. E.C.I.A. Title I (CFDA #84.010) was audited as a major program representing 26% of expenditures.

4. The threshold for distinguishing Type A and Type B programs was $300,000.

5. Management has utilized the Cash Management System (CMS) Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.

6. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	$ 634,363
Other nonmajor governmental funds	625,892
	1,260,255
Adjustment	2,199
	$ 1,262,454

An adjustment for $2,199 was recorded for Title II A, Improving Teacher Quality for expenses incurred but not requested.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Fennville Public Schools

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fennville Public Schools as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Fennville Public Schools' basic financial statements and have issued our report thereon dated September 24, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maner Costerisan PC

September 24, 2013

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Fennville Public Schools

Report on Compliance for Each Major Federal Program

We have audited Fennville Public Schools' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Fennville Public Schools' major federal programs for the year ended June 30, 2013. Fennville Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Fennville Public Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fennville Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Fennville Public Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Fennville Public Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Fennville Public Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Fennville Public Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Fennville Public Schools' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Maner Costerisan PC

September 24, 2013

FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	*Unqualified*			
Internal control over financial reporting:				
➢ Material weakness(es) identified ?	____	Yes	X	No
➢ Significant deficiency(ies) identified that are not considered to be material weakness(es) ?	____	Yes	X	None reported
Noncompliance material to financial statements noted?	____	Yes	X	No

Federal Awards

Internal control over major programs:				
➢ Material weakness(es) identified:	____	Yes	X	No
➢ Significant deficiency(ies) identified that are not considered to be material weakness(es) ?	____	Yes	X	None reported
Type of auditor's report issued on compliance for major programs:	*Unqualified*			
Any audit findings disclosed that are required to be reported in accordance with Sections 510(a) of Circular A-133?	____	Yes	X	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	E.C.I.A. Title I

Dollar threshold used to distinguish between type A and type B programs:	$ 300,000			
Auditee qualified as low-risk auditee?	X	Yes	____	No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Question Costs

None

FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

There were no audit findings required to be reported on this schedule for the year ended June 30, 2012.

Maner Costerisan
Certified Public Accountants
Business & Technology Advisors

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September 24, 2013

To the Board of Education
Fennville Public Schools

In planning and performing our audit of the financial statements of Fennville Public Schools as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered Fennville Public Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 24, 2013 on the financial statements of Fennville Public Schools. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Time and Effort Reporting

During the course of the audit it was noted personnel activity reports (PARs) were not being completed timely and actual time worked was less than amounts being charged to Title I. In addition, we noted that semi-annual certifications were also completed for individuals who were not eligible to have semi-annual certification of their time reporting. We recommend that the District review its current process and make the necessary modifications to be in compliance with time and effort reporting requirements of the Michigan Department of Education and the Office of Management and Budget (OMB). For your convenience, an excerpt from OMB A-87 regarding time and effort reporting is provided on page 3.

This report is intended solely for the information and use of Fennville Public Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner Costerisan PC

OMB A-87 requires that PARs must meet the following standards:

1. They must reflect an after-the-fact distribution of the actual activity of the employee,

2. They must account for the total activity for which each employee is compensated,

3. The must be prepared at least monthly and coincide with one or more pay periods, and

4. The must be signed by the employee.

5. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

    a. The District's system for establishing the estimates produces reasonable approximations of the activity performed;

    b. At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annual if the quarterly comparison shows the differences between budgeted and actual costs are less than ten percent; and

    c. The budget estimate or other distributions are revised at least quarterly, if necessary, to reflect changed circumstances.

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September 24, 2013

To the Board of Education
Fennville Public Schools

We have audited the financial statements of Fennville Public Schools for the year ended June 30, 2013, and have issued our report thereon dated September 24, 2013. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Fennville Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Fennville Public Schools' financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Fennville Public Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Fennville Public Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Fennville Public Schools' compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

Significant Audit Findings

1. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Fennville Public Schools are described in Note 1 to the financial statements. During 2013 the District implemented Governmental Accounting Standard No. 62, Codification of Accounting and Financial Reporting Guidance, No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, and No. 65, Items Previously Reported as Assets and Liabilities. The application of existing policies was not changed during 2013. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> Estimates have been used in calculating the liability for employee compensated absences. The estimated liability is approximately $26,000. In addition, certain amounts included in capital assets have been based on an outside appraisal company.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

We did not identify any sensitive disclosures.

2. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

3. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

4. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

5. Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 24, 2013.

6. Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Education and management of Fennville Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner Costerisan PC