

SCHOOL DISTRICT OF THE CITY OF EAST LANSING

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

YEAR ENDED JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
School District of the City of East Lansing

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 School District of the City of East Lansing, 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*, 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of School District of the City of East Lansing as of June 30, 2014, 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.

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 School District of the City of East Lansing's basic financial statements. The additional 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.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits 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 August 29, 2014 on our consideration of School District of the City of East Lansing's 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 School District of the City of East Lansing's internal control over financial reporting and compliance.

Maney Costeiran PC

August 29, 2014

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2014

The School District of the City of East Lansing is a K-12 public school district located in Ingham and Clinton Counties, Michigan. The Management's Discussion and Analysis (MD&A) is intended to be the School District of the City of East Lansing's management's review of financial performance for the year ended June 30, 2014. The MD&A is recommended to be read in conjunction with the District's financial statements. Prior year information is provided for comparative analysis.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The government-wide financial statements provide information about the *governmental activities* of the entire District, presenting both an aggregate view of the District's finances and a long-term view of those finances. The fund financial statements provide information about how *governmental funds* were financed in the short-term as well as what remains for future spending and looks at the District's operations by providing information about the District's most significant funds and with all other funds presented in one column as "non-major funds". The fiduciary funds statements present financial information about activities for which the District acts solely as an agent for the benefit of mostly student groups. The required supplemental information provide budget to actual comparisons of the general fund. The remaining statements are provided for additional analysis.

Government-wide Financial Statements - Reporting the School District as a Whole

In the business arena a commonly asked question is, "is the entity as a whole better or worse off financially as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report financial information about the District as a whole and its activities in a way that helps the reader answer this question. These statements are prepared using the full accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. They report all of the District's assets, deferred outflows, and liabilities, both short and long-term, and all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the District's net position (the difference between assets, deferred outflows, and liabilities), as reported in the Statement of Net Position, as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. However, the District's goal is to provide educational services to students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the District.

The governmental-wide financial statements report the governmental activities of the District, which encompass all of the District's services. Local property taxes, state per pupil foundation allowance, and state and federal grants finance the majority of these activities.

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2014

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

The fund financial statements provide detailed information about the most significant funds of the District - not the District as a whole. Certain funds are required to be established by State law or by bond covenants. Others funds are created in order to help control and manage their activities. The fund level statements of the District use an accounting method called modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

All of the District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows in and out of funds and the balances remaining at year-end that are available for appropriation. Governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. The information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's educational programs. Differences between governmental activities, as reported in the government-wide statements, and governmental funds, as reported in the fund financial statements, are presented in a reconciliation statement.

Fiduciary Statements - Reporting the School District's Trustee Responsibility

The District is the trustee, or fiduciary for its student activity funds. All of the District's fiduciary activities are aggregated and reported in the Statement of Fiduciary Assets and Liabilities. These activities are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2014



The School District as a Whole - Summary of Net position

The Statement of Net position provides the perspective of the District as a whole. The following schedule summarizes the net position as of June 30, 2014 and June 30, 2013:

	2014	2013
ASSETS:		
Current and other assets	\$ 18,923,141	\$ 21,659,164
Noncurrent assets	72,621,738	67,290,712
Total assets	91,544,879	88,949,876
DEFERRED OUTFLOWS:		
Deferred charge on refunding	2,163,344	2,342,009
LIABILITIES:		
Current liabilities	10,426,740	11,517,776
Noncurrent liabilities	56,973,332	56,847,550
Total liabilities	67,400,072	68,365,326
NET POSITION:		
Net investment in capital assets	21,103,546	12,855,334
Restricted (food service)	45,977	-
Restricted	2,066,837	6,305,878
Unrestricted	3,091,791	3,765,347
Total net position	\$ 26,308,151	\$ 22,926,559

Analysis of Financial Position

For the fiscal year ended June 30, 2014, the District's net position increased by \$3,381,592. A few of the more significant factors affecting net position during the year are discussed below:

1. Depreciation Expense

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

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2014

The District records depreciation expense 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, when applicable. For the fiscal year ended June 30, 2014 and June 30, 2013, the following was recorded as depreciation expense:

	2014	2013
Land improvements	\$ 531,557	\$ 534,723
Building and improvements	1,789,321	1,896,802
Furniture and equipment	397,464	382,385
Vehicles	10,689	17,817
Total	<u>\$ 2,729,031</u>	<u>\$ 2,831,727</u>

One approach of interpreting depreciation expense is that in order to maintain net position at a constant level the District would have to capitalize assets equal to the annual depreciation expense. However, when taking into consideration factors such as, inflation and repairs and maintenance, the actual investment in capital outlay would have to exceed the depreciation expense in order to maintain assets at the same level of value and functionality.

2. Capital Outlay Acquisition

For the fiscal year ended June 30, 2014, \$8,060,057 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets are depreciated over time as explained above.

The net effect of capital asset additions, deletions, and the current year's depreciation expense is an increase to capital assets in the amount of \$5,331,028 for the fiscal year ended June 30, 2014.

3. Long-Term Debt

The District's total general long-term debt for the fiscal year ended June 30, 2014 decreased by \$5,812,258. The majority of the decrease is a result of the District making payments on its various debt obligations.

Results of Operations

The results of this year's operations for the School District as a whole are reported in the Statement of Activities, which shows the changes in net position.

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2014

For the fiscal year ended June 30, 2014 and June 30, 2013, the District-wide results of operation were:

	2014	% of total	2013	% of total
General revenues:				
Property taxes, levied for general operations	\$ 8,170,273	17.8	\$ 7,955,236	18.6
Property taxes, levied for debt service	8,091,512	17.6	6,994,323	16.4
Property taxes, levied for sinking fund	1,278,386	2.8	1,276,790	3.0
Investment earnings	8,881	-	24,340	0.1
State sources	19,296,643	42.1	19,472,539	45.6
County special education allocation	3,229,730	7.0	3,488,028	8.2
Gain/(loss) on sale of capital assets	7,087	-	(2,236,018)	(5.4)
Other	323,174	0.7	229,177	0.5
Total general revenues	40,405,686	88.0	37,204,415	87.0
Program revenues:				
Charges for services	746,805	1.6	759,252	1.8
Operating grants	4,750,388	10.4	4,769,940	11.2
Total revenues	\$ 45,902,879	100.0	\$ 42,733,607	100.0
Function/program expenses:				
Instruction	\$ 22,408,976	52.8	\$ 20,068,990	50.5
Support services	13,666,423	32.1	12,858,287	32.4
Community services	40,207	0.1	21,494	0.1
Food services	976,664	2.3	1,152,130	2.9
Interest on long-term debt	2,699,986	6.3	2,795,699	7.0
Unallocated depreciation	2,729,031	6.4	2,831,727	7.1
Total expenses	\$ 42,521,287	100.0	\$ 39,728,327	100.0

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2014

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies various millages on property taxes for general operations, debt service, and building and site repairs. Each millage, except those for debt service, is subject to mandatory reductions as required by the Headlee Amendment. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annual taxable valuation increases are capped at the rate of the prior year's Consumer Price Index or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is approximately 50% of the property's market value.

The District receives settlements from Ingham and Clinton counties on all outstanding *real* property taxes at the end of each fiscal year. The amount of unpaid *personal* property taxes at June 30, 2014 was approximately \$3,600, or 0.04% of the total General Fund levy.

The following schedule summarizes the millages levied for the past five years. Beginning with fiscal year 2008-2009 commercial personal property is subject to 6.0000 mills per changes to the State of Michigan property tax system.

Fiscal year	All property supplemental operating mills levied	Non-PRE (comm. personal) operating mills levied	All property debt service mills levied	All property sinking fund mills levied
2013 - 2014	0.0000	18.0000	8.1200	1.2860
2012 - 2013	0.0000	18.0000	7.0000	1.2860
2011 - 2012	0.0000	18.0000	7.0000	1.2802
2010 - 2011	0.7622	17.2378	7.0000	1.2860
2009 - 2010	0.7028	17.2972	7.0000	1.2860

The following schedule summarizes the property taxes generated for the past five years:

Fiscal year	All property supplemental operating mills levied	Non-PRE (comm personal) operating mills levied	All property debt service mills levied	All property building & site mills levied
2013 - 2014	\$ -	\$ 8,168,877	\$ 8,085,819	\$ 1,271,222
2012 - 2013	-	8,076,732	7,033,919	1,282,869
2011 - 2012	-	8,263,591	7,279,392	1,321,976
2010 - 2011	815,603	8,144,395	7,536,245	1,376,110
2009 - 2010	790,693	8,611,315	7,921,156	1,446,828

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2014

2. State Sources

Per the State School Aid Act the State of Michigan funds school districts on a per pupil allowance based on a blended student enrollment. The blended enrollment consists of 90% of the current year's fall count (the first Wednesday of October) and 10% of the current year's supplemental count (the second Wednesday of February). The District's per pupil allowance for fiscal year 2014 was \$8,049.

The following schedule summarizes the District's per pupil allowance over the past five years:

Fiscal year	Per pupil allowance	\$ increase (decrease) from prior year
2013 - 2014	\$ 8,049	\$ 30
2012 - 2013	8,019	-
2011 - 2012	8,019	(118)
2010 - 2011	8,137	(16)
2009 - 2010	8,153	(468)

Non-resident pupils that attend the District via School of Choice (SOC) program are funded at the per pupil allowance of their resident district. The majority of the District's SOC pupils are funded at a lower per pupil amount than the \$8,049 the District receives for its resident pupils.

3. Student Enrollment

The District's student enrollment figures have increased over the past several years. The following schedule summarizes the blended enrollment for each of the past five fiscal years:

Fiscal year	Actual blended student FTE	FTE change from prior year
2013 - 2014	3,496	(42)
2012 - 2013	3,538	61
2011 - 2012	3,477	10
2010 - 2011	3,467	22
2009 - 2010	3,445	36

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2014

4. County Special Education Allocation

The District receives an allocation, based on a funding system, from Ingham Intermediate School District to assist with the education of students with special needs. For the fiscal year ended June 30, 2014, the District received \$2,211,082. This amount represents a decrease of \$308,420 over the prior fiscal year.

5. Expenditure Comparison By Function

The following schedule provides a comparison of fund expenditures and other financing sources for fiscal years 2013-2014 and 2012-2013:

Function	2013-2014 fiscal year	%	2012-2013 fiscal year	%
Basic programs	\$ 18,147,518	50.3	\$ 17,594,369	50.2
Special education	3,038,574	8.4	3,083,890	8.6
Compensatory education	1,370,085	3.8	1,439,735	4.1
Total instruction	22,556,177	62.5	22,117,994	62.9
Pupil support services	2,246,480	6.2	2,281,128	6.5
Instructional staff support services	2,291,524	6.3	2,108,072	6.0
School administration	2,507,031	6.9	2,400,593	6.9
Total instructional support	7,045,035	19.4	6,789,793	19.4
General administration	421,883	1.2	368,858	1.1
Business office	411,646	1.1	374,841	1.1
Operations and maintenance	3,343,394	9.4	3,222,578	9.3
Pupil transportation	1,060,758	2.9	905,263	2.6
Central	596,798	1.7	582,923	1.7
Athletics	630,951	1.7	606,044	1.7
Community services	40,207	0.1	21,494	0.1
Transfers out	-	-	52,079	0.1
Total general fund	36,106,849	100.0	35,041,867	100.0
Food service fund	1,048,383		1,186,030	
Debt service funds	8,412,854		7,485,427	
Sinking fund	5,552,650		931,261	
2012 capital projects fund	129,432		225,159	
2013 capital projects fund	2,561,581		609,663	
Total	\$ 53,811,749		\$ 45,479,407	

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2014

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education adopt the original budget for the upcoming fiscal year prior to the start of the fiscal year on July 1. Amendments made to the original budgets must be adopted by the Board of Education prior to the close of the fiscal year on June 30.

The District budgets according to the Michigan School Accounting Manual Bulletin 1022. It is standard practice to amend its budget semi-annually, usually December and May.

The following schedule shows a five-year comparison of the general fund revenue and other financing sources final budget versus actual results:

Fiscal year	Revenues and Other Financing Sources		
	Budget	Actual	Variance
2013 - 2014	\$ 35,257,879	\$ 35,287,711	0.08%
2012 - 2013	35,673,954	35,717,808	0.12%
2011 - 2012	34,370,926	34,296,757	-0.22%
2010 - 2011	34,364,370	34,282,078	-0.24%
2009 - 2010	33,589,721	33,534,520	-0.16%
Five year average actual over (under) budget			-0.08%

The following schedule shows a five-year comparison of the general fund expenditures and other financing uses final budget versus actual results:

Fiscal year	Expenditures and Other Financing Uses		
	Budget	Actual	Variance
2013 - 2014	\$ 36,186,893	\$ 36,106,849	-0.22%
2012 - 2013	35,136,047	35,041,867	-0.27%
2011 - 2012	35,339,702	35,239,143	-0.28%
2010 - 2011	34,277,405	33,820,515	-1.33%
2009 - 2010	33,830,292	33,492,121	-1.00%
Five year average actual over (under) budget			-0.62%

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2014

Capital and Intangible Assets and Debt Administration

1. Capital Assets

At June 30, 2014, the District had \$72,621,738 invested in a broad range of capital assets, including land, construction in progress, land improvements, buildings, various furniture and equipment, and vehicles. This amount represents a net increase of \$5,331,026 due to fiscal year capital asset additions and the sale of assets exceeding depreciation and disposals.

The following schedule shows the net book value of the District's capital assets by class type:

	2014			2013
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 266,493	\$ -	\$ 266,493	\$ 266,494
Construction in progress	7,508,418	-	7,508,418	1,099,671
Land improvements	11,826,160	5,381,801	6,444,359	6,975,916
Building and additions	84,138,442	28,610,297	55,528,145	56,658,579
Furniture and equipment	7,577,337	4,748,894	2,828,443	2,233,484
Transportation equipment	249,396	203,516	45,880	56,568
Total	<u>\$ 111,566,246</u>	<u>\$ 38,944,508</u>	<u>\$ 72,621,738</u>	<u>\$ 67,290,712</u>

2. Long-term Debt

At June 30, 2014, the District had \$55,830,765 in general obligation bonded debt outstanding versus \$61,488,197 at June 30, 2013.

The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. The District's outstanding general obligation debt is significantly below this statutorily imposed limit.

School District of the City of East Lansing



Management's Discussion and Analysis For Fiscal Year Ended June 30, 2014

Factors Bearing on the District's Future

Our elected officials and administration consider many factors when developing the District's fiscal year budget. The following items could significantly impact the District's financial health in the future:

- **Enrollment:** State Aid Foundation revenue received is driven by the District's blended student enrollment. The District is anticipating modest enrollment growth for fiscal year 2014-2015 but enrollment concerns remain as the District's resident enrollment has historically shown little growth over the years.
- **Foundation Allowance:** The per pupil foundation allowance the District receives from the State is estimated to increase \$30 per pupil for the next fiscal year. The slowly recovering Michigan economy and its impact on the School Aid Fund is a concern.
- **Health Insurance:** Districts across the State continue to incur significant increases in the premiums they pay for employee benefits, in particular health insurance. The rising cost of health insurance and the financial impact of the federal Affordable Health Care Act is a concern.
- **Retirement Rate:** The Michigan Public Schools Retirement system now has seven different rates for active employees and another seven rates for retirees and former qualified participants who return to work. The State increased the retirement rate that is most applicable to District employees to 25.78%, effective October 1, 2014, that is charged to districts to fund the retirement system. This represents an increase of 4.0% from the rate ending September 30, 2014. In addition, the State charges and funds a stabilization rate of 8.76%. The ability of the state to continue to subsidize the stabilization rate is a concern.
- **County Special Education Allocation:** The revenue the District receives from the county special education funding system is largely driven by property values. The slowly recovering Michigan economy and its impact on property values is a concern.
- **Employee Contracts:** All union contracts expired on June 30, 2014. Collective bargaining is ongoing.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances. If you have questions about this report, or need additional financial information, please contact the Business Office, School District of the City of East Lansing, 501 Burcham Drive, East Lansing, MI 48823.

BASIC FINANCIAL STATEMENTS

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental activities
ASSETS:	
Cash and cash equivalents	\$ 10,763,573
Receivables:	
Accounts receivable	4,349
Taxes receivable	5,009
Intergovernmental	4,350,055
Inventories	52,178
Prepays	126,656
Restricted cash - capital projects	3,621,321
Capital assets not being depreciated	7,774,911
Capital assets, net of accumulated depreciation	<u>64,846,827</u>
TOTAL ASSETS	<u>91,544,879</u>
 DEFERRED OUTFLOWS OF RESOURCES:	
Deferred charges on refunding	<u>2,163,344</u>
 LIABILITIES:	
Accounts payable	4,049,622
Accrued salaries and related items	3,810,209
Accrued interest	419,890
Unearned revenue	209,457
Due to other governmental units	37,562
Note payable	1,900,000
Noncurrent obligations:	
Due within one year	5,818,245
Due in more than a year	51,136,532
Due in more than a year - interest	<u>18,555</u>
TOTAL LIABILITIES	<u>67,400,072</u>
 NET POSITION:	
Net investment in capital assets	21,103,546
Restricted for capital projects (food service)	45,977
Restricted for capital projects (sinking fund)	2,066,837
Unrestricted	<u>3,091,791</u>
TOTAL NET POSITON	<u><u>\$ 26,308,151</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net position
Governmental activities:				
Instruction	\$ 22,408,976	\$ -	\$ 3,712,361	\$ (18,696,615)
Support services	13,666,423	295,688	330,108	(13,040,627)
Community services	40,207	-	39,754	(453)
Food services	976,664	451,117	668,165	142,618
Interest on long-term debt	2,699,986	-	-	(2,699,986)
Unallocated depreciation	2,729,031	-	-	(2,729,031)
Total governmental activities	<u>\$ 42,521,287</u>	<u>\$ 746,805</u>	<u>\$ 4,750,388</u>	<u>(37,024,094)</u>
General revenues:				
Property taxes, levied for general purposes				8,170,273
Property taxes, levied for debt service				8,091,512
Property taxes, levied for sinking fund				1,278,386
Investment earnings				8,881
State sources				19,296,643
Intermediate sources				3,229,730
Gain on sale of assets				7,087
Other				<u>323,174</u>
Total general revenues				<u>40,405,686</u>
CHANGE IN NET POSITION				<u>3,381,592</u>
NET POSITION, beginning of year				<u>22,926,559</u>
NET POSITION, end of year				<u><u>\$ 26,308,151</u></u>

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General fund	Capital projects sinking fund	2013 Capital projects fund	Total nonmajor funds	Total governmental funds
ASSETS:					
Cash and cash equivalents	\$ 4,753,703	\$ 3,914,401	\$ -	\$ 2,095,469	\$ 10,763,573
Restricted cash and cash equivalents	-	-	3,621,321	-	3,621,321
Receivables:					
Property taxes receivable	3,159	253	-	1,597	5,009
Accounts receivable	3,996	-	-	353	4,349
Intergovernmental	4,331,424	-	-	18,631	4,350,055
Due from other funds	20,762	23,599	-	200,576	244,937
Inventories	7,784	-	-	44,394	52,178
Prepays	118,904	-	-	7,752	126,656
TOTAL ASSETS	\$ 9,239,732	\$ 3,938,253	\$ 3,621,321	\$ 2,368,772	\$ 19,168,078
LIABILITIES:					
Accounts payable	\$ 609,459	\$ 1,869,103	\$ 1,472,092	\$ 98,968	\$ 4,049,622
Accrued salaries and related items	3,810,209	-	-	-	3,810,209
Accrued interest payable	2,148	-	-	-	2,148
Due to other funds	171,681	2,313	-	70,943	244,937
Due to other governmental units	37,562	-	-	-	37,562
Unearned revenue	174,334	-	-	35,123	209,457
Note payable	1,900,000	-	-	-	1,900,000
TOTAL LIABILITIES	6,705,393	1,871,416	1,472,092	205,034	10,253,935
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenue	84,524	-	-	-	84,524
FUND BALANCES:					
Nonspendable:					
Inventories	7,784	-	-	44,394	52,178
Prepays	118,904	-	-	7,752	126,656

See notes to financial statements.

	<u>General fund</u>	<u>Capital projects sinking fund</u>	<u>2013 Capital projects fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
FUND BALANCES (Concluded):					
Restricted for:					
Debt service	\$ -	\$ -	\$ -	\$ 275,874	\$ 275,874
Capital outlay	-	1,259,964	2,149,229	203	3,409,396
Food service				45,977	45,977
Committed:					
Sinking fund	-	806,873	-	-	806,873
2012 Capital projects fund	-	-	-	1,789,538	1,789,538
Unassigned general fund	2,323,127	-	-	-	2,323,127
TOTAL FUND BALANCES	<u>2,449,815</u>	<u>2,066,837</u>	<u>2,149,229</u>	<u>2,163,738</u>	<u>8,829,619</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	<u>\$ 9,239,732</u>	<u>\$ 3,938,253</u>	<u>\$ 3,621,321</u>	<u>\$ 2,368,772</u>	<u>\$ 19,168,078</u>
Total governmental fund balances					\$ 8,829,619
Amounts reported for governmental activities in the statement of net position are different because:					
Deferred charges on refunding					2,163,344
Capital assets used in governmental activities are not financial resources and are not reported in the funds:					
The cost of the capital assets is				\$ 111,566,246	
Accumulated depreciation is				<u>(38,944,508)</u>	72,621,738
Revenue not recorded in the funds due to not being collected until after September 1st:					
Deferred inflows - Special education payment due from IISD					84,524
Long-term liabilities are not due and payable in the current period and are not reported in the funds:					
Bonds payable					(55,830,765)
Compensated absences and termination benefits					(1,124,012)
Accrued interest is not included as a liability in government funds, it is recorded when paid					<u>(436,297)</u>
Net position of governmental activities					<u>\$ 26,308,151</u>

See notes to financial statements.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	<u>General Fund</u>	<u>Capital projects sinking fund</u>	<u>2013 Capital projects fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
REVENUES:					
Local sources:					
Property taxes	\$ 8,170,273	\$ 1,278,386	\$ -	\$ 8,091,512	\$ 17,540,171
Tuition	1,130	-	-	-	1,130
MSU reimbursement	-	-	-	105,448	105,448
Investment earnings	-	343	-	8,538	8,881
Food sales and athletics	198,168	-	-	451,117	649,285
Other	192,360	34,880	-	-	227,240
Total local sources	8,561,931	1,313,609	-	8,656,615	18,532,155
State sources	22,476,219	-	-	49,671	22,525,890
Federal sources	902,647	-	-	618,494	1,521,141
Incoming transfers and other	3,339,827	-	-	-	3,339,827
Total revenues	35,280,624	1,313,609	-	9,324,780	45,919,013
EXPENDITURES:					
Current:					
Instruction	22,556,177	-	-	-	22,556,177
Supporting services	13,510,465	-	-	-	13,510,465
Food service activities	-	-	-	1,045,871	1,045,871
Community service activities	40,207	-	-	-	40,207
Capital outlay	-	5,552,650	2,561,581	131,944	8,246,175

See notes to financial statements.

	<u>General Fund</u>	<u>Capital projects sinking fund</u>	<u>2013 Capital projects fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
EXPENDITURES (Concluded):					
Debt service:					
Principal repayment	\$ -	\$ -	\$ -	\$ 5,695,000	\$ 5,695,000
Interest	-	-	-	2,716,721	2,716,721
Other costs including issuance costs	-	-	-	1,133	1,133
Total expenditures	<u>36,106,849</u>	<u>5,552,650</u>	<u>2,561,581</u>	<u>9,590,669</u>	<u>53,811,749</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(826,225)</u>	<u>(4,239,041)</u>	<u>(2,561,581)</u>	<u>(265,889)</u>	<u>(7,892,736)</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from school loan revolving fund	-	-	-	307,975	307,975
Proceeds from sale of capital assets	7,087	-	-	-	7,087
Transfers in	-	-	-	52,494	52,494
Transfers out	-	-	-	(52,494)	(52,494)
Total other financing sources (uses)	<u>7,087</u>	<u>-</u>	<u>-</u>	<u>307,416</u>	<u>314,503</u>
NET CHANGE IN FUND BALANCES	<u>(819,138)</u>	<u>(4,239,041)</u>	<u>(2,561,581)</u>	<u>41,527</u>	<u>(7,578,233)</u>
FUND BALANCES:					
Beginning of year	<u>3,268,953</u>	<u>6,305,878</u>	<u>4,710,810</u>	<u>2,122,211</u>	<u>16,407,852</u>
End of year	<u>\$ 2,449,815</u>	<u>\$ 2,066,837</u>	<u>\$ 2,149,229</u>	<u>\$ 2,163,738</u>	<u>\$ 8,829,619</u>

See notes to financial statements.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

Net change in fund balances total governmental funds	\$ (7,578,233)
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	(2,729,031)
Capital outlay	8,060,057
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	451,327
Accrued interest payable, end of the year	(417,742)
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 issuance of bonds	(307,975)
Payments on debt	5,695,000
Amortization of deferred charges on refunding	(178,665)
Amortization of bond premium	270,407
Long-term interest on school loan revolving fund, beginning of the year	2,619
Long-term interest on school loan revolving fund, end of the year	(18,555)
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:	
Deferred inflows - Unearned revenue, beginning of the year	(106,967)
Deferred inflows - Unearned revenue, end of the year	84,524
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 and termination benefits, beginning of the year	1,278,838
Accrued compensated absences and termination benefits, end of the year	(1,124,012)
Change in net position of governmental activities	<u><u>\$ 3,381,592</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2014**

	<u>Agency Funds</u>
ASSETS:	
Cash	\$ 490,299
Total assets	<u>\$ 490,299</u>
LIABILITIES:	
Accounts payable	\$ 50,599
Due to student and other groups	<u>439,700</u>
Total liabilities	<u>\$ 490,299</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
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 School District of the City of East Lansing (the “District”) is governed by the School District of the City of East Lansing 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.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 capital projects *sinking fund* records capital project activities funded with sinking fund millage and other sources. For the sinking fund, the District has complied with the applicable provision of §1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

The *2013 capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The 2013 capital projects fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

Revenue, not including proceeds	\$ <u> -</u>
Expenditures and transfers	\$ <u> 3,171,244 </u>

The above revenue figure does not include total 2013 bond proceeds and premium of \$5,320,473.

Other Non-major 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 a special revenue fund.

The *2005, 2005B, and 2011 refunding debt service funds* and the *2013 debt service fund* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *2012 capital projects fund* accounts for the receipt of proceeds from the sale of a building and the acquisition of fixed assets or construction of major capital projects.

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.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

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

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.

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.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Continued)

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).

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.

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 an intergovernmental receivable.

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.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

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

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

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. The capital projects funds are appropriated on a project-length basis. 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.

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.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information (Concluded)

5. The budget was amended during the year with supplemental appropriations, the last one approved prior to year ended June 30, 2014. 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.

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.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3. Inventories and prepaid items (Concluded)

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.

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

<u>Capital asset classes</u>	<u>Lives</u>
Buildings and additions	20 - 50
Furniture and equipment	5 - 20

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.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

5. Deferred outflows/inflows of resources (Concluded)

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 only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues primarily from one source: receipts that exceeded 60 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

In the computation of net investment in capital assets, the school loan revolving fund principal proceeds of \$697,140 are considered capital-related debt. Accrued interest on the school loan revolving fund of \$18,555 is not considered capital related debt.

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.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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. The Board of Education originally committed \$8,000,000 of sinking fund balance and 2012 capital projects fund balance for the purpose of construction and renovation of MacDonald Middle School. At June 30, 2014 \$2,596,411 is committed.

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.

The District has committed and adopted a minimum fund balance policy. In the general fund, the District strives to maintain a fund balance to be 10% of the actual GAAP basis expenditures and other financing uses. Currently, the unassigned fund balance is approximately 1%.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

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 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 date is September 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, 2014, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General fund:	
Non-Principal Residence Exemption (PRE)	18.0000
Commercial Personal Property	6.0000
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	8.1200
Sinking fund:	
PRE, Non-PRE, Commercial Personal Property	1.2860

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 resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

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, 2014, the District had no investments.

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, 2014, \$14,689,481 of the District's bank balance of \$14,939,481 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

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.

At June 30, 2014, the carrying amounts are as follows:

Cash on hand	\$ 21
Deposits including fiduciary funds of \$490,299	<u>14,875,172</u>
	<u><u>\$ 14,875,193</u></u>

The above amounts are reported in the financial statements as follows:

Cash - agency fund	\$ 490,299
Cash - district-wide	10,763,573
Restricted cash - capital projects	<u>3,621,321</u>
	<u><u>\$ 14,875,193</u></u>

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Receivables at June 30, 2014 consist of the following:

Intergovernmental:

State aid	\$ 4,091,229
Federal revenue	137,508
Ingham Intermediate School District	<u>121,318</u>
	<u><u>\$ 4,350,055</u></u>

No allowance for doubtful accounts is considered necessary.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets at June 30, 2014 is as follows:

	Balance July 1, 2013	Additions	Reclassifications/ deletions	Balance June 30, 2014
Assets not being depreciated:				
Land	\$ 266,493	\$ -	\$ -	\$ 266,493
Construction in progress	1,099,672	6,668,047	259,301	7,508,418
	<u>1,366,165</u>	<u>6,668,047</u>	<u>259,301</u>	<u>7,774,911</u>
Other capital assets:				
Land improvements	11,826,160	-	-	11,826,160
Buildings and additions	83,479,555	658,887	-	84,138,442
Furniture and equipment	7,743,010	992,424	1,158,097	7,577,337
Vehicles	249,396	-	-	249,396
Total other capital assets	<u>103,298,121</u>	<u>1,651,311</u>	<u>1,158,097</u>	<u>103,791,335</u>
Accumulated depreciation:				
Land improvements	4,850,244	531,557	-	5,381,801
Building and improvements	26,820,976	1,789,321	-	28,610,297
Furniture and equipment	5,509,527	397,464	1,158,097	4,748,894
Vehicles	192,827	10,689	-	203,516
Total accumulated depreciation	<u>37,373,574</u>	<u>2,729,031</u>	<u>1,158,097</u>	<u>38,944,508</u>
Net other capital assets	<u>65,924,547</u>	<u>(1,077,720)</u>	<u>-</u>	<u>64,846,827</u>
Net capital assets	<u>\$ 67,290,712</u>	<u>\$ 5,590,327</u>	<u>\$ 259,301</u>	<u>\$ 72,621,738</u>

Depreciation for the fiscal year ended June 30, 2014 amounted to \$2,729,031. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - NOTE PAYABLE

At June 30, 2014, the District had a short-term state aid note payable with interest at 0.74%. The note matures on October 21, 2014.

Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
<u>\$ -</u>	<u>\$ 1,900,000</u>	<u>\$ -</u>	<u>\$ 1,900,000</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT

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

	Compensated absences and termination benefits	School loan revolving fund	Bonds and other debt	Total
Balance, July 1, 2013	\$ 1,278,838	\$ 389,165	\$ 61,099,032	\$ 62,767,035
Additions	129,379	307,975	-	437,354
Deletions	(284,205)	-	(5,965,407)	(6,249,612)
Balance, June 30, 2014	1,124,012	697,140	55,133,625	56,954,777
Due within one year	(123,245)	-	(5,695,000)	(5,818,245)
Due in more than one year	<u>\$ 1,000,767</u>	<u>\$ 697,140</u>	<u>\$ 49,438,625</u>	<u>\$ 51,136,532</u>

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. General obligation debts currently outstanding at June 30, 2014 are as follows:

2005 Series B general obligation bonds due in annual installments of \$2,710,000 to \$3,045,000 through May 1, 2030, with interest at 3.00% to 5.00%.	\$ 47,020,000
2011 refunding general obligation bonds due in annual installment of \$1,600,000 through May 1, 2015, with interest at 1.60% to 2.00%.	1,600,000
2013 general obligation bonds due in annual installments of \$985,000 to \$1,075,000 through May 1, 2018, with interest of 3.00%.	4,115,000
Plus: Premiums on issuance of debt	<u>2,398,625</u>
Total general obligation	55,133,625
Borrowings from the State of Michigan under the School Loan Revolving Fund program. Interest at June 30, 2014 was 3.53%.	697,140
Employee compensated absences and termination benefits	<u>1,124,012</u>
Total general long-term debt	<u>\$ 56,954,777</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

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, 2014, \$46,675,000 of bonds outstanding are considered defeased.

The annual requirements to amortize the long-term obligations as of June 30, 2014, including interest of \$20,684,505 are as follows:

Year ending June 30,	Principal	Interest	Total
2015	\$ 5,295,000	\$ 2,506,450	\$ 7,801,450
2016	3,760,000	2,309,400	6,069,400
2017	3,840,000	2,141,600	5,981,600
2018	3,915,000	1,970,500	5,885,500
2019	2,880,000	1,796,250	4,676,250
2020 - 2024	14,945,000	6,782,250	21,727,250
2025 - 2029	15,115,000	3,010,250	18,125,250
2030	2,985,000	149,250	3,134,250
	<u>52,735,000</u>	<u>20,665,950</u>	<u>73,400,950</u>
Borrowings from State of Michigan			
School Loan Revolving Fund program	697,140	18,555	715,695
Unamortized premium on bond issuance	2,398,625	-	2,398,625
Accumulated compensated absences and termination benefits	1,124,012	-	1,124,012
	<u>\$ 56,954,777</u>	<u>\$ 20,684,505</u>	<u>\$ 77,639,282</u>

Borrowing from the State of Michigan - The school loan revolving fund payable represents a note payable to the State of Michigan for loans made to the school district, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the school district issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. The interest rate was 3.53% for the school loan revolving fund note at June 30, 2014. Repayment is required when the millage rate necessary to cover the annual bonded debt services falls below 7.00 mills. The school district is required to levy 7.00 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. Currently the District levies 8.12 mills. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the school district, no provision for repayment has been included in the above amortization schedule.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING NOTES TO FINANCIAL STATEMENTS

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS

Plan Description - The District participates in the statewide Michigan Public School Employees' Retirement System (MPERS) 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 MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. 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.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - 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.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Funding Policy (Concluded)

Employer Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits on a prefunded basis. The School District pays an amount equal to a percentage of its employees' wages to the Michigan Public School Employees Retirement System ("MPERS"), which is administered by the State of Michigan. These contributions are required by law and are calculated by using the contribution rates and periods provided in the following table. The District contributions to MPERS were equal to the required contribution for those years.

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

Fiscal Year Ending <u>June 30,</u>	<u>Contributions to MPERS</u>
2014	\$ 5,681,304
2013	\$ 4,596,251
2012	\$ 4,378,591

Included in the amounts paid above, the District received \$933,391 and \$365,601 of section 147(c) State Aid for the sole purpose of making supplemental payments to MPERS. The District has recorded these amounts as state revenue and additional pension expenditures/expenses for the years ended June 30, 2014 and 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.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

		Fiscal Year 2014						
Contribution rates		Effective October 1, 2013						
Public School Employee Pension Rates (FYE Sept. 30th)			Pension Plus PHF - First worked after	Pension Plus to DC with PHF First worked after 9/2/13	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF	
	Basic MIP	Pension Plus	9/2/13					
		DB Contributions						
Pension Normal Cost	2.90%	2.67%	2.67%	0.00%	0.00%	0.00%	2.90%	
Pension UAL	14.08%	14.08%	14.08%	14.08%	14.08%	14.08%	14.08%	
Pension Early Retirement Incentive	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	
Pension Contributions - Total Rate	18.34%	18.11%	18.11%	15.44%	15.44%	15.44%	18.34%	
Health Normal Cost	0.93%	0.93%	0.00%	0.00%	0.93%	0.00%	0.00%	
Health UAL	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%	
Health Contributions - Total Rate	6.45%	6.45%	5.52%	5.52%	6.45%	5.52%	5.52%	
Total	24.79%	24.56%	23.63%	20.96%	21.89%	20.96%	23.86%	
		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%	
Grand Total	24.79%	25.56%	26.63%	25.96%	25.89%	26.96%	25.86%	

		Fiscal Year 2013						
Contribution rates		Effective February 1, 2013						
Public School Employee Pension Rates (FYE Sept. 30th)			Pension Plus PHF - First worked after	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	
	Basic MIP	Pension Plus	9/3/12					
Grand Total	24.32%	24.13%	26.20%	25.96%	25.89%	26.96%	25.39%	

		Fiscal Year 2013			
		4 months ended 1/31/2013			
Public School Employee Pension Rates (FYE Sept. 30th)		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
Total	25.36%	24.13%	23.20%	20.96%	

		Fiscal Year 2012			
		FY 2011 - 2012		11 months ended 9/30/11	
Public School Employee Pension Rates (FYE Sept. 30th)		First worked before 7/1/10	First worked after 6/30/10	First worked before 7/1/10	First worked after 6/30/10
Total	24.46%	23.23%	20.66%	19.16%	

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - 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. Beginning fiscal year 2013, it is 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.

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 service 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) account no later than their first pay date after February 1, 2013.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - 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, 2014 or any of the prior three years.

NOTE 9 - TRANSFERS

The 2005 series B debt fund received \$52,494 from the 2005 debt fund. The transfer was made to move the remaining fund balance after paying off the 2005 debt during the year ended June 30, 2014.

NOTE 10 - INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2014 is as follows:

Receivable fund	Amount	Payable fund	Amount
General fund	\$ 20,762	General fund	\$ 171,681
2005 debt fund	32,569	2005 debt fund	56,668
2005 debt fund series B	134,769	2005 debt fund series B	6,985
2011 refunding debt fund	13,621	2011 refunding debt fund	460
2013 debt fund	19,617	2013 debt fund	790
Sinking fund	23,599	Sinking fund	2,313
2012 capital projects fund	-	2012 capital projects fund	6,040
	<u>\$ 244,937</u>		<u>\$ 244,937</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 - UPCOMING ACCOUNTING PRONOUNCEMENT

Governmental Accounting Standards Board (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 an actuarial calculation. 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. The District is in the process of evaluating the financial statement impact of this statement and believes the impact of this statement will be significant.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2014**

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	\$ 8,391,553	\$ 8,467,992	\$ 8,561,931	\$ 93,939
State sources	21,766,442	22,501,301	22,476,219	(25,082)
Federal sources	972,639	950,459	902,647	(47,812)
Incoming transfers and other	3,465,844	3,331,027	3,339,827	8,800
Total revenues	<u>34,596,478</u>	<u>35,250,779</u>	<u>35,280,624</u>	<u>29,845</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	17,346,502	17,958,034	18,147,518	(189,484)
Added needs	4,442,559	4,466,811	4,408,659	58,152
Total instruction	<u>21,789,061</u>	<u>22,424,845</u>	<u>22,556,177</u>	<u>(131,332)</u>
Supporting services:				
Pupil	2,273,823	2,245,754	2,246,480	(726)
Instructional staff	2,362,164	2,314,520	2,291,524	22,996
General administration	378,014	429,802	421,883	7,919
School administration	2,485,829	2,522,910	2,507,031	15,879
Business	391,569	416,352	411,646	4,706
Operation/maintenance	3,267,468	3,383,950	3,343,394	40,556
Pupil transportation	902,144	1,070,353	1,060,758	9,595
Central	669,780	696,132	596,798	99,334
Athletics	625,911	628,438	630,951	(2,513)
Total supporting services	<u>13,356,702</u>	<u>13,708,211</u>	<u>13,510,465</u>	<u>197,746</u>
Community services	<u>38,781</u>	<u>53,837</u>	<u>40,207</u>	<u>13,630</u>
Total expenditures	<u>35,184,544</u>	<u>36,186,893</u>	<u>36,106,849</u>	<u>80,044</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(588,066)</u>	<u>(936,114)</u>	<u>(826,225)</u>	<u>109,889</u>
OTHER FINANCING SOURCES (USES):				
Sale of school property	-	7,100	7,087	(13)
Transfers in	2,500	-	-	-
Total other financing sources (uses)	<u>2,500</u>	<u>7,100</u>	<u>7,087</u>	<u>(13)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (585,566)</u>	<u>\$ (929,014)</u>	<u>(819,138)</u>	<u>\$ 109,876</u>
FUND BALANCE:				
Beginning of year			<u>3,268,953</u>	
End of year			<u>\$ 2,449,815</u>	

ADDITIONAL SUPPLEMENTARY INFORMATION

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
YEAR ENDED JUNE 30, 2014**

	Final budget	Actual	Variance with final budget
LOCAL SOURCES:			
Property taxes	\$ 8,086,033	\$ 8,170,273	\$ 84,240
Tuition	1,130	1,130	-
Other local revenue	191,479	192,360	881
Athletics	189,350	198,168	8,818
TOTAL LOCAL SOURCES	8,467,992	8,561,931	93,939
STATE SOURCES:			
Foundation grant	14,593,745	14,599,930	6,185
Special education	974,791	953,592	(21,199)
Other state revenue	6,932,765	6,922,697	(10,068)
TOTAL STATE SOURCES	22,501,301	22,476,219	(25,082)
FEDERAL SOURCES:			
Title I	649,739	649,739	-
Title II - improving teacher quality	156,304	154,327	(1,977)
Title III - immigrant	57,615	32,190	(25,425)
Other federal revenue	86,801	66,391	(20,410)
TOTAL FEDERAL SOURCES	950,459	902,647	(47,812)
INCOMING TRANSFERS AND OTHER TRANSACTIONS:			
Special education	3,229,152	3,227,412	(1,740)
Other	101,875	112,415	10,540
TOTAL INCOMING TRANSFERS AND OTHER TRANSACTIONS	3,331,027	3,339,827	8,800
TOTAL REVENUES	35,250,779	35,280,624	29,845
OTHER FINANCING SOURCES:			
Sale of school property	7,100	7,087	(13)
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 35,257,879	\$ 35,287,711	\$ 29,832

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2014**

	Final budget	Actual	Variance with final budget
INSTRUCTION:			
Basic programs:			
Elementary:			
Salaries	\$ 6,072,401	\$ 6,128,868	\$ (56,467)
Benefits	3,154,333	3,220,709	(66,376)
Purchased services	37,010	21,133	15,877
Supplies and materials	155,055	164,627	(9,572)
Capital outlay	34,613	26,123	8,490
Other expenses	151,335	141,005	10,330
Total elementary	<u>9,604,747</u>	<u>9,702,465</u>	<u>(97,718)</u>
Middle school:			
Salaries	1,563,995	1,563,261	734
Benefits	859,227	876,034	(16,807)
Purchased services	13,266	6,374	6,892
Supplies and materials	42,987	41,358	1,629
Capital outlay	7,610	8,630	(1,020)
Other expenses	28,788	25,263	3,525
Total middle school	<u>2,515,873</u>	<u>2,520,920</u>	<u>(5,047)</u>
High school:			
Salaries	3,397,684	3,424,414	(26,730)
Benefits	1,773,141	1,830,603	(57,462)
Purchased services	49,747	51,934	(2,187)
Supplies and materials	88,047	97,877	(9,830)
Capital outlay	20,963	20,602	361
Other expenses	241,624	254,255	(12,631)
Total high school	<u>5,571,206</u>	<u>5,679,685</u>	<u>(108,479)</u>
Pre-school:			
Salaries	135,994	136,454	(460)
Benefits	89,077	88,797	280
Supplies and materials	13,068	14,044	(976)
Capital outlay	5,544	-	5,544
Other expenses	792	1,591	(799)
Total pre-school	<u>244,475</u>	<u>240,886</u>	<u>3,589</u>
Summer school:			
Salaries	15,840	2,602	13,238
Benefits	5,893	960	4,933
Total summer school	<u>21,733</u>	<u>3,562</u>	<u>18,171</u>
Total basic programs	<u>17,958,034</u>	<u>18,147,518</u>	<u>(189,484)</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2014**

	Final budget	Actual	Variance with final budget
INSTRUCTION (Concluded):			
Added needs:			
Special education:			
Salaries	\$ 1,466,085	\$ 1,464,792	\$ 1,293
Benefits	981,286	956,371	24,915
Purchased services	51,480	40,903	10,577
Supplies and materials	5,633	2,889	2,744
Capital outlay	1,445	904	541
Other expenses	561,576	572,715	(11,139)
Total special education	3,067,505	3,038,574	28,931
Compensatory education:			
Salaries	870,429	868,968	1,461
Benefits	487,876	473,905	13,971
Purchased services	699	140	559
Supplies and materials	33,800	25,609	8,191
Capital outlay	4,027	-	4,027
Other expenses	2,475	1,463	1,012
Total compensatory education	1,399,306	1,370,085	29,221
Total added needs	4,466,811	4,408,659	58,152
TOTAL INSTRUCTION	22,424,845	22,556,177	(131,332)
SUPPORTING SERVICES:			
Pupil services:			
Salaries	1,256,674	1,255,943	731
Benefits	675,462	680,040	(4,578)
Purchased services	12,771	9,033	3,738
Supplies and materials	22,720	21,233	1,487
Capital outlay	8,910	1,327	7,583
Other expenses	269,217	278,904	(9,687)
Total pupil services	2,245,754	2,246,480	(726)

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2014**

	Final budget	Actual	Variance with final budget
SUPPORTING SERVICES (Continued) :			
Instructional staff services:			
Salaries	\$ 1,252,052	\$ 1,282,787	\$ (30,735)
Benefits	669,853	684,199	(14,346)
Purchased services	126,178	96,248	29,930
Supplies and materials	128,761	128,441	320
Capital outlay	12,824	729	12,095
Other expenses	124,852	99,120	25,732
Total instructional staff services	<u>2,314,520</u>	<u>2,291,524</u>	<u>22,996</u>
General administration:			
Salaries	180,945	173,562	7,383
Benefits	101,690	95,464	6,226
Purchased services	125,684	131,466	(5,782)
Supplies and materials	12,969	9,977	2,992
Capital outlay	495	-	495
Other expenses	8,019	11,414	(3,395)
Total general administration	<u>429,802</u>	<u>421,883</u>	<u>7,919</u>
School administration:			
Salaries	1,604,106	1,611,111	(7,005)
Benefits	834,609	826,532	8,077
Purchased services	31,301	26,184	5,117
Supplies and materials	27,225	23,857	3,368
Capital outlay	8,126	3,792	4,334
Other expenses	17,543	15,555	1,988
Total school administration	<u>2,522,910</u>	<u>2,507,031</u>	<u>15,879</u>
Business services:			
Salaries	217,020	218,425	(1,405)
Benefits	114,792	113,150	1,642
Purchased services	64,691	65,238	(547)
Supplies and materials	5,742	2,150	3,592
Capital outlay	1,485	1,335	150
Other expenses	12,622	11,348	1,274
Total business services	<u>416,352</u>	<u>411,646</u>	<u>4,706</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2014**

	Final budget	Actual	Variance with final budget
SUPPORTING SERVICES (Concluded):			
Operations and maintenance:			
Salaries	\$ 278,874	\$ 276,875	\$ 1,999
Benefits	168,234	165,998	2,236
Purchased services	1,701,178	1,659,217	41,961
Supplies and materials	1,190,544	1,207,801	(17,257)
Capital outlay	38,016	26,719	11,297
Other expenses	7,104	6,784	320
Total operations and maintenance	<u>3,383,950</u>	<u>3,343,394</u>	<u>40,556</u>
Transportation:			
Benefits	5,939	7,052	(1,113)
Purchased services	3,594	3,174	420
Supplies and materials	81,180	86,675	(5,495)
Other expenses	979,640	963,857	15,783
Total transportation	<u>1,070,353</u>	<u>1,060,758</u>	<u>9,595</u>
Central services:			
Salaries	196,218	191,724	4,494
Benefits	107,429	104,608	2,821
Purchased services	247,556	249,429	(1,873)
Supplies and materials	7,880	8,153	(273)
Capital outlay	110,771	19,500	91,271
Other expenses	26,278	23,384	2,894
Total central services	<u>696,132</u>	<u>596,798</u>	<u>99,334</u>
Athletics:			
Salaries	372,614	376,064	(3,450)
Benefits	151,132	143,463	7,669
Purchased services	49,302	47,309	1,993
Supplies and materials	52,321	60,870	(8,549)
Other expenses	3,069	3,245	(176)
Total athletics	<u>628,438</u>	<u>630,951</u>	<u>(2,513)</u>
TOTAL SUPPORTING SERVICES	<u>13,708,211</u>	<u>13,510,465</u>	<u>197,746</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2014**

	Final budget	Actual	Variance with final budget
COMMUNITY SERVICES:			
Purchased services	\$ 34,028	\$ 23,870	\$ 10,158
Supplies and materials	17,693	14,525	3,168
Other expenses	2,116	1,812	304
TOTAL COMMUNITY SERVICES	53,837	40,207	13,630
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 36,186,893	\$ 36,106,849	\$ 80,044

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2014**

	Food Service Special revenue	Debt service	2012 Capital projects	Total nonmajor funds
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 94,682	\$ 138,604	\$ 1,862,183	\$ 2,095,469
Accounts receivable	353	-	-	353
Delinquent taxes receivable	-	1,597	-	1,597
Intergovernmental	18,631	-	-	18,631
Due from other funds	-	200,576	-	200,576
Prepays	7,402	350	-	7,752
Inventories	44,394	-	-	44,394
TOTAL ASSETS	\$ 165,462	\$ 341,127	\$ 1,862,183	\$ 2,368,772
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 32,566	\$ -	\$ 66,402	\$ 98,968
Due to other funds	-	64,903	6,040	70,943
Unearned revenue	35,123	-	-	35,123
TOTAL LIABILITIES	67,689	64,903	72,442	205,034
FUND BALANCES:				
Nonspendable:				
Prepays	7,402	350	-	7,752
Inventories	44,394	-	-	44,394
Restricted for debt service	-	275,874	-	275,874
Restricted for capital outlay	-	-	203	203
Restricted for food service	45,977	-	-	45,977
Committed	-	-	1,789,538	1,789,538
TOTAL FUND BALANCES	97,773	276,224	1,789,741	2,163,738
TOTAL LIABILITIES AND FUND BALANCES	\$ 165,462	\$ 341,127	\$ 1,862,183	\$ 2,368,772

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2014**

	Food Service Special revenue	Debt service	2012 Capital projects	Total nonmajor funds
REVENUES:				
Local sources:				
Property taxes	\$ -	\$ 8,091,512	\$ -	\$ 8,091,512
M.S.U. reimbursement	-	105,448	-	105,448
Investment earnings	-	8,335	203	8,538
Food sales	451,117	-	-	451,117
Total local sources	451,117	8,205,295	203	8,656,615
State sources	49,671	-	-	49,671
Federal sources	618,494	-	-	618,494
Total revenues	1,119,282	8,205,295	203	9,324,780
EXPENDITURES:				
Current:				
Food service activities	1,045,871	-	-	1,045,871
Capital outlay	2,512	-	129,432	131,944
Debt service:				
Principal repayment	-	5,695,000	-	5,695,000
Interest expense	-	2,716,721	-	2,716,721
Other costs	-	1,133	-	1,133
Total expenditures	1,048,383	8,412,854	129,432	9,590,669
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	70,899	(207,559)	(129,229)	(265,889)
OTHER FINANCING SOURCES (USES):				
Proceeds from school bond revolving fund	-	307,975	-	307,975
Transfers in	-	52,494	-	52,494
Transfers out	-	(52,494)	-	(52,494)
Total other financing sources (uses)	-	307,416	-	307,416
NET CHANGE IN FUND BALANCES	70,899	99,857	(129,229)	41,527
FUND BALANCES:				
Beginning of year	26,874	176,367	1,918,970	2,122,211
End of year	\$ 97,773	\$ 276,224	\$ 1,789,741	\$ 2,163,738

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NONMAJOR DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2014**

	<u>2005 Debt</u>	<u>Series B 2005 Debt</u>	<u>2011 Refunding</u>	<u>2013 Debt</u>	<u>Total Nonmajor</u>
ASSETS					
ASSETS:					
Cash and cash equivalents	\$ 23,759	\$ 43,467	\$ 4,602	\$ 66,776	\$ 138,604
Prepaid expenditures	-	-	150	200	350
Due from other funds	32,569	134,769	13,621	19,617	200,576
Delinquent taxes receivable	340	884	153	220	1,597
TOTAL ASSETS	<u>\$ 56,668</u>	<u>\$ 179,120</u>	<u>\$ 18,526</u>	<u>\$ 86,813</u>	<u>\$ 341,127</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Due to other governmental funds	<u>\$ 56,668</u>	<u>\$ 6,985</u>	<u>\$ 460</u>	<u>\$ 790</u>	<u>\$ 64,903</u>
FUND BALANCES:					
Nonspendable					
Prepays	\$ -	\$ -	\$ 150	\$ 200	\$ 350
Restricted for debt service	-	172,135	17,916	85,823	275,874
TOTAL FUND BALANCE	<u>-</u>	<u>172,135</u>	<u>18,066</u>	<u>86,023</u>	<u>276,224</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 56,668</u>	<u>\$ 179,120</u>	<u>\$ 18,526</u>	<u>\$ 86,813</u>	<u>\$ 341,127</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NONMAJOR DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2014**

	2005 Debt	Series B 2005 Debt	2011 Refunding	2013 Debt	Total Nonmajor
REVENUES:					
Local sources:					
Property taxes	\$ 1,722,101	\$ 4,478,927	\$ 773,734	\$ 1,116,750	\$ 8,091,512
M.S.U. reimbursement	105,448	-	-	-	105,448
Interest	2,156	4,088	868	1,223	8,335
Total revenues	1,829,705	4,483,015	774,602	1,117,973	8,205,295
EXPENDITURES:					
Redemption of bonds	1,780,000	2,270,000	755,000	890,000	5,695,000
Interest on bonded debt	66,750	2,464,500	44,080	141,391	2,716,721
Other costs	463	451	219	-	1,133
Total expenditures	1,847,213	4,734,951	799,299	1,031,391	8,412,854
EXCESS/DEFICIENCY OF REVENUES OVER/UNDER EXPENDITURES	(17,508)	(251,936)	(24,697)	86,582	(207,559)
OTHER FINANCING SOURCES (USES):					
Proceeds from school loan revolving fund	-	267,855	40,120	-	307,975
Payment to refunded bond escrows	-	-	-	(559)	(559)
Transfers out	(52,494)	-	-	-	(52,494)
Transfers in	-	52,494	-	-	52,494
Total other financing sources (uses)	(52,494)	320,349	40,120	(559)	307,416
NET CHANGE IN FUND BALANCES	(70,002)	68,413	15,423	86,023	99,857
FUND BALANCES:					
Beginning of year	70,002	103,722	2,643	-	176,367
End of year	\$ -	\$ 172,135	\$ 18,066	\$ 86,023	\$ 276,224

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
COMBINED DEBT SERVICE REQUIREMENTS
JUNE 30, 2014**

Year ending June 30,	2005 Series B Debt	2011 Debt	2013 Debt	Combined
2015	5,061,000	1,632,000	1,108,450	7,801,450
2016	4,965,500	-	1,103,900	6,069,400
2017	4,873,000	-	1,108,600	5,981,600
2018	4,778,250	-	1,107,250	5,885,500
2019	4,676,250	-	-	4,676,250
2020	4,572,250	-	-	4,572,250
2021	4,466,250	-	-	4,466,250
2022	4,353,250	-	-	4,353,250
2023	4,238,500	-	-	4,238,500
2024	4,097,000	-	-	4,097,000
2025	3,950,000	-	-	3,950,000
2026	3,777,750	-	-	3,777,750
2027	3,606,500	-	-	3,606,500
2028	3,481,250	-	-	3,481,250
2029	3,309,750	-	-	3,309,750
2030	3,134,250	-	-	3,134,250
	<u>\$ 67,340,750</u>	<u>\$ 1,632,000</u>	<u>\$ 4,428,200</u>	<u>\$ 73,400,950</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2005 DEBT SERIES B (REFUNDING OF 2000 DEBT)
JUNE 30, 2014**

Bond issued to provide funds to advance refund a portion of the School District's outstanding 2000 School Building and Site Bonds.

2005 Debt Series B (refunding of 2000 debt)

Calendar year	Principal due May 1,	Interest due		Total due annually
		November 1	May 1	
2015	\$ 2,710,000	\$ 1,175,500	\$ 1,175,500	\$ 5,061,000
2016	2,750,000	1,107,750	1,107,750	4,965,500
2017	2,795,000	1,039,000	1,039,000	4,873,000
2018	2,840,000	969,125	969,125	4,778,250
2019	2,880,000	898,125	898,125	4,676,250
2020	2,920,000	826,125	826,125	4,572,250
2021	2,960,000	753,125	753,125	4,466,250
2022	2,995,000	679,125	679,125	4,353,250
2023	3,030,000	604,250	604,250	4,238,500
2024	3,040,000	528,500	528,500	4,097,000
2025	3,045,000	452,500	452,500	3,950,000
2026	3,025,000	376,375	376,375	3,777,750
2027	3,005,000	300,750	300,750	3,606,500
2028	3,030,000	225,625	225,625	3,481,250
2029	3,010,000	149,875	149,875	3,309,750
2030	2,985,000	74,625	74,625	3,134,250
Total 2000 bonded debt	<u>\$ 47,020,000</u>	<u>\$ 10,160,375</u>	<u>\$ 10,160,375</u>	<u>\$ 67,340,750</u>

The amount of the original bond issue was \$55,475,000.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2011 DEBT SERIES (REFUNDING OF SBLF DEBT)
JUNE 30, 2014**

Bond issued to provide funds to refund the School District's school bond loan fund debt.

2011 Debt Series (refunding of school bond loan fund debt)

Calendar year	Principal due May 1,	Interest due		Total due annually
		November 1	May 1	
2015	\$ 1,600,000	\$ 16,000	\$ 16,000	\$ 1,632,000
Total 2011 bonded debt	<u>\$ 1,600,000</u>	<u>\$ 16,000</u>	<u>\$ 16,000</u>	<u>\$ 1,632,000</u>

The amount of the original bond issue was \$2,355,000.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2013 DEBT SERIES
JUNE 30, 2014**

Bond issued in order to improve the technology, security, and communications of the district.

2013 Debt Series

Calendar year	Principal due May 1,	Interest due		Total due annually
		November 1	May 1	
2015	\$ 985,000	\$ 61,725	\$ 61,725	\$ 1,108,450
2016	1,010,000	46,950	46,950	1,103,900
2017	1,045,000	31,800	31,800	1,108,600
2018	<u>1,075,000</u>	<u>16,125</u>	<u>16,125</u>	<u>1,107,250</u>
Total 2013 bonded debt	<u>\$ 4,115,000</u>	<u>\$ 156,600</u>	<u>\$ 156,600</u>	<u>\$ 4,428,200</u>

The amount of the original bond issue was \$5,005,000.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF BORROWINGS – STATE OF MICHIGAN
SCHOOL LOAN REVOLVING FUND
JUNE 30, 2014**

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Loan Revolving Program. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State under this program have been summarized as follows:

<u>Year ended June 30,</u>	<u>Loan proceeds</u>	<u>Interest expense</u>	<u>Loan balance (net change)</u>
2013	\$ 389,165	\$ 2,619	\$ 391,784
2014	307,975	15,936	323,911
	<u>\$ 697,140</u>	<u>\$ 18,555</u>	<u>\$ 715,695</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
CAPITAL PROJECTS FUND - SINKING FUND
DETAILS OF EXPENDITURES
YEAR ENDED JUNE 30, 2014**

EXPENDITURES:

Donley Elementary	\$ 36,587
Glencairn Elementary	43,712
Marble Elementary	44,473
Pinecrest Elementary	52,694
Red Cedar Elementary	40,054
Whitehills Elementary	29,925
MacDonald Middle School	5,193,508
East Lansing High School	<u>111,697</u>
 Total expenditures	 <u><u>\$ 5,552,650</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
2012 AND 2013 CAPITAL PROJECTS FUND
DETAILS OF EXPENDITURES
YEAR ENDED JUNE 30, 2014**

2012 Capital Projects

EXPENDITURES:

MacDonald Middle School	\$ 76,608
East Lansing High School	<u>52,824</u>
Total expenditures	<u><u>\$ 129,432</u></u>

2013 Capital Projects

EXPENDITURES:

Donley Elementary	\$ 215,273
Glencairn Elementary	158,076
Marble Elementary	199,218
Pinecrest Elementary	205,051
Red Cedar Elementary	55,676
Whitehills Elementary	182,989
MacDonald Middle School	382,297
East Lansing High School	<u>1,163,001</u>
Total expenditures	<u><u>\$ 2,561,581</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY SCHOOL - AGENCY FUND
YEAR ENDED JUNE 30, 2014**

	Balance 7/1/13	Additions	Deductions	Balance 6/30/14
East Lansing High School	\$ 277,465	\$ 403,385	\$ 422,205	\$ 258,645
MacDonald Middle School	19,556	26,011	29,220	16,347
Donley Elementary School	17,818	10,914	16,630	12,102
Glencairn Elementary School	7,949	26,012	24,537	9,424
Marble Elementary School	17,421	32,615	31,824	18,212
Pinecrest Elementary School	13,675	32,514	19,106	27,083
Red Cedar Elementary School	26,933	45,829	35,105	37,657
Whitehills Elementary School	17,992	21,201	26,095	13,098
Other	52,647	12,031	17,546	47,132
	<u>\$ 451,456</u>	<u>\$ 610,512</u>	<u>\$ 622,268</u>	<u>\$ 439,700</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Federal grantor/pass-through grantor/program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (unearned) revenue 7/1/2013	Prior year expenditures (memorandum only)	Current year expenditures	Current year receipts	Accrued (unearned) revenue 6/30/2014
<u>U.S. Department of Agriculture:</u>								
Passed through the Michigan Department of Education:								
Child Nutrition Cluster:								
Non-Cash Assistance (Donated Foods):								
National School Lunch Program	10.555							
Entitlement			\$ 69,735	\$ -	\$ -	\$ 69,735	\$ 69,735	\$ -
Total Non-Cash Assistance			69,735	-	-	69,735	69,735	-
Cash Assistance:								
National School Lunch - Breakfast	10.553	131970	109,899	-	97,921	11,978	11,978	-
		141970	103,107	-	-	103,107	100,126	2,981
			213,006	-	97,921	115,085	112,104	2,981
National School Lunch	10.555	131960	441,263	-	388,169	53,094	53,094	-
		141960	377,580	-	-	377,580	369,875	7,705
			818,843	-	388,169	430,674	422,969	7,705
Total Cash Assistance			1,031,849	-	486,090	545,759	535,073	10,686
Total Child Nutrition Cluster			1,101,584	-	486,090	615,494	604,808	10,686
Team Nutrition Training Program Grant								
Healthier US School Challenge			3,000	-	-	3,000	3,000	-
Total U.S. Department of Agriculture			1,104,584	-	486,090	618,494	607,808	10,686

The accompanying notes are an integral part of this schedule.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Federal grantor/pass-through grantor/program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (unearned) revenue 7/1/2013	Prior year expenditures (memorandum only)	Current year expenditures	Current year receipts	Accrued (unearned) revenue 6/30/2014
<u>U.S. Department of Education:</u>								
Passed through the Michigan Department of Education:								
Title I Cluster:								
Title I Part A - Improving Basic Programs	84.010	131530 1213	\$ 677,358	\$ 271,351	\$ 521,186	\$ -	\$ 271,351	\$ -
		141530 1314	649,739	-	-	649,739	586,058	63,681
			1,327,097	271,351	521,186	649,739	857,409	63,681
Title III - Limited English Proficient	84.365A	130580 1213	33,057	9,327	10,144	9,343	18,670	-
		140580 1314	45,483	-	-	24,146	22,395	1,751
Title III - Immigrant		130570 1213	46,696	17,359	17,359	-	17,359	-
		140570 1314	57,615	-	-	32,190	12,905	19,285
			182,851	26,686	27,503	65,679	71,329	21,036
Title II Part A - Improving Teacher Quality	84.367	130520 1213	197,445	89,442	191,071	-	89,442	-
		140520 1314	156,304	-	-	154,327	131,120	23,207
			353,749	89,442	191,071	154,327	220,562	23,207
Total passed through Michigan Department of Education			1,863,697	387,479	739,760	869,745	1,149,300	107,924

The accompanying notes are an integral part of this schedule.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Federal grantor/pass-through grantor/program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (unearned) revenue 7/1/2013	Prior year expenditures (memorandum only)	Current year expenditures	Current year receipts	Accrued (unearned) revenue 6/30/2014
<u>U.S. Department of Education (Concluded):</u>								
Passed through Ingham Intermediate School District:								
Special Education Cluster:								
IDEA Preschool	84.173	130460 1213	\$ 22,486	\$ 22,486	\$ 22,486	\$ -	\$ 22,486	\$ -
		140460 1314	18,898	-	-	18,898		18,898
Total Special Education Cluster			41,384	22,486	22,486	18,898	22,486	18,898
Total U.S. Department of Education			1,905,081	409,965	762,246	888,643	1,171,786	126,822
<u>U.S. Department of Health and Human Services:</u>								
Passed through Ingham Intermediate School District:								
Medicaid Administrative Outreach	93.778		14,004	-	-	14,004	14,004	-
Total Expenditures of Federal Awards			\$ 3,023,669	\$ 409,965	\$ 1,248,336	\$ 1,521,141	\$ 1,793,598	\$ 137,508

The accompanying notes are an integral part of this schedule.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the School District of the City of East Lansing under programs of the federal government for the year ended June 30, 2014. 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 the School District of the City of East Lansing, it is not intended to and does not present the net position or changes in net position of the School District of the City of East Lansing.
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. The Child Nutrition Cluster (CFDA #10.553 & 10.555) was audited as a major program, representing 43% of expenditures. The District is a low risk auditee.
4. The threshold for distinguishing type A and type B programs was \$300,000.
5. Management has utilized the Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.
6. Reconciliation of federal revenues reported on financial statements with expenditures per schedule of expenditures of federal awards:

Federal revenue, per financial statements:

General fund:

Federal sources	\$ 902,647
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Other nonmajor governmental funds:

Federal sources	618,494
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	\$ 1,521,141
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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
School District of the City of East Lansing

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 School District of the City of East Lansing as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District of the City of East Lansing's basic financial statements and have issued our report thereon dated August 29, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered School District of the City of East Lansing's 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 School District of the City of East Lansing's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of East Lansing's 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 School District of the City of East Lansing's 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.

Maney Costeiran PC

August 29, 2014

**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
School District of the City of East Lansing

Report on Compliance for Each Major Federal Program

We have audited School District of the City of East Lansing's 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 School District of the City of East Lansing's major federal programs for the year ended June 30, 2014. School District of the City of East Lansing's 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 School District of the City of East Lansing's 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 School District of the City of East Lansing's 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 School District of the City of East Lansing's compliance.

Opinion on Each Major Federal Program

In our opinion, School District of the City of East Lansing 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, 2014.

Report on Internal Control Over Compliance

Management of School District of the City of East Lansing 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 School District of the City of East Lansing's 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 School District of the City of East Lansing's 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.

Manes Costeiran PC

August 29, 2014

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unmodified

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? 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? Yes X None reported

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133?

 Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 & 10.555	Child Nutrition Cluster

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 Questioned Costs

None

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014**

There were no findings disclosed for the past two years.