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ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2014

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September 12, 2014

INDEPENDENT AUDITOR'S REPORT

To the Board of Education Evart Public Schools Evart, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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 Evart Public Schools, Evart, Michigan as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iv through ix and 31 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 Evart Public Schools' basic financial statements. The combining and individual fund financial statements and other information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2014, on our consideration of Evart 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 Evart Public Schools internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

EVART PUBLIC SCHOOLS EVART, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR ENDED JUNE 30, 2014

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

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. Evart Public Schools' financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

A. Government-Wide Financial Statements

The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the District's assets, deferred outflows of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents the information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future periods.

Both of the government-wide statements distinguish functions of the District that are principally supported by state aid and property taxes (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). The governmental activities of the District include instruction, supporting services, food service activities, athletic activities, community services, interest and other transactions.

B. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Evart Public Schools, like other state and local governments, uses fund accounting to ensure compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories, governmental funds and fiduciary funds.

Governmental Funds Governmental funds are used to account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better

understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

Notes to Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in both the government-wide and the fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

C. Summary of Net Position

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

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During the fiscal year ended June 30, 2014, the District's net position increased by $90,730. One of the more significant factors affecting net position during the year is discussed below:

1. Depreciation Expense

The District is required to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net position.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2014, $304,253 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2014, $103,235 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

E. Change in Net Position

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

2014 2013 General Revenues Property Taxes $ 2,335,344 $ 2,305,550 Investment Earnings 320 930 State Sources 5,133,541 4,961,562 Gain from Sale of Capital Assets 48,790 0 Other 17,962 26,580

Total General Revenues 7,535,957 7,294,622

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

	2014	2013	Increase (Decrease)
Major Fund			
General Fund	$ 667,950	$ 803,092	$ (135,142)
Nonmajor Funds			
Food Service	128,736	115,121	13,615
2003 Debt Retirement	56,787	71,765	(14,978)
Total Governmental Funds	$ 853,473	$ 989,978	$ (136,505)

In 2014, the General Fund balance decreased primarily due to an increase in operating costs compared to the prior year that was greater than the increase in revenue that the District earned in the current year.

The Food Service Fund balance increased primarily due an increase in Federal Aid and a reduction in operating costs.

The 2003 Debt Retirement Fund decreased its fund balance because of the increase in the required bond payment.

G. General Fund Budgetary Highlights

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

For the 2013-2014 fiscal year, the District amended the general fund budget as needed during the year. The following schedule shows a comparison of the original general fund budget; the final amended general fund budget and actual totals from operations:

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changes from original budget and final budget resulted from funding amounts from various sources and expenditures related to these funding sources becoming clearer as the year progressed. The total revenues variance between final budget and actual was $20,568. The total expenditures variance was $88,158. The expenditure variance was caused by the District expending more related to wages and benefits than it had anticipated and also the District budgeting with caution to avoid exceeding the budget. These variances are relatively small in comparison to total budgeted figures.

H. Capital Asset and Debt Administration

1. Capital Assets

At June 30, 2014, the District has $13,476,832 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. The net change to capital assets represents a net decrease of $201,018 over the prior fiscal year. Depreciation expense for the year amounted to $304,253 bringing the accumulated depreciation to $6,709,596 as of June 30, 2014.

2. Long-Term Debt

At June 30, 2014, the District had $1,050,000 in bonded debt outstanding. This represents a reduction of $500,000 from the amount outstanding at the close of the prior fiscal year.

I. Factors Bearing on the District's Future

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

- ☐ Although the economic condition in the country and in the State of Michigan is improving, uncertainty yet surrounds the level at which districts will be funded for the student foundation allowance for the 2014-2015 fiscal year.

- ☐ As with other employers, the District continues to face increases in rates paid for employee benefits, particularly health insurance and retirement.

J. Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact Evart Public Schools, 321 North Hemlock, P.O. Box 917, Evart, Michigan 49631.

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2014		**2013**
Assets		
Current Assets	2,081,285$	2,274,028$
Non Current Assets		

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	2014	2013
Assets		
Current Assets	2,081,285$	2,274,028$
Non Current Assets		
Capital Assets	13,476,832	13,553,988

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The School District (the "District") is located in Osceola, Mecosta, and Clare Counties with its administrative offices located in Evart, Michigan. The District operates under an elected 7-member board of education and provides services to its 936 students in elementary, middle school, high school, special education and adult education instruction, guidance, health, transportation, food service, athletics and recreation. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

B. Description of Government-Wide Financial Statements

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

C. Basis of Presentation – Government-Wide Financial Statements

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

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

D. Basis of Presentation – Fund Financial Statements

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

The District reports the following major governmental fund:

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.

Other non-major funds:

The *special revenue (School Service) fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service activities in a special revenue fund.

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

Additionally, the District reports the following fund type:

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

The District reports the following fiduciary fund:

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.

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

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

E. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are

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

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

The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

F. Budgetary Information

1. Budgetary Basis of Accounting

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

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

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

a) In June, the superintendent submits to the school board a proposed operating budget for the fiscal year commencing on July 1.

b) A public hearing is conducted during June to obtain taxpayer comments.

c) Prior to July 1, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.

d) The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.

e) For purposes of meeting emergency needs of the school district, transfer of appropriations may be made by the authorization of the superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

f) During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.

g) Budgeted amounts are as originally adopted on June 26, 2013, or as amended by the School Board of Education throughout the year.

2. Excess of Expenditures Over Appropriations

General Fund Supporting Services – Athletic expenditures of $190,895 exceeded appropriations of $189,546 by $1,349.

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

1. Cash and Investments

Cash includes amounts in demand deposits. Investments are carried at market value. The District complies with State statutes regarding investment of funds. The Board policy on investment of funds authorizes the District to invest as follows:

(a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States.

(b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
(c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase. NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014
(d) Securities issued or guaranteed by agencies or instrumentalities of the United States.

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

2. Inventory and Prepaid Items

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

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

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

3. Capital Assets

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

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

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

Land Improvements 20 years Buildings and Additions 50 years Machinery and Equipment 5-20 years Transportation Equipment 8 years

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

4. 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 funding debt.

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

5. 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.

6. Fund Balance Flow Assumption

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

7. Fund Balance Policies

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

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

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The governing board has by resolution authorized the superintendent to assign fund balance. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue

and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

8. Use of Estimates

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

H. Revenues and Expenditures/Expenses

1. State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2014 the foundation allowance was based on pupil membership counts taken in February of 2014 and October of 2013. For fiscal year ended June 30, 2014, the per pupil foundation allowance was $7,026 for Evart Public Schools.

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

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

2. Program Revenues

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital

requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, state foundation aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenue but instead as *general revenues*.

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are billed as of December 1. The due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

The various counties in which the District is located have tax revolving funds which allow the counties to pay off the various taxing units for their share of the current year real property taxes returned delinquent. Taxes receivable are uncollected delinquent personal property taxes.

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

	Fund Mills
General Fund - Non-Homestead Real	18.00
General Fund - Commercial PPT	6.00
Debt Service Fund - Homestead and Non-Homestead	2.50

4. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused sick pay benefits. The amount allowable to be compensated for depends on the position and the longevity of the individual employee.

5. Long-Term Obligations

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

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Violations of Legal or Contractual Provisions

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

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2014, the District's bank balance was $1,146,173 and $657,298 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. The entire portion of this uninsured amount is found in the General Fund. Although the District's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the deposits.

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

B. Receivables

nt's individual major funds and nonmajor are as follows: GENERAL NON-MAJOR TOTAL

Amounts due from other governments include amounts due from federal, state, and local sources for various projects and programs.

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

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Depreciation for the fiscal year ended June 30, 2014 amounted to $304,253. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

D. Defined Benefit Plan and Post Retirement Benefits

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

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

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

Benefit Provisions – Pension

Introduction

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

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 of September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of

the pay period that begins on or after December 1, 2012, subsequently amended to February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

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

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

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

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

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

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

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

Funding Policy

Member Contributions

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

Basic plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 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 become participants in the Defined Contribution plan as of their transition date.

Employer Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. For the period October 1 through September 30, the School District pays an amount equal to a percentage of its employees' wages to the Michigan Public School Employees' Retirement System ("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 employees' 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:

Included in the amounts paid above, the District received $236,764 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, 2014.

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

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

Contribution Rates

Public School Employee Pension Rates (FYE Sept. 30th)

Pension Normal Cost Pension UAL Pension Early Retirement Incentive

Pension Contributions - Total Rate

Health Normal Cost Health UAL

Health Contributions - Total Rate Total

DC Employer Contributions Personal Healthcare Fund

Total

Fiscal Year 2014
Effective February 1, 2013 - September 30, 2013

Pension Plus Pension Plus to PHF - First DC with worked to DC with DB 9/3/2012 after 9/3/12 Health

DB Contributions

2.24% 0.00% 0.00% 11.42% 11.42% 11.42%

15.02% 12.78% 12.78%

0.00% 0.00% 0.93% 8.18% 8.18% 8.18%

8.18% 8.18% 9.11%

23.20% 20.96% 21.89%

1.00% 3.00% 4.00% 2.00% 2.00% 0.00%

3.00% 5.00% 4.00%

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in Fund Balances

PHF Basic MIP DB worked after First

1.36% 1.36% 1.36%

DC Contributions

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Contribution Rates

Public School Employee Pension Rates (FYE Sept. 30th)

Pension Normal Cost Pension UAL Pension Early Retirement Incentive

Pension Contributions - Total Rate

Health Normal Cost Health UAL

Health Contributions - Total Rate

Total

DC Employer Contributions Personal Healthcare Fund

Total

Basic MIP

2.90% 14.08% 1.36%

18.34%

0.93% 5.52%

6.45%

24.79%

0.00% 0.00%

0.00%

Fiscal Year 2014
Effective October 1, 2013
Pension Plus

2.67% 14.08% 1.36%

18.11%

0.93% 5.52%

6.45%

24.56%

1.00% 0.00%

1.00%

Pension Plus Pension Plus to PHF - First DC with PHF Basic MIP DB worked after First worked to DC with DB 9/3/2012 after 9/3/12 Health

DB Contributions

2.67% 0.00% 0.00% 14.08% 14.08% 14.08% 1.36% 1.36% 1.36%

18.11% 15.44% 15.44%

0.00% 0.00% 0.93% 5.52% 5.52% 5.52%

5.52% 5.52% 6.45%

23.63% 20.96% 21.89%

DC Contributions

1.00% 3.00% 4.00% 2.00% 2.00% 0.00%

3.00% 5.00% 4.00%

Basic MP DB Basic MIP with to DC with PHF PHF

20.96%

4.00% 2.00%

6.00%

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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 subside 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.

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

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

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

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

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

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

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

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

PHF 401(k) are forfeited and the state will pay for the subsidy payments. The beneficiaries receive the member's personal contributions and related earnings in the PHF 457 account.

Other Information

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

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

E. Risk Management

The District is exposed to various risks of loss related to 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 to each pool 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. Each of the pools maintain reinsurance for claims in excess of $500,000 for each occurrence with the overall maximum coverage being unlimited.

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, 2014 or any of the prior three years.

F. Long-Term Liabilities

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

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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

Retirement Compensated Bonds Incentive Abscenses Total

The District's liability obligations at June 30, 2014, are comprised of the following issues: 2003 Refunding Bonds due in

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annual principal installments ranging

from $520,000 to $530,000 through May 1, 2016, with interest

ranging from 4.05% to 4.15%. $ 1,050,000

Early Retirement Incentive 97,000

Compensated Absecnces of Employee Vested Sick Pay Accumulations 151,329

TOTAL LONG-TERM LIABILITIES $ 1,298,329 The annual requirements to amortize all long-term debt outstanding as of June 30, 2014,

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including interest payments of $65,048 are as follows:

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

G. Interfund Receivables and Payables

INTERFUND INTERFUND

RECEIVABLES PAYABLES General Fund $ 407 $ 9,226
School Service Fund - Food Service 0 407 Debt Retirement Fund - 2003 Debt Fund 1,820 0 Fiduciary Fund - Agency Fund 7,406 0
$ 9,633 $ 9,633

The outstanding balances between funds result mainly from the time lag between the dates that (1) recorded in the accounting system, and (3) payments between funds are made. All Interfund balances outstanding at June 30, 2014 are expected to be repaid within one year.

H. Short-Term Debt

On September 18, 2013, the District issued a State Aid Note in the amount of $500,000. The note matured on April 25, 2014, with interest at 0.80%. The District pledged its State Aid revenue for payment of this liability at maturity. The purpose of the note was to provide for cash flow during the school year. Interest expense for the year was $2,411. The District borrowed $800,000 in September, 2014 to assist with cash flow needs for the 2014-2015 fiscal year.

I. Interfund Transfers

$ 30,000 $ 30,000

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

The food service fund transferred $30,000 to the General Fund for indirect costs.

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J. Other Information

1. Commitments and Contingencies

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

NOTE 4 – UPCOMING ACCOUNTING PRONOUCEMENTS

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

EVART PUBLIC SCHOOLS

EVART, MICHIGAN REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE

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	2014	**201**
Assets		
Current Assets	2,081,285$	2,274,928$

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	2014	**2013**
Assets		
Current Assets	2,081,285$	2,274,028$

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COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

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	2014	**2013**
Assets		
Current Assets	2,081,285$	2,274,028$
Non Current Assets		
Capital Assets	13,476,832	13,553,988
Less Accumulated Depreciation	(6,709,596)	(6,585,734)
Total Non Current Assets	6,767,236	6,968,254
Total Assets	8,848,521	9,242,282
Deferred Outflows of Resources		
Deferred Charges on Refunding	1,617	2,335
Liabilities		

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2014 WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2013

2014 2013 BUDGET ACTUAL ACTUAL REVENUES Local Sources $ 1,909,304 $ 1,912,299 $ 1,916,528

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	2014	2013
Assets		
Current Assets	2,081,255$	2,274,028$
Non Current Assets		
Capital Assets	13,476,832	13,559,888
Less Accumulated Depreciation	(6,709,596)	(6,583,734)
Total Non Current Assets	6,767,236	6,968,254
Total Assets	8,848,521	9,242,282
Deferred Outflows of Resources		
Deferred Charges on Refunding	1,617	2,335
Liabilities		

SCHOOL SERVICE FUNDS - FOOD SERVICE BALANCE SHEET

AS OF JUNE 30, 2014

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Assets	

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2014	**2013**
Assets	
Current Assets	2,081,285$ 2,274,028$

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2003 REFUNDING BONDS PAYMENT SCHEDULE JUNE 30, 2014

TITLE OF ISSUE 2003 Refunding School Bonds For 1995 Issue

PURPOSE The purpose of issuing refunding bonds is to realize a material economic savings as a result of a reduction of the debt service payments on the debt represented by the refunded bonds. The bonds refunded were originally issued on November 1, 1995 for the principal amount of $6,615,000. The economic savings is $325, 606 over the 13 years to the maturity of the refunding school

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PROPERTY VALUATIONS

In accordance with Act 539, Public Acts of Michigan, 1982, and Article IX, Section 3 of the Michigan Constitution, the ad valorem state equalized valuation represents 50% of true cash value. State equalized valuation does not include any value of tax exempt property (e.g. churches, governmental property) or property granted tax abatements under either Act 198, Public Acts of Michigan, 1974, as amended, or Act 255, Public Acts of Michigan, 1978, as amended. Beginning in 1995, ad valorem property taxes are assessed on the basis of taxable value, which is subject to assessment caps.

Taxable property in the School District is assessed by the local municipal assessors, and is subject to review by the County Equalization Department.

Historical Valuation

TAXABLE TAXABLE YEAR VALUE YEAR VALUE

Source: Counties of Osceola, Mecosta, and Clare

Per Capita Taxable Valuation

2013 per Capita Taxable Valuation $ 30,446

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The Downtown Development Authority enabling legislation (Act No. 197, Public Acts of Michigan, 1975, as amended), enables downtown development authorities to undertake a broad range of downtown improvement activities which will contribute to the economic growth and the halting of deterioration of property values in a designated downtown district.

In order to provide an authority with the means of financing the planning and implementation of development proposals, the statute affords the opportunity to undertake tax increment financing of development programs. These programs must be identified in a tax increment financing plan which has been approved by the governing body of a municipality.

Simply stated, tax increment financing permits an authority to capture tax revenues attributable to increases in value of real and personal property located within an approved development area. The increases in property value may be attributable to new construction, rehabilitation, remodeling, alterations, additions or to such other factors as the assessor may deem appropriate.

The City of Evart has one DDA district. The base year was 1987 and the DDA had an ad valorem valuation of $4,092,200. The 2013 ad valorem valuation was $5,583,919, with a limited captured valuation of $0. The limited captured amount is due to the level of eligible obligations in the District. The DDA does not capture the School District's debt tax levies.

Source: City of Evart

Local Development Finance Authority (LDFA)

Act 281 of the Public Acts of Michigan, 1986 as amended, ("Act 281"), enables cities, villages or urban townships to establish a Local Development Finance Authority (LDFA) for the purpose of encouraging local development to prevent conditions of unemployment and promote economic growth. Among the powers granted to the LDFA are the ability to plan and propose the development or redevelopment of property and improvements within a designated development area and the ability to implement an approved development plan.

In order to provide a LDFA with the means of financing development proposals, Act 281 authorizes and permits the use of tax increment financing to finance development plans and programs. These programs must be identified in a tax increment financing plan which has been approved by the governing body of a municipality. Tax increment financing permits a LDFA to capture tax revenues attributable to increase in the value of real and personal property located within an approved development area. The increase in property value may be attributable to new construction, rehabilitation, remodeling, alterations, additions or any other factors which cause growth in value.

The City of Evart has one LDFA district with a 1990 base year initial assessed valuation of $420,000. The 2013 ad valorem valuation was $3,026,159, with a limited captured valuation of $0. The limited captured amount is due to the level of eligible obligations in the district. The LDFA also has captured valuations of Industrial Facilities Tax (IFT), but these IFT levies do not finance the School operations, thus, their capture by the LDFA has no effect on the School. The LDFA does not capture the School District's debt tax levies.

Source: City of Evart

MAJOR TAXPAYERS

The top ten non-homestead taxpayers in the School District and their 2013 ad valorem taxable value are as

The Taxable Values of the above taxpayers represent 25.28% of the School District's 2013 Non-Homestead Taxable Value of

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$100,114,381.

Source: Osceola, Mecosta, and Clare County Departments of Equalization.

TAX RATES (Per $1,000 of Valuation)

The tax rates for taxpayers within the School District are as follows:

School District Tax Rates

2013

2012

2011

2010

2009

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* Pursuant to a ballot proposal approved by the electors of the State of Michigan on March 15, 1994, beginning with the December 1, 1994, tax levy, the State of Michigan levies 6.00 mills for school operating purposes on all homestead and non-homestead property located within the School District. The State mills were reduced to 5.00 mills for the 2003 tax levy and then raised back to 6.00 mills for 2004 and levied in the summer, instead of the winter tax roll. The School District levies 18.00 mills of voted operating millage on non-homestead property and authorized debt millage on all homestead and non-homestead property located within the School District. The School's operations are funded by an 18.00 mill levy with the balance of a per pupil allowance guaranteed by the State of Michigan education fund which is funded by the 6 mill levy noted above as well as sales tax and other statewide sources. Debt millage is also collected on the Industrial Facilities Taxable Values at one-half of the 2.50 debt mills or 1.25 mills. The total equivalent debt taxable value is approximately $218,997,536 for 2013.

Source: Osceola, Mecosta, and Clare County Departments of Equalization.

TAX LEVIES AND COLLECTIONS

The School District's fiscal year begins July 1 and ends June 30. School District property taxes are due December 1 of each fiscal year and are payable without interest or penalty on or before the following February 14. All real property taxes remaining unpaid on March 1st of the year following the levy are turned over to the County Treasurers for collection. Osceola, Mecosta, and Clare Counties annually pay from their Tax Revolving Funds delinquent taxes on real property to all taxing units in the Counties, including the School District, shortly after the date delinquent taxes are returned to the County Treasurers for collection. The payments from these funds have resulted in collections of taxes approaching 100% for all taxing units. Delinquent personal property taxes are negligible.

A history of tax levies and collections for the School District is as follows:

OPERATING COLLECTIONS TO COLLECTIONS YEAR TAX LEVY MARCH 1, EACH YEAR TO JUNE 30 EACH YEAR

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The Tax Revolving Funds are financed through the issuance of Delinquent Tax Anticipation Notes (DTANs). Although the Counties anticipate the continuance of these programs, the ability to issue such DTANs is subject to Michigan Department of Treasury approval and market conditions at the time of offering. In addition, Act 206 of 1893, as amended, provided in part that: "The primary obligation to pay to the county the amount of taxes and interest thereon shall rest with the local taxing units, and if the delinquent taxes which are due and payable to the county are not received by the county for any reason, the county has full right of recourse against the taxing unit to recover the amount thereof and interest thereon..." On the first Tuesday in May in each year, tax sales are held by the Counties at which lands delinquent for taxes assessed in the second year, preceding the sale, or in a prior year are sold for the total of the unpaid taxes of those years.

LABOR FORCE

A breakdown of the number of employees of Evart Public Schools and their affiliation with organized groups is as follows:
CONTRACT EMPLOYEES NUMBER BARGAINING UNIT EXPIRATION

The School District has not experienced a strike by any of its bargaining units within the past ten years. 2003 REFUNDING GENERAL OBLIGATION BONDS CONTINUING DISCLOSURE JUNE 30, 2014

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STATE AID PAYMENTS

Historically, the School District levied taxes for school operating revenues at much higher rates than currently being levied In 1994, the State of Michigan significantly modified the mechanisms for school finance. Pursuant to this reform, in the 1994/95 fiscal year, the School District received a state aid foundation allowance of $4,400 per pupil, which allowance was calculated based on the School District's 1994/1995 revenues. The 2013/2014 state aid foundation allowance is $7,026 per pupil.

The following table shows the School District's total state aid collections, for the past ten years:

The School District pays an amount equal to 29.46% of its employees' wages to the Michigan Public School Employees Retirement System ("MPSERS"), as of June 30, 2013, which is administered by the State of Michigan. These contributions are required by law. Prior to the 1994/1995 school year, the School District paid an amount equal to 5% of its employees' wages. The School District's contributions for the past five years are shown below. The School District does not have an

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unfunded accrued liability under MPSERS.

YEAR ENDING PAID TO
JUNE 30 PENSION FUND 2014 $ 1,397,059 2013 1,172,649 2012 1,181,841 2011 1,065,386 2010 957,650

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute 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 January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 4.3% of all wages over $15,000. Members joining the system on or after July 1, 2008 contribute at the following graduated rate: 3% of the first $5,000, 3.6% of $5,001 through $15,000 and 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 interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus Member. The Pension Plus Plan pairs a guaranteed retirement income (defined benefit pension) with a flexible and transferable retirement savings (defined contribution) account.

The District 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.

The system ("MPSERS") is administered by the State of Michigan. These contributions are required by law and are calculated by using the contributions rates and periods provided in the table below of the employees' wages. In addition, the District is required to match 50% of the employees' contributions, up to 1% of the employees' compensation in the Pension Plus plan.

Additionally, Public Act 300 of 2012 was enacted on September 4, 2012. As a result, any employee that was hired after September 4, 2012, can choose to become a member of the MPSERS Pension Plus plan or a separate MPSERS Defined Contribution plan. Employees that elect to become a member of the MPSERS Defined Contribution plan, the District is required to match 50% of the employees' contributions, up to 4% of the employees' compensation.

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.

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Fund Financial Statements

Historical enrollment for the School District (Blended February and September Count Dates) is as follows:

SCHOOL SCHOOL YEAR ENROLLMENT YEAR ENROLLMENT

2013/14 936 2008/09 1,119 2012/13 942 2007/08 1,176 2011/12985 2006/07 1,169 2010/11 1,044 2005/06 1,202 2009/10 1,074 2004/05 1,246

Enrollment by grades - 2012-/13 (Blended February and September Count Dates) is as follows:

Kindergarten 73 Seventh 76 First 74 Eighth 66 Second 74 Ninth 87 Third 65 Tenth 72 Fourth 63 Eleventh 68 Fifth 65 Twelfth 59 Sixth 74 Special Education 20 Alternative Education 0

TOTAL 936

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