

**NICE COMMUNITY SCHOOL DISTRICT
ISHPEMING, MICHIGAN**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
NICE Community School District
300 Westwood Drive
Ishpeming, Michigan 49849

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 NICE Community School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Schools District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 NICE Community School District, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on as listed 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 the NICE Community School District's basic financial statements. The non-major combining and non-major individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The non-major combining and non-major individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the non-major combining and non-major individual fund financial statements are fairly stated in all material respects in relation to the basic 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 October 31, 2014, on our consideration of NICE Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations,

Board of Education of the
NICE Community School District

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 NICE Community School District's internal control over financial reporting and compliance.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

October 31, 2014

NICE Community School District

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of NICE Community School District's (School District) financial performance provides an overview of the School District's financial activities for the year ended June 30, 2014. Please read it in conjunction with the financial statements, which begin as listed in the table of contents.

FINANCIAL HIGHLIGHTS

- Net position for NICE Community School District as a whole was reported at \$8,899,071. Net position is comprised of 100% governmental activities.
- During the year, NICE Community School District expenses were \$11,954,635 while revenues from all sources totaled \$12,432,049 resulting in an increase in net position of \$477,414.
- The general fund reported an decrease of \$339,257 before other financing sources (uses) and a total decrease of \$173,531. This is \$11,009 lower than the forecasted decrease of \$184,540. This was a result of revenues being \$53,156 higher than forecasted and expenses being \$42,147 higher than forecasted.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand NICE Community School District financially as a whole. The *District-wide Financial Statements* Statement of Net Position and the Statement of Activities (as listed in the table of contents) provide information about the activities of the School District as a whole and present a longer-term view of those finances. The fund financial statements (as listed in the table of contents) present the next level of detail. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The fund financial statements also report the School District's operations in more detail than the district-wide statements by providing information about the School District's most significant funds – the General Fund, Debt Service Fund, and Sinking Fund with all other funds presented in one column as non-major funds. The remaining statement, the Statement of Fiduciary Net Position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

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

Our analysis of the NICE Community School District as a whole begins in the section entitled "The School District as a Whole". One of the most important questions asked about the School District's finances is "As a whole, what is the NICE Community School District's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the School District as a whole and about its activities in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. 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 School District's net position and changes in it. The School District's net position – the difference between assets/deferred outflows of resources and

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

liabilities/deferred inflows of resources – is one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net position – as reported in the Statement of Activities – is an indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as private-sector companies do. One must consider other non-financial factors, such as the quality of education provided, the safety of the schools and the condition of the School District's capital assets, to assess the overall financial health of the School District.

The Statement of Net Position and Statement of Activities report the governmental activities for the School District, which encompass all the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

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

Our analysis of the School District's major funds begins in the section entitled "The School District's Funds". The fund financial statements (as listed in the table of contents) provide detailed information on the most significant funds – not the School District as a whole. Some funds are required to be established by State law, and by bond covenants. However, the School District's Board has established other funds to help it control and manage money for particular purposes.

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

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

The School District as a Whole

Table 1 provides a summary of the School District's net position as of June 30, 2014:

**Table 1
Net Position**

	Governmental Activities – 2014	Governmental Activities – 2013
Current and other assets	\$5,535,455	\$5,600,003
Capital assets, net	10,098,217	10,044,446
Total Assets	<u>15,633,672</u>	<u>15,644,449</u>
Deferred outflows of resources	<u>961</u>	<u>1,922</u>
Current liabilities	3,364,839	3,442,329
Long-term liabilities	3,312,498	3,712,515
Total Liabilities	<u>6,677,337</u>	<u>7,154,844</u>
Deferred inflows of resources	<u>58,225</u>	<u>69,870</u>
Net Position:		
Net investment in capital assets	7,039,598	6,461,196
Restricted	1,351,267	1,187,497
Unrestricted	508,206	772,964
Total Net Position	<u><u>\$8,899,071</u></u>	<u><u>\$8,421,657</u></u>

The School District's net position was \$8,899,071 at June 30, 2014. Net investment in capital assets totaling \$7,039,598, compares the original cost, less depreciation of the School District's capital assets to long-term debt, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net position for day-to-day operations. The remaining amount of net position of \$508,206 was unrestricted.

The \$508,206 in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2).

**Table 2
Changes in Net Position**

	Governmental Activities – 2014	Governmental Activities – 2013
Revenues:		
Program Revenues:		
Charges for services	\$392,366	\$412,354
Operating grants and contributions	1,785,377	1,604,638

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

**Table 2
Changes in Net Position (Continued)**

	Governmental Activities – 2014	Governmental Activities – 2013
General Revenues:		
Property taxes	\$3,324,373	\$3,667,105
State sources not restricted to specific program	6,869,685	6,967,241
Investment earnings	12,869	10,187
Gain on sale of fixed assets	-	-
Miscellaneous	47,379	30,243
Total Revenues	<u>12,432,049</u>	<u>12,691,768</u>
Program Expenses:		
Instruction	7,293,119	6,630,428
Supporting services	3,458,491	3,237,767
Community services	37,298	32,104
Food service activities	419,455	379,079
Depreciation – unallocated	75,773	273,706
Interest on long-term debt	670,499	663,222
Total Expenses	<u>11,954,635</u>	<u>11,216,306</u>
Increase (decrease) in net position	477,414	1,475,462
Net Position, beginning, as restated	-	6,946,195
Net Position, beginning	8,421,657	-
Net Position, Ending	<u>\$8,899,071</u>	<u>\$8,421,657</u>

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$11,954,635. Certain activities were partially funded from those who benefited from the programs \$392,366 or by other governments and organizations that subsidized certain programs with grants and contributions \$1,785,377. We paid for the remaining “public benefit” portion of our governmental activities with \$3,324,373 in taxes, \$6,929,933 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net position for the year of \$477,414.

Table 3 presents the cost of each of the School District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the School District's operation.

**Table 3
Governmental Activities**

	Total Cost of Services	Net Cost of Services
Instruction	\$7,293,119	\$5,762,904
Supporting services	3,458,491	3,222,544
Food service activities	419,455	12,874

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District's operating revenue sources, the Board of

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available financial resources.

The School District's Funds

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

As the School District completed the year, its governmental funds (as presented in the balance sheet as listed in the table of contents) reported a combined fund balance of \$2,178,781, an increase of \$9,978 from the beginning of the year.

General Fund Budgetary Highlights

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

Capital Asset and Debt Administration

Capital Assets

At June 30, 2014, the School District had \$10,098,217 invested in a variety of capital assets including land, buildings, and machinery and equipment. (See Table 4 below)

Table 4
Capital Assets at Year-End
(net of depreciation)

	Governmental Activities – 2014	Governmental Activities – 2013
Land	\$41,000	\$41,000
Construction in progress	126,677	12,549
Land improvements	258,364	276,109
Buildings and additions	8,361,468	8,337,230
Machinery and equipment	877,394	991,160
Buses and other vehicles	433,314	386,398
Totals	<u>\$10,098,217</u>	<u>\$10,044,446</u>

This year's additions of \$724,270 included various land and building improvements financed through the sinking fund millage. We present more detailed information about our capital assets in the notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Debt

At the end of this year, the School District had \$3,058,619 in bonds and installment loans outstanding as depicted in Table 5 below.

Table 5
Outstanding Debt at Year-End

	<u>Governmental Activities – 2014</u>	<u>Governmental Activities – 2013</u>
General obligation bonds	\$2,845,000	\$3,520,000
Installment loans	213,619	63,250
Total	<u>\$3,058,619</u>	<u>\$3,583,250</u>

We present more detailed information about our long-term debt in the notes to the financial statements.

Economic Factors and Next Year's Budgets

The Board and administration consider many factors to develop budgets. The 2014-15 budget plans to balance revenues and expenditures through various budget reductions and upcoming negotiation plans. School District enrollment has stabilized and should help keep future revenues steady. Locally, new mining interests in the area will bring increased tax values as well as new employment opportunities in the area.

Contacting the School District's Financial Management

This financial report is designated to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the NICE Community School District, 300 Westwood Drive, Ishpeming, Michigan, 49849.

NICE Community School District

STATEMENT OF NET POSITION

June 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 1,715,481
Investments	2,106,009
Accounts receivable	1,708,836
Inventories	5,129
Prepaid expenses	-
Non-current assets:	
Capital assets:	
Land and construction in progress	167,677
Other capital assets, net	<u>9,930,540</u>
TOTAL ASSETS	<u>15,633,672</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred bond discount	<u>961</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>961</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	432,705
Accrued liabilities	814,669
Accrued interest	8,165
Unearned revenue	9,300
State anticipation note	2,100,000
Non-current Liabilities:	
Portion due or payable within one year:	
Bonds payable	744,383
Compensated absences	-
Portion due or payable after one year:	
Bonds payable	2,314,236
Compensated absences	<u>253,879</u>
TOTAL LIABILITIES	<u>6,677,337</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred bond premium	<u>58,225</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>58,225</u>
NET POSITION	
Net investment in capital assets	7,039,598
Restricted	1,351,267
Unrestricted	<u>508,206</u>
TOTAL NET POSITION	<u>\$ 8,899,071</u>

The accompanying notes to the financial statements are an integral part of this statement.

NICE Community School District

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

<u>Function / Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$ 7,293,119	\$ 191,249	\$ 1,338,966	\$ (5,762,904)
Supporting services	3,458,491	-	235,947	(3,222,544)
Community services	37,298	-	5,000	(32,298)
Food service activities	419,455	201,117	205,464	(12,874)
Interest on retirement of debt	75,773	-	-	(75,773)
Depreciation - unallocated	670,499	-	-	(670,499)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 11,954,635	\$ 392,366	\$ 1,785,377	(9,776,892)
General revenues:				
Taxes				
Property taxes, levied for general purposes				1,844,084
Property taxes, levied for debt services and sinking fund				1,480,289
State Aid not restricted to specific purposes				6,869,685
Contributions and other unrestricted grants				-
Interest and investment earnings				12,869
Miscellaneous				47,379
			TOTAL GENERAL REVENUES	10,254,306
			CHANGES IN NET POSITION	477,414
Net Position, July 1				8,421,657
			NET POSITION, JUNE 30	\$ 8,899,071

The accompanying notes to the financial statements are an integral part of this statement.

NICE Community School District

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2014

	General Fund	Debt Service Fund	Capital Projects: Sinking Fund	Other Non-major Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 409,352	\$ 248,462	\$ 1,004,090	\$ 53,577	\$ 1,715,481
Investments	2,063,310	-	-	42,699	2,106,009
Accounts receivable	1,701,500	2,776	3,944	616	1,708,836
Inventories	-	-	-	5,129	5,129
Due from other funds	8,540	-	-	-	8,540
Prepaid expenses	-	-	-	-	-
TOTAL ASSETS	4,182,702	251,238	1,008,034	102,021	5,543,995
DEFERRED OUTFLOWS OF RESOURCES					
	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 4,182,702	\$ 251,238	\$ 1,008,034	\$ 102,021	\$ 5,543,995
LIABILITIES					
Accounts payable	\$ 431,219	\$ 24	\$ 1,134	\$ 328	\$ 432,705
Accrued liabilities	814,669	-	-	-	814,669
Due to other funds	-	-	-	8,540	8,540
Unearned revenue	9,300	-	-	-	9,300
State aid notes payable	2,100,000	-	-	-	2,100,000
TOTAL LIABILITIES	3,355,188	24	1,134	8,868	3,365,214
DEFERRED INFLOWS OF RESOURCES					
	-	-	-	-	-
FUND BALANCES					
Non-spendable	-	-	-	5,129	5,129
Restricted	-	251,214	1,006,900	88,024	1,346,138
Committed	-	-	-	-	-
Assigned	16,259	-	-	-	16,259
Unassigned	811,255	-	-	-	811,255
TOTAL FUND BALANCES	827,514	251,214	1,006,900	93,153	2,178,781
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 4,182,702	\$ 251,238	\$ 1,008,034	\$ 102,021	\$ 5,543,995

The accompanying notes to the financial statements are an integral part of this statement.

NICE Community School District

GOVERNMENTAL FUNDS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET POSITION**

June 30, 2014

Total Fund Balances for Governmental Funds \$ 2,178,781

*Amounts reported for governmental activities in the statement
of net position are different because:*

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Cost of capital assets	\$ 19,457,166	
Accumulated depreciation	<u>(9,358,949)</u>	10,098,217

Long-term liabilities are not due and payable in the current
period and are not reported in the funds. Long-term liabilities
at year-end consist of:

Compensated absences	253,879	
Bonds payable - current	744,383	
Bonds payable - non-current	2,314,236	
Accrued interest	8,165	
Deferred premium on bonds	58,225	
Deferred discount on bonds	<u>(961)</u>	<u>(3,377,927)</u>

Net Position of Governmental Activities **\$ 8,899,071**

The accompanying notes to the financial statements are an integral part of this statement.

NICE Community School District

GOVERNMENTAL FUNDS

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2014

	General Fund	Debt Service Fund	Capital Projects: Sinking Fund	Other Non-major Governmental Funds	Total
REVENUES:					
Local sources	\$ 2,215,314	\$ 613,878	\$ 870,654	\$ 212,914	\$ 3,912,760
State sources	8,105,010	-	-	19,481	8,124,491
Federal sources	208,815	-	-	185,983	394,798
TOTAL REVENUES	10,529,139	613,878	870,654	418,378	12,432,049
EXPENDITURES:					
Instruction	7,167,845	-	-	-	7,167,845
Supporting services	3,458,491	-	-	-	3,458,491
Community services	32,548	-	-	4,750	37,298
Food service activities	-	-	-	419,455	419,455
Debt Service:					
Principal	15,359	675,000	-	-	690,359
Interest and fees	28,427	60,992	-	-	89,419
Capital outlay	165,726	-	559,204	-	724,930
TOTAL EXPENDITURES	10,868,396	735,992	559,204	424,205	12,587,797
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(339,257)	(122,114)	311,450	(5,827)	(155,748)
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	165,726	-	-	-	165,726
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	165,726	-	-	-	165,726
NET CHANGE IN FUND BALANCES	(173,531)	(122,114)	311,450	(5,827)	9,978
Fund balance, July 1	1,001,045	373,328	695,450	98,980	2,168,803
FUND BALANCE, JUNE 30	\$ 827,514	\$ 251,214	\$ 1,006,900	\$ 93,153	\$ 2,178,781

The accompanying notes to the financial statements are an integral part of this statement.

NICE Community School District

GOVERNMENTAL FUNDS

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds \$ 9,978

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	\$ 670,499	
Capital outlays	(724,270)	
Net book value of disposed assets	<u>-</u>	53,771

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net position. (165,726)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 15,357

The governmental funds reports bond proceeds as other financing sources, while repayment of bond principal is reported as an expenditure. Governmental funds also report the effect of discounts and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of general obligation bonds:

Payment to refunded bond escrow agent	675,000	
Bond discount	(961)	
Bond premium	<u>11,645</u>	685,684

Some expense reported in the Statement of Activities do no require the use of current financial resources and therefore are not reported as expenditures in governmental funds, as follows:

Change in compensated absences		(124,614)
--------------------------------	--	-----------

Interest on long-term debt is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the net amount of accrued interest recognized in the statement of activities.

2,964

Change in Net Position of Governmental Activities \$ 477,414

The accompanying notes to the financial statements are an integral part of this statement.

NICE Community School District

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY FUNDS NET POSITION

June 30, 2014

	<u>Agency Fund</u>
ASSETS:	
Cash and cash equivalents	<u>\$ 118,566</u>
TOTAL ASSETS	<u><u>\$ 118,566</u></u>
LIABILITIES:	
Due to groups, organizations and activities	<u>\$ 118,566</u>
TOTAL LIABILITIES	<u><u>\$ 118,566</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

NICE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the NICE Community School District conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the more significant policies:

REPORTING ENTITY

The School District is a local school district as defined by Michigan law that operates under a locally elected seven member Board form of government, and that provides elementary and secondary education and related support services to the residents of National Mine, Ishpeming, Champion, Ely, Tilden, and Humboldt Townships in Marquette County and Spurr Township in Baraga County.

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the School District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of these criteria, the financial statements of NICE Community School District contains all the funds controlled by the School District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District nor is the School District a component unit of another entity.

BASIS OF PRESENTATION

District-Wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through State sources, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. All of the School District's district-wide activities are considered to be governmental activities.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fund Financial Statements:

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets/deferred outflows of resources, liabilities/deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets/deferred outflows of resources, liabilities/deferred inflows of resources, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The School District reports the General Fund, the Debt Service Fund, and the Sinking Fund as its major governmental funds in accordance with the above criteria. The funds of the School District are described below:

Governmental Funds

General Fund – The General Fund is the main operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects), such as the School Lunch and Scholarship Funds.

Debt Service Funds – The Debt Service Funds are used to account for the accumulation of resources such as taxes, state aid and interest revenue for the payment of general long-term debt principal, interest, and related costs.

Capital Projects Funds – The Capital Projects Funds are used to record bond proceeds or other revenue to be used for the acquisition or construction of major capital facilities or other capital assets, including equipment.

Fiduciary Funds

Agency Fund – The Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, organizations, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The School District's fiduciary funds are presented in the Fund Financial Statements by type. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

The School District will first apply restricted net position for expenses incurred for purposes for which both restricted and unrestricted net position is available.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the district-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (b) below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

Basis of Accounting

In the district-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

Cash and Cash Equivalents

The School District cash and cash equivalents as reported in the Statement of Net Position are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with maturities of three months or less.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Investments

Investments are carried at market value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Land improvements	15 – 20 years
Buildings and additions	20 – 50 years
Machinery and equipment	5 – 20 years
Buses and other vehicles	5 – 10 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the district-wide financial statements.

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has one item that qualifies for reporting in this category:

On the district fund financial statements, bond discounts received on debt issuance are reported as other financing uses; the amount by which the market price of the bond is lower than its principal amount due at maturity. For district-wide financial statement purposes the amount of the bond discount is deferred and amortized over the life of the bonds using straight line amortization.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

State Anticipation Note

The School District issued notes through the Michigan Municipal Bond Authority for cash flow purposes. The School District has pledged a portion of their state aid to repay the principal and interest on the notes. Furthermore, the School District has irrevocably pledged its full faith and credit in case of the insufficiency of the pledged state aid.

Long-Term Debt

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures.

Compensated Absences

The School District's policies regarding compensated absences permits employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and governmental funds balance sheet 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 government has one item that qualifies for reporting in this category:

On the district fund financial statements, bond premiums received on debt issuance are reported as other financing sources; the amount by which the market price of the bond is higher than its principal amount due at maturity. For district-wide financial statement purposes the amount of the bond premium is deferred and amortized over the life of the bonds using straight line amortization.

Equity Classification

District-Wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted Net Position – Consists of net position with constraints placed on its use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation. These amounts are derived from the fund financial statements by combining non-spendable and restricted fund balance classifications.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- c. Unrestricted Net Position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as non-spendable, restricted, committed, assigned, and unassigned.

Revenues

District-Wide Statements

In the district-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

Fund Statements

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District’s policy to use the restricted resources first.

Property Taxes

Property taxes are levied on December 1, on behalf of the School District by various taxing units and are payable without penalty by July 1 and September 30. The School District recognizes property tax revenue when levied to the extent they result in current receivables (collected within sixty days of the end of the fiscal year). Property taxes that are not collected within sixty days of the end of the fiscal year are recognized as revenue when collected.

Expenses/Expenditures

District-Wide Statements

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements. Exceptions to this rule are (1) activities between funds reported as governmental activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Position.

Budgets and Budgetary Accounting

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

- a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is approved by the Board of Education.
- d. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Education.
- e. All annual appropriations lapse at fiscal year-end.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through October 31, 2014, the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

NOTE B – DEPOSITS AND INVESTMENTS:

Cash Equivalents

As of June 30, 2014, the School District's cash and cash equivalents and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$1,715,481	\$118,566	\$1,834,047
Investments	2,106,009	-	2,106,009
	<u>\$3,821,490</u>	<u>\$118,566</u>	<u>\$3,940,056</u>

NOTE B – DEPOSITS AND INVESTMENTS (Continued):

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District’s deposits may not be returned to it. State law does not require and the School District does not have a deposit policy for custodial credit risk. The carrying amounts of the School’s deposit with financial institutions were \$1,834,047 and the bank balance was \$1,957,225. The bank balance is categorized as follows.

Amount insured by the FDIC	\$250,000
Amount uncollateralized and uninsured	1,707,225
	<u>\$1,957,225</u>

Investments

As of June 30, 2014, the School District had the following investments.

Investment Type	Fair Value	Investment Maturities Less Than One year
<i>Governmental Activities:</i>		
Michigan Liquid Asset Fund – Mutual Funds	\$2,063,310	\$2,063,310
Mutual Funds	42,699	42,699
	<u>\$2,106,009</u>	<u>\$2,106,009</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the School District’s investments. The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes authorize the School District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers’ acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The School District has no investment policy that would further limit its investment choices and has no investments for which ratings are required. The School District’s investments are in accordance with statutory authority.

NOTE C – RECEIVABLES:

Receivables as of year-end for the School District’s individual major funds and non-major funds, in the aggregate, are as follows:

	General Fund	Debt Service Fund	Sinking Fund	Non-Major Governmental Fund	Total Primary Government
Accounts receivable	\$6,699	\$-	\$-	\$-	\$6,699
Delinquent property taxes	-	2,776	3,944	-	6,720
Due from other government units	1,694,801	-	-	616	1,695,417
Totals	<u>\$1,701,500</u>	<u>\$2,776</u>	<u>\$3,944</u>	<u>\$616</u>	<u>\$1,708,836</u>

NOTE C – RECEIVABLES (Continued):

Amounts due from other governments totaled \$1,695,417. Of that balance \$1,356,250 is due from the State of Michigan for State Aid and \$339,167 due from other governmental units for the operation of special programs and grant projects.

NOTE D – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The School District reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds, and fiduciary funds. Interfund transactions resulting in interfund receivables and payables are as follows:

		DUE FROM OTHER FUNDS				
		General Fund	Debt Service Fund	Sinking Fund	Non-major Governmental Funds	Total Due To Other Funds
DUE TO OTHER FUNDS	General Fund	\$-	\$-	\$-	\$-	\$-
	Debt Service Fund	-	-	-	-	-
	Sinking Fund	-	-	-	-	-
	School Lunch Fund	8,540	-	-	-	8,540
	Scholarship Fund	-	-	-	-	-
	2009 Bond Fund	-	-	-	-	-
	Total Due From Other Funds	<u>\$8,540</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$8,540</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. See table below.

The amounts transferred to and from individual funds for the year ended June 30, 2014 are as follows:

		TRANSFERS IN FROM OTHER FUNDS				
		General Fund	Debt Service Fund	Sinking Fund	Non-major Governmental Funds	Total Transfers Out
TRANSFER OUT TO OTHER FUNDS	General Fund	\$-	\$-	\$-	\$-	\$-
	Debt Service Fund	-	-	-	-	-
	Sinking Fund	-	-	-	-	-
	School Lunch Fund	-	-	-	-	-
	Scholarship Fund	-	-	-	-	-
	2009 Bond Fund	-	-	-	-	-
	Total Transfers In	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service

NOTE D – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued):

payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The School District did not make any transfers in the current year.

NOTE E – CAPITAL ASSETS:

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

	Balance 6/30/13	Additions	Deductions	Balance 6/30/14
GOVERNMENTAL ACTIVITIES:				
Capital assets not being depreciated:				
Land	\$41,000	\$-	\$-	\$41,000
Construction in progress	12,549	114,128	-	126,677
Capital assets being depreciated:				
Land improvements	403,390	-	-	403,390
Buildings and additions	14,781,861	371,278	-	15,153,139
Machinery and equipment	2,274,098	73,138	-	2,347,236
Buses and other vehicles	1,386,392	165,726	(166,394)	1,385,724
Total Capital Assets	<u>18,899,290</u>	<u>724,270</u>	<u>(166,394)</u>	<u>19,457,166</u>
Less accumulated depreciation:				
Land improvements	(127,281)	(17,745)	-	(145,026)
Buildings and additions	(6,444,631)	(347,040)	-	(6,791,671)
Machinery and equipment	(1,282,938)	(186,904)	-	(1,469,842)
Buses and other vehicles	(999,994)	(118,810)	166,394	(952,410)
Total Accumulated Depreciation	<u>(8,854,844)</u>	<u>(670,499)</u>	<u>166,394</u>	<u>(9,358,949)</u>
CAPITAL ASSETS, NET	<u>\$10,044,446</u>	<u>\$53,771</u>	<u>\$-</u>	<u>\$10,098,217</u>

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:	
Unallocated	<u>\$670,499</u>
Total Governmental Activities Depreciation Expense	<u>\$670,499</u>

NOTE F – ACCRUED LIABILITIES:

A summary of accrued liabilities at June 30, 2014 is as follows:

	Governmental Activities
Accrued wages	<u>\$618,414</u>
Accrued fringes	191,605
Other accruals	4,650
	<u>\$814,669</u>

NOTE G – SHORT-TERM DEBT:

The School District utilizes short-term borrowing secured with pledged state aid for cash flow purposes due to the timing of state aid payments. A summary of the changes in short-term debt for the year ended June 30, 2014 is as follows:

NOTE G – SHORT-TERM DEBT (Continued):

	Balance 6/30/13	Additions	Deductions	Balance 6/30/14
State anticipation note:				
2012-2013	\$2,300,000	\$-	\$2,300,000	\$-
2013-2014	-	2,100,000	-	2,100,000
TOTAL	<u>\$2,300,000</u>	<u>\$2,100,000</u>	<u>\$2,300,000</u>	<u>\$2,100,000</u>

NOTE H – LONG-TERM DEBT:

The following is a summary of the long-term debt activity for the year ending June 30, 2014:

	Balance 6/30/13	Additions	Deductions	Balance 6/30/14	Due Within One year
Technology & Bus					
Bonds, Series 2009	\$370,000	\$-	\$(175,000)	\$195,000	\$195,000
2013 School Refunding	3,150,000	-	(500,000)	2,650,000	500,000
Bus Loan 2012	63,250	-	(15,357)	47,893	15,657
Bus Loan 2013	-	165,726	-	165,726	33,726
Subtotal	<u>3,583,250</u>	<u>165,726</u>	<u>(690,357)</u>	<u>3,058,619</u>	<u>744,383</u>
Compensated absences	129,265	124,614	-	253,879	-
Subtotal	<u>129,265</u>	<u>124,614</u>	<u>-</u>	<u>253,879</u>	<u>-</u>
TOTAL	<u>\$3,712,515</u>	<u>\$290,340</u>	<u>\$(690,357)</u>	<u>\$3,312,498</u>	<u>\$744,383</u>

Long-term debt at June 30, 2014 consists of the following:

**Technology & Bus Bonds, Series 2009
June 30, 2014**

	November 1	May 1		Total
	Interest	Interest	Principal	
2014-2015	\$3,900	\$3,900	\$195,000	\$202,800
Totals	<u>\$3,900</u>	<u>\$3,900</u>	<u>\$195,000</u>	<u>\$202,800</u>

The School District issued \$990,000 in general obligation bonds for the purpose of purchasing various technology equipment and 6 school buses. The Bond matures annually on May 1, with interest rates that range from 3.00% to 4.00%. Semiannual interest payments are paid on November 1 and May 1 of each year on the outstanding amount of the bonds.

**2013 Refunding Bonds
June 30, 2014**

	November 1	May 1		Total
	Interest	Interest	Principal	
2014-2015	\$17,862	\$17,862	\$500,000	\$535,724
2015-2016	15,363	15,363	565,000	595,726
2016-2017	11,831	11,831	550,000	573,662
2017-2018	8,394	8,394	530,000	546,788
2018-2019	4,419	4,419	505,000	513,838
Totals	<u>\$57,869</u>	<u>\$57,869</u>	<u>\$2,650,000</u>	<u>\$2,765,738</u>

NOTE H – LONG-TERM DEBT (Continued):

The School District issued \$3,150,000 in general obligation bonds for the purpose of an advance refunding of the 2003 Refunding Bonds. Portions of the refunding bonds, with interest rates that range from 1.00% to 1.75%, are redeemed annually beginning on May 1, 2014. Semiannual interest payments are paid on November 1 and May 1 of each year on the outstanding amount of the bonds. The remaining bonds or portions of the bonds in multiples of \$5,000 maturing on or after May 1, 2019 are subject to redemption at the option of the School District.

2012 Bus Loan			
June 30, 2014			
June 1			
	Interest	Principal	Total
2014-2015	\$934	\$15,657	\$16,591
2015-2016	629	15,962	16,591
2016-2017	317	16,274	16,591
Totals	<u>\$1,880</u>	<u>\$47,893</u>	<u>\$49,773</u>

The School District borrowed \$78,314 for the purpose of purchasing a new school bus. The Note is payable annually on June 1, with an interest rate of 1.925%, and matures on June 1, 2017.

2013 Bus Loan			
June 30, 2014			
November 1			
	Interest	Principal	Total
2014-2015	\$2,499	\$33,726	\$36,225
2015-2016	2,145	33,000	35,145
2016-2017	1,609	33,000	34,609
2017-2018	1,072	33,000	34,072
2018-2019	536	33,000	33,536
Totals	<u>\$7,861</u>	<u>\$165,726</u>	<u>\$173,587</u>

The School District borrowed \$165,726 for the purpose of purchasing a new school bus. The Note is payable annually on November 1, with an interest rate of 1.625%, and matures on June 1, 2017.

As of June 30, 2014 the aggregate maturities of long-term debt for the next succeeding five years are as follows:

	Interest	Principal	Total
2014-2015	\$46,957	\$744,383	\$791,340
2015-2016	33,500	613,962	647,462
2016-2017	25,588	599,274	624,862
2017-2018	17,860	563,000	580,860
2018-2019	9,374	538,000	547,374
Subtotal	133,279	3,058,619	3,191,898
Compensated absences	-	253,879	253,879
TOTAL	<u>\$133,279</u>	<u>\$3,312,498</u>	<u>\$3,445,777</u>

NOTE I – COMPENSATED ABSENCES:

The School District offers an unused sick leave incentive plan provided to teachers eligible to retire under the Michigan Teacher Retirement Act. This payment is based upon the accumulated sick days paid at a rate based upon the appropriate union contract. The sick leave liability has been calculated in accordance with GASB #16.

The liability has been recognized in the Statement of Net Position as follows:

Current portion	\$-
Long-term portion	253,879
TOTAL	<u>253,879</u>

NOTE J – FUND BALANCES – GOVERNMENTAL FUNDS:

As of June 30, 2014, fund balances of the governmental funds are classified as follows:

Non-spendable — amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed — amounts that can be used only for specific purposes determined by a formal action of the Board of Education. Board of Education is the highest level of decision-making authority for the School District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of Education.

Assigned — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the School District’s adopted policy, only the Board of Education may assign amounts for specific purposes.

Unassigned — all other spendable amounts.

As of June 30, 2014, fund balances are composed of the following:

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Governmental Funds
Non-spendable:					
Inventories	\$-	\$5,129	\$-	\$-	\$5,129
Prepaid expenses	-	-	-	-	-
Restricted:					
School Lunch	-	35,890	-	-	35,890
Scholarship	-	52,134	-	-	52,134
Debt Service	-	-	251,214	-	251,214
Capital Projects	-	-	-	1,006,900	1,006,900
Committed	-	-	-	-	-
Assigned					
FY14/15 budgeted shortfall	16,259	-	-	-	16,259
Unassigned	811,255	-	-	-	811,255
Total fund balances	<u>\$827,514</u>	<u>\$93,153</u>	<u>\$251,214</u>	<u>\$1,006,900</u>	<u>\$2,178,781</u>

NOTE J – FUND BALANCES – GOVERNMENTAL FUNDS:

The Board of Education establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the Board of Education through amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Education has provided otherwise in its commitment or assignment actions.

NOTE K – ECONOMIC DEPENDENCY:

The School District receives approximately 69 percent of its revenues through State and Federal sources to be used for providing elementary and secondary education to the students of NICE Community School District.

NOTE L – STATE REVENUE:

The State of Michigan currently uses a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2014, the foundation allowance was based on the three-year average of the blended pupil membership counts taken in February and October.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2013 – August 2014.

The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

NOTE M – NON-MONETARY TRANSACTIONS:

The School District receives USDA donated food commodities for use in its food service program which are accounted for in the School Lunch Fund. The commodities are accounted for on the modified accrual basis and the related revenues and expenditures are recognized as commodities utilized. The School District recognized \$23,808 during the fiscal year 2013-14 in revenues and expenditures for USDA commodities.

NOTE N – PROPERTY TAXES:

The taxable value of real and personal property located in the School District for the 2013 tax year, totaled \$229,478,223 (consisting of \$124,052,598 for PRE, \$1,560,100 for Industrial Personal Property, \$2,532,127 for Commercial Personal Property, and \$101,333,398 for NON-PRE). The tax levy for the year was based on a rate of 18.0000 mills on the NON-PRE property, 6.0000 mills on the Commercial Personal Property, and 2.0000 mills on all property types for Debt Retirement. One mill is equal to \$1.00 per \$1,000 of taxable value.

NOTE O – CONTINGENT LIABILITIES:

Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

Risk Management

The School 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 School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The School District joined together with other units and created a public entity risk pool currently operating as a common risk management and insurance program. The School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

The School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments that may be required to make the pool self-sustaining.

NOTE P – EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN:

Substantially all of the School District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

NOTE P – EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued):

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. MPSERS' issues a publicly available financial report that includes financial statements and required supplementary information for the system. More information may be obtained by writing MPSERS at MPSERS, PO Box 30673, Lansing, Michigan 48909-8173.

Pension Benefits

Employer contributions to the pension system result from the implementing effects of the School Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The School District was required by state statute to contribute 15.21% (of the total 24.32% required contribution) of covered compensation to the Plan through September 30, 2013 and 18.34% (of the total 24.79% required contribution) of covered compensation for the remainder of the year. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The total amount contributed to the Plan for the year ended June 30, 2014 was \$1,793,940 which consisted of \$1,439,192 from the School District and \$354,748 from employees electing the MIP option. These represent approximately 24.55% and 6.05% of covered payroll, respectively. The School District's aggregate contributions to the MPSERS plan for the years ended June 30, 2014, 2013, and 2012 were \$1,793,939, \$1,710,090, and \$1,671,994, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2014 was approximately \$5,862,865 and the School District's total payroll was approximately \$5,862,932.

Post-Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees electing this coverage contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The required contribution rate was 8.18% (of total 24.46% required contribution) of covered payroll for the period from July 1, 2013 through September 30, 2013, and 6.45% (of 24.79% total required contribution) for the period from October 1, 2013 through June 30, 2014. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

NOTE Q – SINKING FUNDS:

The Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

NOTE R – SINGLE AUDIT:

The School District's audited financial statements report a total of \$394,798 in federal expenditures. As this amount is less than the single audit threshold of \$500,000, the School District is not required to have an audit in accordance with OMB Circular A-133 for the fiscal year ended June 30, 2014.

NOTE S – UPCOMING STANDARDS:

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the School District in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the School District.

GASB 66: 2012 Technical Corrections (an Amendment to GASB 10 and GASB 62)

Effective for fiscal years beginning after 12/15/2013 (School District's fiscal year 2015)

This standard was issued to eliminate conflicting guidance that resulted from the issuance of GASB 54 and GASB 62, which are both already effective. GASB 10 was amended to allow for risk financing activities to be accounted for in whichever fund type is most applicable (no longer limited to the general fund or an internal service fund). GASB 62 was amended to modify specific guidance related to (1) operating leases with scheduled rent increases, (2) purchase of loans at an amount other than the principal amount, and (3) service fees related to mortgages that are sold when the service rate varies significantly from the current (normal) service fees.

We do not expect GASB 66 to have any significant impact on the School District at this time.

GASB 67: Financial Reporting for Pension Plans

Effective for fiscal years beginning after 06/15/2014 (School District's fiscal year FY 2015)

This standard establishes the requirements for pension plans administered by trusts to report on their operations, including setting new uniform requirements for actuarial valuations of the total pension liability, and reporting various 10-year trend data as required supplementary information. The financial statements of pension plans will not change substantially as a result of GASB 67, though the additional note disclosures and required supplementary information will be significant. Additionally, actuarial valuations conducted in accordance with GASB 67 will have to match the government's fiscal year, or be rolled forward to that date by the actuary.

GASB 68: Accounting and Financial Reporting for Pensions

Effective for fiscal years beginning after 06/15/2015 (School District's fiscal year FY 2016)

This standard establishes new requirements for governments to report a "net pension liability" for the unfunded portion of its pension plan. Governments that maintain their own pension plans (either single employer or agent multiple-employer) will report a liability for the difference between the total pension liability calculated in accordance with GASB 67 and the amount held in the pension trust fund. Governments that participate in a cost sharing plan will report a liability for their "proportionate share" of the net pension liability of the entire system.

NOTE S – UPCOMING STANDARDS (Continued):

Historically, governments have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year.

Upon implementation of this standard, governments will be required to report a net pension liability based on the current funded status of their pension plans. This liability would be limited to the government-wide financial statements and proprietary funds. Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts will be deferred and amortized over varying periods.

GASB 68 also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The methods used to determine the discount rate (the assumed rate of return on plan assets held in trust) are mandated and must be disclosed, along with what the impact would be on the net pension liability if that rate changed by 1% in either direction. Other new disclosure requirements include details of the changes in the components of the net pension liability, comparisons of actual employer contributions to actuarially determined contributions, and ratios to put the net pension liability in context. For single-employer and agent multiple-employer plans, the information for these statements will come from the annual actuarial valuation. For cost sharing plans, this information will be derived from the financial reports of the plan itself, multiplied by the government's proportionate share of plan.

GASB 67 and 68 are only applicable to pension plans. However, the GASB has announced its intent to issue similar standards for other postemployment benefits (e.g., retiree healthcare) on a two year delay from these standards.

GASB 69: Government Combinations and Disposals of Government Operations

Effective for fiscal years beginning after 12/15/2014 (School District's fiscal year FY 2016)

This standard provides detailed requirements for the accounting and disclosure of various types of government combinations, such as mergers, acquisitions, and transfers of operations. The guidance available previously was limited to nongovernmental entities, and therefore did not provide practical examples for situations common in government-specific combinations and disposals. The accounting and disclosure requirements for these events vary based on whether a significant payment is made, the continuation or termination of services, and the legal structure of the new or continuing entity.

REQUIRED SUPPLEMENTAL INFORMATION

NICE Community School District

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2014

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local sources	\$ 2,075,128	\$ 2,125,990	\$ 2,215,314	\$ 50,862	\$ 89,324
State sources	7,800,026	8,133,303	8,105,010	333,277	(28,293)
Federal sources	230,750	216,690	208,815	(14,060)	(7,875)
TOTAL REVENUES	10,105,904	10,475,983	10,529,139	370,079	53,156
EXPENDITURES:					
Instruction	6,737,771	7,133,102	7,167,845	(395,331)	(34,743)
Supporting services	3,259,288	3,450,730	3,458,491	(191,442)	(7,761)
Community services	30,632	32,900	32,548	(2,268)	352
Debt service:					
Principal	50,000	15,357	15,359	34,643	(2)
Interest and fees	32,000	28,434	28,427	3,566	7
Capital outlay	163,000	165,726	165,726	(2,726)	-
TOTAL EXPENDITURES	10,272,691	10,826,249	10,868,396	(553,558)	(42,147)
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(166,787)	(350,266)	(339,257)	(183,479)	11,009
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	163,000	165,726	165,726	2,726	-
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	163,000	165,726	165,726	2,726	-
NET CHANGE IN FUND BALANCE	(3,787)	(184,540)	(173,531)	(180,753)	11,009
Fund balance, July 1	1,001,045	1,001,045	1,001,045	-	-
FUND BALANCE, JUNE 30	\$ 997,258	\$ 816,505	\$ 827,514	\$ (180,753)	\$ 11,009

OTHER SUPPLEMENTAL INFORMATION

NICE Community School District

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2014

	<u>Special Revenue Funds</u>		
	<u>School Lunch Fund</u>	<u>Scholarship Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 44,142	\$ 9,435	\$ 53,577
Investments	-	42,699	42,699
Accounts receivable	616	-	616
Inventories	5,129	-	5,129
Due from other funds	-	-	-
Prepaid expenses	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	49,887	52,134	102,021
	<hr/>	<hr/>	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 49,887</u>	<u>\$ 52,134</u>	<u>\$ 102,021</u>
	<hr/>	<hr/>	<hr/>
LIABILITIES			
Accounts payable	\$ 328	\$ -	\$ 328
Due to other funds	8,540	-	8,540
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	8,868	-	8,868
	<hr/>	<hr/>	<hr/>
DEFERRED INFLOWS OF RESOURCES	-	-	-
	<hr/>	<hr/>	<hr/>
FUND BALANCES			
Non-spendable	5,129	-	5,129
Restricted	35,890	52,134	88,024
Committed	-	-	-
Assigned	-	-	-
Unassigned	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL FUND BALANCES	41,019	52,134	93,153
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 49,887</u>	<u>\$ 52,134</u>	<u>\$ 102,021</u>

NICE Community School District

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2014

	<u>Special Revenue Funds</u>		
	<u>School Lunch</u>	<u>Scholarship</u>	
	Fund	Fund	<u>Total</u>
REVENUES:			
Local sources	\$ 201,653	\$ 11,261	\$ 212,914
State sources	19,481	-	19,481
Federal sources	185,983	-	185,983
	<u>407,117</u>	<u>11,261</u>	<u>418,378</u>
TOTAL REVENUES			
	<u>407,117</u>	<u>11,261</u>	<u>418,378</u>
EXPENDITURES:			
Community services	-	4,750	4,750
Food service activities	419,455	-	419,455
Capital outlay	-	-	-
	<u>419,455</u>	<u>4,750</u>	<u>424,205</u>
TOTAL EXPENDITURES			
	<u>419,455</u>	<u>4,750</u>	<u>424,205</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(12,338)	6,511	(5,827)
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfers (out)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(12,338)	6,511	(5,827)
Fund Balance, July 1	<u>53,357</u>	<u>45,623</u>	<u>98,980</u>
FUND BALANCE, JUNE 30	<u>\$ 41,019</u>	<u>\$ 52,134</u>	<u>\$ 93,153</u>

NICE Community School District

SCHOOL LUNCH FUND

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

For the Year Ended June 30, 2014

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Local sources:			
Student lunches	\$ 200,200	\$ 201,117	\$ 917
Interest earned	800	536	(264)
State sources:			
Entitlement payments	17,742	19,481	1,739
Federal sources:			
Entitlement payments	160,000	162,175	2,175
Donated commodities	24,000	23,808	(192)
TOTAL REVENUES	402,742	407,117	4,375
EXPENDITURES:			
Food service activities:			
Salaries	106,000	104,726	1,274
Fringe benefits	72,900	73,304	(404)
Purchased services	9,500	9,330	170
Other costs and expenses	33,410	32,856	554
Food and milk	171,300	167,744	3,556
Donated commodities	24,000	23,808	192
Capital outlay	7,700	7,687	13
TOTAL EXPENDITURES	424,810	419,455	5,355
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(22,068)	(12,338)	9,730
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfer (out)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
NET CHANGE IN FUND BALANCE	(22,068)	(12,338)	9,730
Fund balance, July 1	53,357	53,357	-
FUND BALANCE, JUNE 30	\$ 31,289	\$ 41,019	\$ 9,730

COMPLIANCE SECTION



ANDERSON, TACKMAN & COMPANY, PLC

Certified Public Accountants

"A Regional Firm With Offices In Michigan And Wisconsin"

102 W. Washington St. Suite 109 Marquette, MI 49855 Phone: (906) 225-1166 www.atccpa.com

PARTNERS

Robert J. Downs, CPA

Daniel E. Bianchi, CPA

Michael A. Grentz, CPA

William C. Sheltrow, CPA

INDEPENDENT AUDITOR'S 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*

To the Board of Education of the
NICE Community School District
300 Westwood Drive
Ishpeming, Michigan 49849

We have audited, in accordance with the 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 NICE Community School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise NICE Community School District's basic financial statements and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

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

Anderson, Tackman & Company, PLLC
Certified Public Accountants

October 31, 2014

COMMUNICATIONS SECTION



NICE Community School District
Report to Management
For the Year Ended June 30, 2014

To the Board of Education of the
NICE Community School District
300 Westwood Drive
Ishpeming, Michigan 49849

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of NICE Community School District (the School District) as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the School District's internal control over financial reporting (internal control) as a basis for designing 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District'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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

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

Anderson, Tackman & Company, PLLC

Certified Public Accountants

October 31, 2014



NICE Community School District
Communications with Those Charged with Governance
For the Year Ended June 30, 2014

October 31, 2014

To the Board of Education of the
NICE Community School District
300 Westwood Drive
Ishpeming, Michigan 49849

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of NICE Community School District for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 21, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by NICE Community School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2014. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the Accumulated Depreciation is based on historical costs and useful lives of the assets. We evaluated the key factors and assumptions used to develop the current years depreciation expense and accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimates of the accrued sick and vacation is based on employee pay rates and the various subsidiary ledgers maintained for hour balances. We evaluated the key factors and assumptions used to develop the accrued employee benefit balances in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2014.

Management Consultations with Other Independent Accountants

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

Board of Education of the
NICE Community School District

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the General Fund – Budgetary Comparison Schedule, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on Non-Major Governmental Funds Combining Balance Sheet and Schedule of Revenues, Expenditures and Changes in Fund Balance and Non-Major Special Revenue Funds Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of NICE Community School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Anderson, Tackman & Company, PLLC
Certified Public Accountants