

Leland Public School

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2013

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Management's Discussion and Analysis

For the year ended June 30, 2013

The discussion and analysis of the Leland Public School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2013. Please read this analysis in conjunction with the District's financial statements, which immediately follow this section.

DESCRIPTION OF REPORTING ENTITY AND SERVICES PROVIDED

Leland School District is one of the few remaining one building schools in Michigan. The District is located in Leelanau County. Leland Public School serves students in grades Kindergarten through 12th grade. In addition to a full college preparatory curriculum offered on the Leland campus, Leland staff members teach non-core subjects such as fine arts, foreign language, and technology at the nearby parochial school. Students attending the District are afforded individualized attention due to small class sizes. Educators in the District are committed to the philosophy that all children are capable of learning if they have the appropriately specified learning tasks and a suitable amount of time commensurate with their individual learning rates. Leland Public School District offers a core academic curriculum that meets and/or exceeds State guidelines at all levels. The population for the 2012-2013 school year was 460 pupils.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three sections presented in the following order: Management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include several kinds of statements that present different views of the District:

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

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

Figure A-1

District Financial Report Organization

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to Basic Financial Statements

Budgetary Information for Funds
(Required Supplemental Information)

Other Supplemental Information

DISTRICT-WIDE STATEMENTS

The district-wide statements provide comprehensive information about the entire District using the accrual basis of accounting which is similar to the method used by private-sector companies. The statement of net position includes all of the District's assets, deferred outflows, and liabilities and the difference between them, which is net position. The statement of activities accounts for all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net position and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction and supporting services. Unrestricted State Aid and property taxes finance most of these activities.

The two district-wide statements report the District's *net position* and how they have changed. Examining net position is one way to measure the District's financial health or *position*. Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or declining. The relationship between revenues and expenses is the District's operating results, or in other terms, whether the District had a profit or a loss at year end. However, the District's mission is not simply to generate profits, as may be the case for a commercial entity.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. Each major fund is presented in a separate column. Non-major funds are aggregated and displayed in a single column. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The District has two kinds of funds:

Governmental funds:

All of the District's basic services are included in governmental funds. Governmental fund reporting generally focuses on how dollars flow in and out of the funds and the balances left at year-end. These balances are reported using the modified accrual basis of accounting. Revenues are recognized when they are measurable and available. Expenditures are recorded when the related fund liability is incurred. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship or differences between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds are presented in a reconciliation displayed further in our documentation. The District's major governmental funds are the general fund, 2010 refunding and school improvement debt retirement fund, and the 2009-2010 capital projects fund.

Fiduciary Funds:

The District is the Trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations. For example, the Student Activities Account is accounted for as a fiduciary fund.

The District as a Whole

Recall that the statement of net position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2013:

TABLE 1

	<u>Governmental Activities</u>		
	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>% Change</u>
Assets			
Current and other assets	\$ 1,766,693	\$ 2,654,727	50.27 %
Capital assets	<u>8,986,095</u>	<u>8,857,582</u>	<u>(1.43)%</u>
Total assets	10,752,788	11,512,309	7.06 %
Deferred outflows of resources	<u>-</u>	<u>181,809</u>	<u>100.00%</u>
Total assets and deferred outflows	<u>10,752,788</u>	<u>11,694,118</u>	<u>8.75 %</u>
Liabilities			
Current liabilities	1,229,584	1,367,411	11.20 %
Long-term liabilities	<u>5,919,157</u>	<u>5,458,637</u>	<u>(7.78)%</u>
Total liabilities	<u>7,148,741</u>	<u>6,826,048</u>	<u>(4.51)%</u>
Net position Invested in			
Property and Equipment – Net of related debt	2,549,517	2,892,690	13.46 %
Restricted for			
Public Improvements	353,171	207,296	(41.30)%
Debt Service	69,375	45,741	(34.07)%
Food Service	19,008	18,807	(1.06)%
Unrestricted	<u>612,976</u>	<u>1,703,536</u>	<u>177.91 %</u>
Total net position	<u>\$ 3,604,047</u>	<u>\$ 4,868,070</u>	<u>35.07 %</u>

The above analysis focuses on the net position (see Table 1). The District's net position was \$3,604,047 at June 30, 2012 and \$4,686,070 at June 30, 2013. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use net position for day-to-day operations. The District has restricted net position. The remaining amount of net position, (\$612,976 and \$1,703,536 in 2012 and 2013, respectively), were unrestricted.

The unrestricted net position of governmental activities represent the accumulated results of all past years' operations. It means that if we had to pay off all of our bills today, including all of our non-capital liabilities, we would have \$612,976 and \$1,703,536 remaining at June 30, 2012 and 2013, respectively. The operating results of the District 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 District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal year 2013. Revenue and expense for fiscal year 2012 is also shown for comparison purposes.

TABLE 2

	<u>Governmental Activities</u>		
	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>% Change</u>
Program Revenues:			
Charges for services	\$ 135,893	\$ 120,312	(11.47)%
Operating grants and contributions	1,199,448	2,435,153	103.02 %
General Revenue			
Property taxes			
Levied- general purpose	3,391,995	3,321,773	(2.07)%
Levied for debt service	907,923	869,521	(4.23)%
Levied for sinking fund	157,319	152,770	(2.89)%
State School Aid- unrestricted	425,311	293,728	(30.94)%
Grants and contributions- unrestricted	209,595	125,307	(40.21)%
Other	<u>20,937</u>	<u>22,013</u>	<u>5.14 %</u>
Total Revenues	<u>\$6,448,421</u>	<u>\$7,340,577</u>	<u>13.84 %</u>
Functions/Program Expenses:			
Instruction	\$2,959,699	3,028,145	2.31 %
Support services	1,994,161	2,111,182	5.87 %
Food Service	218,482	222,605	1.89 %
Other transactions	584	2,910	398.29 %
Interest on Long-Term Debt	260,211	228,395	(12.23)%
Depreciation (unallocated)	<u>422,307</u>	<u>518,827</u>	<u>22.86 %</u>
Total Expenses	<u>\$5,855,444</u>	<u>\$6,112,064</u>	<u>4.38 %</u>
Gain on disposal of assets	<u>-</u>	<u>35,510</u>	<u>100.00 %</u>
Increase in Net position	592,977	1,264,023	113.17 %
Net position, beginning of year	<u>3,011,070</u>	<u>3,604,047</u>	<u>19.69 %</u>
Net position, end of the year	<u>\$3,604,047</u>	<u>\$4,868,070</u>	<u>35.07 %</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$6,112,064. Certain activities were partially funded from those who benefited from the programs, such as food service and athletics, (\$120,312) or by other grants and contributions (\$439,820). We paid for the remaining “public benefit” portion of our governmental activities with \$4,344,604 in taxes, \$293,728 in State Aid, \$1,995,333 in Federal Aid and with our other revenues including interest and general entitlements.

The District experienced an increase in net position. The key reason for the increase in net position was due to the receipt of Federal Impact Aid monies. The Impact Aid program reimburses school districts for property taxes lost due to the taking of school district land by the Federal government. Other reasons for the change include technology purchases made from bond proceeds and upgrades made through the “sinking” fund rather than through the General Fund.

As discussed above, the net cost shows the financial burden that was placed on the State and the District’s taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of District annual operating revenue sources, the School Board and Administration must annually evaluate the needs of the District and balance those needs with State allocated available unrestricted resources.

The District’s Funds

As noted earlier, the District uses fund accounting to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District’s overall financial health. The District’s budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. The General Fund is the main operating fund of the District. All other funds would be used to account for the proceeds from specific revenue sources that are legally restricted to certain types of expenditures.

As the District completed this year, the general fund reported a fund balance of \$1,865,513, which is an increase of \$1,067,906 from the prior year. The primary reason for the increase was the receipt of five years of Impact Aid payments which were owed to the District.

Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with numerous changes in expected revenues and expenditures. The Uniform Budget Act of the State of Michigan requires that the Board of Education adopt a budget for the upcoming school year prior to July 1, which is the start of the new fiscal year. The District revised its budget two times during the fiscal year. Under normal circumstances, the District adjusts its budget to reflect a wide variety of Federal and State funding sources, many of which are not finalized until well after the District's original budget is required to be adopted. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations.

A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the general fund budget were as follows:

- More Federal Impact Aid was received than budgeted
- Some grants were higher and some lower than expected – both revenue and expenses were adjusted to match actual amount received
- A significant drop in migrant students due to the crop devastation meant less State Aid
- State “best practices” and retirement offset were higher than planned
- Careful monitoring of the budget kept expenses within limits

Capital Asset and Debt Administration

Capital Assets

At June 30, 2013, the District had \$8,857,582 invested in a range of capital assets including buildings, furniture, equipment and vehicles summarized as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital Asset	\$14,310,944	\$ 390,314	\$(199,036)	\$14,502,222
Less: Accum. Depreciation	<u>(5,324,849)</u>	<u>(518,827)</u>	<u>199,036</u>	<u>(5,644,640)</u>
Total Capital Assets, Net	<u>\$ 8,986,095</u>	<u>\$(128,513)</u>	<u>\$ -</u>	<u>\$ 8,857,582</u>

Debt

At June 30, 2013, the District had \$6,308,678 debt owing.

Economic Factors and Next Year's Budgets and Rates

At the time these financial statements were prepared and audited, the District was aware of a number of circumstances that could significantly affect the financial health of Leland Public School District.

- The State of Michigan once again is proposing one time monies instead of an increase to the SFGA or student foundation grant allowance. The current SFGA listed for Leland Public School is equal to 2005-2006 funding levels although expenses have gone up drastically.
- The Michigan School Employees Retirement System rate continues to rise despite recent changes to the system. If long-term changes are not made to address the unfunded liability of health care for retirees, the rate will continue to rise and be unsustainable for most school districts.

Contacting the School District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Sandy Thomas, Business Manager, at Leland Public School District, P.O. Box 498, Leland, MI 49654, Telephone (231) 256-9857, Fax (231) 256-9844.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Leland Public School

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 the *Leland Public School* (the "School District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School 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 School District'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 School District'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 the Leland Public School as of June 30, 2013, and the respective changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Accounting Changes

As described in Note B to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Governmental Accounting Standards Board Statement 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2013.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *viii*, and budgetary comparison information on page 27, 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 inquires 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 School District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards 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 15, 2013, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 the School District's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

October 15, 2013

Leland Public School

STATEMENT OF NET POSITION

June 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,507,990
Inventory	4,395
Due from other governments	<u>142,342</u>
Total current assets	2,654,727
Capital assets, net of accumulated depreciation	<u>8,857,582</u>
Total assets	11,512,309
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on refunding	<u>181,809</u>
Total assets and deferred outflows of resources	<u><u>\$ 11,694,118</u></u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	\$ 517,370
Current portion of long-term liabilities	<u>850,041</u>
Total current liabilities	1,367,411
Non-current portion of long-term obligations	<u>5,458,637</u>
Total liabilities	<u>6,826,048</u>
NET POSITION	
Invested in capital assets, net of related debt	2,892,690
Restricted for	
Public Improvements	207,296
Debt Service	45,741
Food Service	18,807
Unrestricted	<u>1,703,536</u>
Total net position	<u>4,868,070</u>
Total liabilities and net position	<u><u>\$ 11,694,118</u></u>

The accompanying notes are an integral part of these financial statements.

Leland Public School

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Functions/Program	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 3,028,145	\$ -	\$ 335,053	\$ (2,693,092)
Supporting Services	2,111,182	16,293	-	(2,094,889)
Food Service	222,605	104,019	104,767	(13,819)
Other	2,910	-	-	(2,910)
Interest on long-term debt	228,395	-	-	(228,395)
Depreciation-unallocated	518,827	-	-	(518,827)
Total governmental activities	\$ 6,112,064	\$ 120,312	\$ 439,820	(5,551,932)
General purpose revenues				
Property taxes				
Levied for general purposes				3,321,773
Levied for Debt Service				869,521
Levied for Sinking Fund				152,770
State school aid - unrestricted				293,728
Unrestricted Federal aid				1,995,333
Grants and contributions not restricted to specific program				125,307
Investment and other				22,013
Total general purpose revenues				6,780,445
Special item - gain on disposal of assets				35,510
Change in net position				1,264,023
Net position, beginning of year, as restated (Note B)				3,604,047
Net position, end of year				\$ 4,868,070

The accompanying notes are an integral part of these financial statements.

Leland Public School

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2013

	General Fund	2010 Refunding and School Improvement Debt Retirement Fund	2009-2010 Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,120,543	\$ 103,231	\$ 204,913	\$ 79,303	\$ 2,507,990
Due from other governments	137,498	-	-	4,844	142,342
Due from other funds	213,922	5,330	48,335	-	267,587
Inventory	-	-	-	4,395	4,395
Total assets	\$ 2,471,963	\$ 108,561	\$ 253,248	\$ 88,542	\$ 2,922,314
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenditures	\$ 476,427	\$ -	\$ -	\$ 891	\$ 477,318
Due to other funds	130,023	29,422	76,585	31,557	267,587
Total liabilities	606,450	29,422	76,585	32,448	744,905
FUND BALANCES					
Nonspendable	-	-	-	4,395	4,395
Restricted					
Food Service	-	-	-	14,412	14,412
Debt retirement	-	79,139	-	6,654	85,793
Capital projects	-	-	176,663	30,633	207,296
Committed					
Subsequent year expenditures	498,671	-	-	-	498,671
Assigned					
Employee leave liability	70,474	-	-	-	70,474
Early retirement incentive	91,503	-	-	-	91,503
Unassigned	1,204,865	-	-	-	1,204,865
Total fund balances	1,865,513	79,139	176,663	56,094	2,177,409
Total liabilities and fund balances	\$ 2,471,963	\$ 108,561	\$ 253,248	\$ 88,542	

Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Position

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 as assets in governmental funds. The cost of the assets is \$14,502,222 and the accumulated depreciation is \$(5,644,640).

8,857,582

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

	Bonds payable	\$ 5,830,000	
	Capital lease	198,071	
	Accrued interest on bonds	40,052	
	Unamortized bond refunding loss	(181,809)	
	Unamortized bond premium	118,630	
	Early retirement payable	91,503	
	Accumulated leave liability	70,474	(6,166,921)

Total net position - governmental activities

\$ 4,868,070

The accompanying notes are an integral part of these financial statements.

Leland Public School

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2013

	General Fund	2010 Refunding and School Improvement Debt Retirement Fund	2009-2010 Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 3,321,773	\$ 766,895	\$ -	\$ 255,396	\$ 4,344,064
Interest	17,561	3,706	414	331	22,012
State revenues	524,555	-	-	10,593	535,148
Federal revenues	2,099,560	-	-	94,174	2,193,734
Other	141,600	-	35,510	104,019	281,129
Total revenues	6,105,049	770,601	35,924	464,513	7,376,087
Expenditures					
Current					
Instruction	3,050,799	-	-	-	3,050,799
Supporting Services	1,967,345	-	-	-	1,967,345
Food Service	-	-	-	222,605	222,605
Other	-	2,491	-	419	2,910
Debt Service					
Principal	3,981	570,000	104,334	105,000	783,315
Interest	18	207,063	-	7,875	214,956
Capital outlay	-	-	358,574	175,577	534,151
Total expenditures	5,022,143	779,554	462,908	511,476	6,776,081
REVENUES OVER (UNDER) EXPENDITURES	1,082,906	(8,953)	(426,984)	(46,963)	600,006
Other financing sources (uses)					
Operating transfers in	-	-	-	15,000	15,000
Operating transfers out	(15,000)	-	-	-	(15,000)
Proceeds from capital lease	-	-	302,405	-	302,405
Total other financing sources (uses)	(15,000)	-	302,405	15,000	302,405
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	1,067,906	(8,953)	(124,579)	(31,963)	902,411
Fund balance, beginning of year	797,607	88,092	301,242	88,057	1,274,998
Fund balance, end of year	\$ 1,865,513	\$ 79,139	\$ 176,663	\$ 56,094	\$ 2,177,409

The accompanying notes are an integral part of these financial statements.

Leland Public School

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Total Net Change in Fund Balances - Governmental Funds \$ 902,411

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

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	\$ 390,314	
Depreciation expense	<u>(518,827)</u>	(128,513)

In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time used was less than the amounts earned by \$9,641. Early retirement incentives earned were less than amounts paid by \$32,295.

22,654

Repayment of bond and loan principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.

783,315

Proceeds from capital lease are a financing source in the governmental funds, but are recorded as a liability in the statement of net position.

(302,405)

Proceeds from the sale of assets are revenues in the government funds, but it reduces capital assets, net of accumulated depreciation in the statement of net position and does not affect the statement of activities.

(35,510)

Gain on sale of assets

35,510

Net amortization of bond refunding loss and bond premium

(9,224)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest 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. The interest reported in the statement of activities is the net result of the increase in accrued interest on bonds payable.

(4,215)

Changes in Net Position of Governmental Activities

\$ 1,264,023

The accompanying notes are an integral part of these financial statements.

Leland Public School

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2013

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 35,011	\$ 90,023	\$ 125,034
Investments	<u>34,568</u>	<u>-</u>	<u>34,568</u>
Total assets	<u><u>\$ 69,579</u></u>	<u><u>\$ 90,023</u></u>	<u><u>\$ 159,602</u></u>
LIABILITIES AND NET POSITION			
LIABILITIES			
Due to student groups	\$ -	\$ 90,023	\$ 90,023
NET POSITION			
Held in trust for scholarships	<u>69,579</u>	<u>-</u>	<u>69,579</u>
Total liabilities and net position	<u><u>\$ 69,579</u></u>	<u><u>\$ 90,023</u></u>	<u><u>\$ 159,602</u></u>

Leland Public School

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2013

	<u>Private Purpose Trust Funds</u>
Additions	
Contributions	\$ 27,040
Interest	<u>2,627</u>
Total additions	29,667
Deductions	
Scholarships awarded	<u>21,432</u>
Change in net position	8,235
Net position, beginning of year	<u>61,344</u>
Net position, end of year	<u><u>\$ 69,579</u></u>

Leland Public School

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Leland Public School (the "School District") is a Michigan public school district consisting of one K-12 building. The School District also provides staff for St. Mary's School of Lake Leelanau. The School District primarily serves the Leland community. As of June 30, 2013, the School District employs 36 professional staff and 25 non-professional staff, and has 460 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2013.

Financial Reporting Entity

Leland Public School's Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity," as defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncement, student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

District-Wide and Fund Financial Statements

District-Wide Financial Statements

The statement of net position and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and School District general revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements.

The district-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as needed.

NOTES TO FINANCIAL STATEMENTS - Continued

Fund Types and Major Funds

Activities in Major Funds

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those accounted for in another fund.

The 2010 Refunding and School Improvement Debt Retirement Fund is used to account for the accumulation of resources (property taxes) for, and the payment of, bond principal, interest and related costs.

The 2009-2010 Capital Projects Fund is used to account for financial resources (bond proceeds) to be used for the acquisition of equipment.

Other Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes. The Food Service Fund is a Special Revenue Fund that segregates, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of this fund.

The 2008-2009 Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of bond principal, interest and related costs.

The Infrastructure Fund is a capital project fund and is used to account for a sinking fund tax levy to be used for construction or repair of various School District properties.

The Public Improvement Fund is a capital project fund and is used to account for financial resources to be used for the acquisition or construction of capital assets.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net position and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Private purpose trust funds are used to administer scholarships for the benefit of private individuals and organizations.

Cash and Equivalents

The School District's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS - Continued

Inventories

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 3 to 50 years. The School District generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	50 years
Improvements, other than buildings	5 years
Buses and vehicles	7 years
Furniture and equipment	3-20 years

Long-Term Debt and Bond Discounts/Premiums

In the district-wide financial statements, outstanding debt is reported as a liability. Bond discounts or premiums are amortized over the terms of the respective bonds using a method that approximates the interest method. Bond issuance costs are expensed as incurred.

The governmental fund financial statements recognize the proceeds of debt and premiums/(discounts) as other financing sources of the current period. Issuance costs are reported as expenditures.

Deferred Inflows and Outflows

In the district-wide financial statements, the excess/deficiency of refunding debt proceeds over the debt being refunded is deferred and amortized over the life of the bonds.

Fund Balance

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors, or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the School Board through approval of resolutions. Assigned fund balances is a limitation imposed by the Superintendent and/or Business Manager as a designee of the School Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed or assigned to those purposes.

When both restricted and unrestricted fund balances are available for use, it is the School District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

Use of Estimates in the Preparation of Financial Statements

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 revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Title I, Title VIII, At-Risk and School Lunch Program, which are reported as operating grants and contributions.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE B - ACCOUNTING CHANGES

For the year ended June 30, 2013, the School District implemented the provisions of Governmental Accounting Standards Board Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Governmental Accounting Standards Board Statement 65, *Items Previously Reported as Assets and Liabilities*. In accordance with the Standards, deferred losses on debt refunding were reclassified from net bonds payable to deferred outflows of resources. Net position (formerly net assets) has been restated, as follows:

	<u>Governmental Activities</u>
Net position, <i>as originally presented</i>	\$ 3,767,433
Expensing of bond issuance cost	<u>(163,386)</u>
Net position at June 30, 2012, as restated	<u><u>\$ 3,604,047</u></u>

NOTE C - BUDGETARY POLICY AND PRACTICE

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2013, the School District was in compliance with the Act.

NOTE D - CASH AND INVESTMENTS

At June 30, 2013, the School District's cash and investments include the following:

Bank deposits and cash on hand	\$ 228,672
Certificates of Deposit	34,568
Investment pools ("MILAF")	<u>2,404,352</u>
	<u><u>\$ 2,667,592</u></u>

Custodial Credit Risk - Deposits

In the event of a bank failure, the School District's deposits (including certificates of deposit) may not be returned to it. As of June 30, 2013, the School District's bank deposits were fully insured.

NOTES TO FINANCIAL STATEMENTS - Continued

Interest Rate Risk

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

The School District's investments have the following maturities:

Investment Type	Fair Value	Investment Maturities (in years)			
		Current	1-5	6-10	More than 10
Certificates of Deposit	\$ 34,568	\$ -	\$ 34,568	\$ -	\$ -
Investment pools	<u>2,404,352</u>	<u>2,404,352</u>	-	-	-
	<u>\$ 2,438,920</u>	<u>\$ 2,404,352</u>	<u>\$ 34,568</u>	<u>\$ -</u>	<u>\$ -</u>

Investments

The School District's investment policy permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.
7. Securities issued or guaranteed by agencies of the United States government.
8. Michigan Investment Liquid Asset Fund Plus ("MILAF")

Credit Risk

The School District's investment in the MILAF investment pool was rated AAAM by Standard and Poor's.

NOTE E - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE

Property Taxes Receivable, Unearned Revenue and Property Tax Calendar

Property taxes are levied, billed and attached as enforceable liens in July of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the county as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as unearned revenue. In the district-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$10.9013 per \$1,000 of equalized non-principle residence property value of \$299 million was levied for general operating purposes. For debt service purposes, \$1.69 per \$1,000 of equalized homestead and non-homestead property value of \$510 million was levied for bonded debt repayments by the Debt Service Fund. For sinking fund purposes, \$0.30 per \$1,000 of equalized homestead and non-homestead property value of \$510 million was levied.

Intergovernmental Receivables and Unearned Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Unearned revenue received after 60 days is fully recognized as revenue in the district-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2013 are as follows:

Due from the State of Michigan - State Aid	\$ 136,039
Federal	<u>6,303</u>
	<u>\$ 142,342</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE F - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	June 30, 2012	Additions	Disposals	June 30, 2013
Buildings and improvements	\$11,040,114	\$ -	\$ -	\$11,040,114
Furniture and equipment	2,776,725	361,228	(158,349)	2,979,604
Buses and vehicles	<u>494,105</u>	<u>29,086</u>	<u>(40,687)</u>	<u>482,504</u>
Total depreciable assets	14,310,944	390,314	(199,036)	14,502,222
Less accumulated depreciation	<u>(5,324,849)</u>	<u>(518,827)</u>	<u>199,036</u>	<u>(5,644,640)</u>
Total capital assets, net	<u>\$ 8,986,095</u>	<u>\$ (128,513)</u>	<u>\$ -</u>	<u>\$ 8,857,582</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$ 518,827</u>
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NOTE G - LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended June 30, 2013 were as follows:

	Beginning Balance	New Debt	Payments	Ending Balance	Current Portion
2010 Refunded general obligation and school improvement bonds	\$ 6,295,000	\$ -	\$ (570,000)	\$ 5,725,000	\$ 605,000
2009 School technology and equipment bonds	210,000	-	(105,000)	105,000	105,000
2012 Technology capital lease	-	302,405	(104,334)	198,071	97,311
Unamortized bond premium	133,647	-	(15,017)	118,630	15,817
Bus loan	3,981	-	(3,981)	-	-
Accumulated leave liability	60,833	9,641	-	70,474	-
Early retirement incentives	<u>123,798</u>	<u>-</u>	<u>(32,295)</u>	<u>91,503</u>	<u>26,913</u>
Long-term liabilities	<u>\$ 6,827,259</u>	<u>\$ 312,046</u>	<u>\$ (830,627)</u>	<u>\$ 6,308,678</u>	<u>\$ 850,041</u>

Payments on general obligation bonds are made by Debt Service Funds. The 2012 Technology capital lease will be paid by the 2009-2010 Capital Projects Fund. The bus loan, accumulated leave liability and early retirement payable will be liquidated primarily by the General Fund.

NOTES TO FINANCIAL STATEMENTS - Continued

At June 30, 2013, the School District's long-term debt consisted of the following:

\$6,845,000; 2010 Refunding and School Improvement Bonds; remaining installments due annually of \$550,000 to \$770,000 through May 1, 2021; remaining interest rates of 2.25% to 4.25%.	\$ 5,725,000
\$400,000; 2009 School Technology and Equipment Bonds; remaining installments due annually of \$100,000 to \$105,000 through May 1, 2014; remaining interest rates of 3.50% to 3.75%.	105,000
Capital lease for technology, with a cost of \$302,405; due in annual installments of \$104,334 through July 2014; including interest at a rate of 3.5%.	198,071
Unamortized bond premium	118,630
Accumulated leave liability	70,474
Early retirement payable	<u>91,503</u>
Total long-term liabilities	<u><u>\$ 6,308,678</u></u>

Total annual requirements to amortize bonds outstanding as of June 30, 2013 are as follows:

Years Ending June 30,	Principal	Interest
2014	\$ 710,000	\$ 198,176
2015	730,000	179,112
2016	750,000	159,038
2017	770,000	136,538
2018	680,000	111,512
2019 - 2023	<u>2,190,000</u>	<u>180,862</u>
	<u><u>\$ 5,830,000</u></u>	<u><u>\$ 965,238</u></u>

Total annual requirements to amortize capital leases outstanding as of June 30, 2013 are as follows:

Years Ending June 30,	Principal	Interest
2014	\$ 97,311	\$ 7,023
2015	<u>100,760</u>	<u>3,573</u>
	<u><u>\$ 198,071</u></u>	<u><u>\$ 10,596</u></u>

Interest expense for the year ended June 30, 2013 was \$228,395, and interest paid for the year ended June 30, 2013 was \$214,956.

Accumulated Leave Liability

As of June 30, 2013, a potential liability for sick pay of up to \$870,062 had accumulated to employees; this amount is not vested. However, as an employee becomes eligible for retirement, 10.0% of their sick pay balance plus FICA will be paid to them upon retirement if they have 10 years of service with the School District. The School District has used the retirement value method to estimate the probable amount to be paid.

Early Retirement Incentives

During the fiscal year ended June 30, 1998, the School District adopted an early retirement program. The net present value of early retirement incentives due to participants at June 30, 2013 is \$91,503.

Prior Year Defeasance of Debt

On December 16, 2010, the School District issued \$6,845,000 in 2010 Refunding and School Improvement Bonds with interest rates ranging from 2.25% to 4.25%, to advance refund \$6,155,000 of outstanding 2001 Building and Site and Refunding Bonds with an interest rate varying between 4.25% and 4.875%. The net proceeds of \$6,219,760 plus \$78,500 from Debt Service Funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the redemption of the \$6,155,000 outstanding 2001 Building and Site Refunding Bonds. The outstanding principal of the defeased bonds was \$5,150,000 at June 30, 2013.

NOTE H - 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; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

The School District pays unemployment claims on a reimbursement basis. No significant claims are known to exist.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

NOTES TO FINANCIAL STATEMENTS - Continued

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

NOTE I - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Receivables and Payables

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds		
General Fund	\$ 213,922	\$ 130,023
2010 Debt Retirement Fund	5,330	29,422
2009-2010 Capital Projects Fund	48,335	76,585
Other Governmental Funds		
Food Service Fund	-	11,610
2008-2009 Debt Retirement Fund	-	17,330
2001 Capital Projects Fund	-	2,617
	<u>\$ 267,587</u>	<u>\$ 267,587</u>

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining Debt Service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental activities columns.

NOTES TO FINANCIAL STATEMENTS - Continued

The following schedule reports transfers and payments within the reporting entity:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Major Governmental Funds		
General Fund	\$ -	\$ 15,000
Other Governmental Funds		
Food Service Fund	<u>15,000</u>	<u>-</u>
	<u>\$ 15,000</u>	<u>\$ 15,000</u>

NOTE J - PENSION PLAN

The School District contributes to the Michigan Public School Employees' Retirement Systems ("MPSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget Office of Retirement Services ("ORS"). MPSERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24, of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPSERS, P.O. Box 30171, Lansing, MI 48909-7671, by calling (517) 322-5103, or on the State of Michigan's website at www.Michigan.gov.

Funding Policy

Defined Benefit Plan

Plan members who participate in MIP are required to contribute 3% to 7% of their annual covered salary; plan members who participate in the Basic Plan contribute 3%; and Leland Public School is required to contribute at an actuarially determined rate using the individual entry age actuarial cost method. The rates were 24.46% and 23.23%, dependent on entrance date, for the period of July 1, 2012 to September 30, 2012. From October 1, 2012 through January 31, 2013, the rates were 27.37% and 26.14%, dependent on entrance date. Beginning February 1, 2013, the rates ranged between 20.96% and 24.32% based on individual retirement elections made by each employee. The contribution requirements of plan members and Leland Public School are established and may be amended by the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2013, 2012 and 2011 were \$699,533, \$628,542 and \$529,175, respectively, which is equal to the required contribution for each year.

Defined Contribution Plan

Plan members who participate in the plan may contribute up to the maximum amounts permitted by the Internal Revenue Service to their 457 account. Leland Public School is required to contribute 4% to a tax-deferred 401(k) account. The School District's contribution to the defined contribution plan was \$3,707 for the year ended June 30, 2013.

Post-Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverages. Required contributions for post-employment health care are included as part of the School District's total contribution to the MPSERS plan discussed above.

NOTE K - COMMITMENTS AND CONTINGENCIES

Capital Projects

The Infrastructure Fund records capital project activities funded with a Sinking Fund millage. For these funds, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

The 2009-2010 Capital Projects Fund accounts for activity related to acquiring and installing educational technology and other equipment. This project is funded with two bond issues after May 1, 1994. For these funds, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

The project for which the 2010 School Improvement Bonds were issued has not been completed as of June 30, 2013. The remaining fund balance in the Capital Projects Fund as of June 30, 2013, was \$176,663.

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Leland Public School Education Association. The Board of Education and the Leland Public School Education Association had a contract through August 31, 2013. A new contract is currently being negotiated.

The support personnel at the School District are organized under the Northern Michigan Education Association. The Board of Education and the Northern Michigan Education Association have a contract through June 30, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

Leland Public School

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
Revenues					
Local and intermediate sources	\$ 3,363,868	\$ 3,387,368	\$ 3,339,334	\$ 23,500	\$ (48,034)
State revenues	555,496	535,178	524,555	(20,318)	(10,623)
Federal revenues	619,000	753,420	2,099,560	134,420	1,346,140
Other	39,000	89,564	141,600	50,564	52,036
Total revenues	<u>4,577,364</u>	<u>4,765,530</u>	<u>6,105,049</u>	<u>188,166</u>	<u>1,339,519</u>
Expenditures					
Instruction	3,118,494	3,121,488	3,050,799	(2,994)	70,689
Supporting Services	<u>1,928,257</u>	<u>2,070,778</u>	<u>1,971,344</u>	<u>(142,521)</u>	<u>99,434</u>
Total expenditures	<u>5,046,751</u>	<u>5,192,266</u>	<u>5,022,143</u>	<u>(145,515)</u>	<u>170,123</u>
REVENUES OVER (UNDER) EXPENDITURES	(469,387)	(426,736)	1,082,906	42,651	1,509,642
Other financing uses					
Operating transfers out	<u>(6,000)</u>	<u>(23,500)</u>	<u>(15,000)</u>	<u>(17,500)</u>	<u>8,500</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(475,387)	(450,236)	1,067,906	25,151	1,518,142
Fund balance, beginning of year	<u>715,082</u>	<u>797,607</u>	<u>797,607</u>	<u>82,525</u>	<u>-</u>
Fund balance, end of year	<u>\$ 239,695</u>	<u>\$ 347,371</u>	<u>\$ 1,865,513</u>	<u>\$ 107,676</u>	<u>\$ 1,518,142</u>

**COMBINING FINANCIAL STATEMENTS OF
NON-MAJOR GOVERNMENTAL FUNDS**

Leland Public School

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2013

	Special Revenue Funds	Debt Service Fund	Capital Project Funds			Total Non-Major Governmental
		2008-2009				
	Food Service	Debt Retirement	Infrastructur e Fund	Public Improvement	Total	
ASSETS						
Cash and cash equivalents	\$ 22,069	\$ 23,984	\$ 33,218	\$ 32	\$ 33,250	\$ 79,303
Due from other governments	4,844	-	-	-	-	4,844
Inventory	4,395	-	-	-	-	4,395
Total assets	<u>\$ 31,308</u>	<u>\$ 23,984</u>	<u>\$ 33,218</u>	<u>\$ 32</u>	<u>\$ 33,250</u>	<u>\$ 88,542</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable and accrued expenditures	\$ 891	\$ -	\$ -	\$ -	\$ -	\$ 891
Due to other funds	11,610	17,330	2,617	-	2,617	31,557
Total liabilities	12,501	17,330	2,617	-	2,617	32,448
FUND BALANCES						
Nonspendable	4,395	-	-	-	-	4,395
Restricted						
Food Service	14,412	-	-	-	-	14,412
Debt retirement	-	6,654	-	-	-	6,654
Capital projects	-	-	30,601	32	30,633	30,633
Total fund balances	18,807	6,654	30,601	32	30,633	56,094
Total liabilities and fund balances	<u>\$ 31,308</u>	<u>\$ 23,984</u>	<u>\$ 33,218</u>	<u>\$ 32</u>	<u>\$ 33,250</u>	<u>\$ 88,542</u>

Leland Public School

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2013

	Special Revenue Fund	Debt Service Fund	Capital Project Funds			Total Non-Major Governmental
	Food Service	2008-2009 Debt Retirement	Infrastructure Fund	Public Improvement	Total	
Revenues						
Property taxes	\$ -	\$ 102,626	\$ 152,770	\$ -	\$ 152,770	\$ 255,396
Interest	23	202	74	32	106	331
State revenues	10,593	-	-	-	-	10,593
Federal revenues	94,174	-	-	-	-	94,174
Other	104,019	-	-	-	-	104,019
Total revenues	<u>208,809</u>	<u>102,828</u>	<u>152,844</u>	<u>32</u>	<u>152,876</u>	<u>464,513</u>
Expenditures						
Food Service	222,605	-	-	-	-	222,605
Debt Service						
Principal	-	105,000	-	-	-	105,000
Interest	-	7,875	-	-	-	7,875
Other	-	419	-	-	-	419
Capital outlay	1,405	-	174,172	-	174,172	175,577
Total expenditures	<u>224,010</u>	<u>113,294</u>	<u>174,172</u>	<u>-</u>	<u>174,172</u>	<u>511,476</u>
REVENUES OVER (UNDER) EXPENDITURES	(15,201)	(10,466)	(21,328)	32	(21,296)	(46,963)
Other financing sources						
Operating transfers in	15,000	-	-	-	-	15,000
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	(201)	(10,466)	(21,328)	32	(21,296)	(31,963)
Fund balance, beginning of year	19,008	17,120	51,929	-	51,929	88,057
Fund balance, end of year	<u>\$ 18,807</u>	<u>\$ 6,654</u>	<u>\$ 30,601</u>	<u>\$ 32</u>	<u>\$ 30,633</u>	<u>\$ 56,094</u>

FEDERAL PROGRAMS

Leland Public School

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2012	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2013
United States Department of Education							
Direct grants							
Rural Business Enterprise Grants	10.769	\$ 12,490	\$ -	\$ -	\$ 7,646	\$ 12,490	\$ 4,844
REAP Grant	84.358A	41,225	-	-	41,225	41,225	-
Title VIII - Impact Aid	84.041	1,995,333	-	-	1,995,333	1,995,333	-
Passed through Michigan Department of Education							
Title I, Part A Cluster 131530-1213	84.010	44,017	-	-	44,017	44,017	-
Title IIA - Improving Teacher Quality 130520-1213	84.367	18,178	-	-	18,178	18,178	-
Total passed through Michigan Department of Education		<u>62,195</u>	<u>-</u>	<u>-</u>	<u>62,195</u>	<u>62,195</u>	<u>-</u>
Total U.S. Department of Education		<u>2,111,243</u>	<u>-</u>	<u>-</u>	<u>2,106,399</u>	<u>2,111,243</u>	<u>4,844</u>

Leland Public School

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2012	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2013
United States Department of Agriculture							
Nutrition Cluster							
Passed Through Michigan Department of Education							
National School Lunch Program							
1960-Free and Reduced	10.555	\$ -	\$ -	\$ -	\$ 50,851	\$ 52,310	\$ 1,459
USDA Entitlement Commodities	10.555	-	-	-	13,587	13,587	-
		-	-	-	64,438	65,897	1,459
1970-Breakfast	10.553	-	-	-	15,786	15,786	-
Total Nutrition Cluster		-	-	-	80,224	81,683	1,459
United States Department of Health and Human Services							
Passed Through Traverse Bay Area ISD							
Medicaid - School Based Services	93.778	-	-	-	808	808	-
Total Federal Financial Assistance		<u>\$ 2,111,243</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,187,431</u>	<u>\$ 2,193,734</u>	<u>\$ 6,303</u>

Leland Public School

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2013

- Note 1** The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting.
- Note 2** Management has reported that expenditures in this Schedule of Expenditures of Federal Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3** The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete, accurate and contain information that is supported by the books and records from which the basic financial statements have been prepared. Grant receipts reported on the Schedule of Expenditures of Federal Awards, as passed through the Michigan Department of Education, reconcile to the Grant Auditor's Report (R7120). Unreconciled differences have been disclosed to the auditor.



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**INDEPENDENT AUDITORS' 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**

Board of Education
Leland Public School

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 the **Leland Public School** (the "School District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 15, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 2013-1 and 2013-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

School District's Response to Findings

The School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 School District'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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dennis, Gartland & Niergarth

October 15, 2013



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Board of Education
Leland Public School

Report on Compliance for Each Major Federal Program

We have audited the *Leland Public School* (the "School District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on the School District's major Federal program for the year ended June 30, 2013. The School District's major Federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major Federal program. However, our audit does not provide a legal determination of the School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Dennis, Gartland & Niergarth

October 15, 2013

Leland Public School

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2013

PRIOR YEAR

Findings 2012-1 and 2012-2 are repeated this year in Section 2 as Findings 2013-1 and 2013-2.

CURRENT YEAR

Section 1 - Summary of Auditors' Results

1. The auditor's report represents an unqualified opinion on the financial statements of the Leland Public School.
2. There were two material weaknesses in internal control reported as a result of the audit of the financial statements. See Section 2 - Findings in Accordance with Governmental Auditing Standards.
3. There were no compliance findings disclosed that were material to the School District's financial statements.
4. The auditor's report does not disclose any reportable conditions in internal control over major programs.
5. The report over compliance for major programs was unqualified.
6. There were no audit findings relative to major programs that are required to be reported.
7. The School District's major program was Title VIII - Impact Aid (CFDA No. 84.041).
8. The dollar threshold for distinguishing between Type A and Type B programs was \$300,000.
9. Leland Public School did not qualify as a low risk auditee.

Section 2 - Findings in Accordance with Governmental Auditing Standards

Finding Number 2013-1

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the School District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records) and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized schools, the School District has historically relied on its independent external auditors to adjust the accounting records and assist in the preparation of the basic financial statements as part of its external financial reporting process. Accordingly, the School District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the School District's internal controls.

Cause: This condition was caused by the School District's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary resources required for the School District to perform this task internally.

Effect: As a result of this condition, the School District lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

Management's Response: The School District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the School District to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation. To aid in the review and approval process, the business manager of the School District has attended professional development classes related to the preparation of financial statements.

Section 2 - Findings in Accordance with Governmental Auditing Standards - Continued

Finding Number 2013-2

Criteria: Segregation of duties for the School District is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

Condition: The School District has not achieved a complete segregation of duties among employees who have access to assets and those with accounting responsibilities.

Cause: The small size of the business office staff creates an inherent lack of segregation of duties.

Effect: As a result of this condition, the School District lacks complete segregation of duties and is exposed to the risk of material misstatement of its financial statements.

Management's Response: The School District has evaluated the manner in which they segregate duties and has implemented measures such as Board review of all expenditures. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

Section 3 - Findings and Questioned Costs in Accordance with OMB Circular A-133

No findings or questioned costs.