



WEINLANDER FITZHUGH

BAY-ARENAC COMMUNITY HIGH SCHOOL
ESSEXVILLE, MICHIGAN

FINANCIAL STATEMENTS
JUNE 30, 2013

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WEINLANDER FITZHUGH

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INDEPENDENT AUDITOR'S REPORT

November 11, 2013

Board of Education
Bay-Arenac Community High School
Essexville, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Bay-Arenac Community High School (High School), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the High School'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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards 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.

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WEINLANDER FITZHUGH

Board of Education
Bay-Arenac Community High School
November 11, 2013

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 High School as of June 30, 2013 and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 13 to the financial statements, the High School has implemented Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and budgetary comparison information as noted 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 U.S. generally accepted auditing standards, 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.



WEINLANDER FITZHUGH

Board of Education
Bay-Arenac Community High School
November 11, 2013

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2013, on our consideration of the High School'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 High School's internal control over financial reporting and compliance.

Weinlander Fitzhugh

BAY-ARENAC COMMUNITY HIGH SCHOOL
Management's Discussion and Analysis
For the Year Ended June 30, 2013

Our discussion and analysis of Bay-Arenac Community High School's (High School) financial performance provides an overview of the High School's financial activities for the fiscal year ended June 30, 2013.

Financial Highlights

The High School's net position increased by \$21,041 or 4%. Program revenues were \$271,588 or 20% of total revenues, and general revenues were \$1,090,921 or 80%.

The General Fund reported a positive fund balance of \$290,935.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Bay-Arenac Community High School financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole High School, presenting both an aggregate view of the High School's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the High School's operations in more detail than the district-wide financial statements by providing information about the High School's most significant funds - the General Fund. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the High School acts solely as an agent for the benefit of students. The following summarizes the presentation included in this annual financial report.

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

Basic Financial Statements

- District-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Reporting the District as a Whole

The Statement of Net Position and Statement of Activities

One of the most important questions asked about the High School's finances is: "Is the High School better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the High School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the High School's net position as a way to measure the High School's financial position. The change in net position provides the reader a tool to assist in determining whether the High School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment growth and facility conditions in arriving at their conclusion regarding the overall health of the High School.

BAY-ARENAC COMMUNITY HIGH SCHOOL
Management's Discussion and Analysis
For the Year Ended June 30, 2013

Reporting the District's Most Significant Funds

Fund Financial Statements

The High School's fund financial statements provide detailed information about the most significant funds - not the High School as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other sources of revenue. The High School's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

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

Fiduciary Funds

The High School is the trustee, or fiduciary, for its student activity funds and scholarship funds. All of the High School's fiduciary activities are reported in separate statements of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these activities from the High School's other financial statements because the assets cannot be utilized by the High School to finance its operations.

BAY-ARENAC COMMUNITY HIGH SCHOOL
Management's Discussion and Analysis
For the Year Ended June 30, 2013

District-wide Financial Analysis

The statement of net position provides the perspective of the High School as a whole. Exhibit A provides a summary of the High School's net position as of June 30, 2013 and 2012:

Exhibit A	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Assets		
Current and other assets	\$ 541,841	\$ 672,679
Capital assets - net of accumulated depreciation	<u>250,000</u>	<u>0</u>
Total assets	<u>791,841</u>	<u>672,679</u>
Liabilities		
Current liabilities	<u>250,906</u>	<u>152,785</u>
Total liabilities	<u>250,906</u>	<u>0</u>
Net Position		
Net investment in capital assets	200,000	0
Unrestricted	<u>340,935</u>	<u>519,894</u>
Total net position	<u>\$ 540,935</u>	<u>\$ 519,894</u>

The analysis above focuses on net position (see Exhibit A). The High School's net position was \$540,935 at June 30, 2013. Restricted net position are reported separately to show legal constraints from debt requirements and legislation that limit the High School's ability to use those net position for day-to-day operations.

The \$340,935 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.

BAY-ARENAC COMMUNITY HIGH SCHOOL
Management's Discussion and Analysis
For the Year Ended June 30, 2013

The results of this year's operations for the High School as a whole are reported in the statement of activities. Exhibit B provides a summary of the changes in net position for the years ended June 30, 2013 and 2012.

Exhibit B	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Revenues		
Program revenue:		
Charges for services	\$ 1,386	\$ 9,281
Grants and categoricals	270,202	220,810
General revenue:		
State foundation allowance	1,033,715	1,133,952
Other	57,206	30,849
Total revenues	<u>1,362,509</u>	<u>1,394,892</u>
Function/Program Expenses		
Instruction	384,611	501,697
Support	956,857	824,836
Community services	0	102,745
Total expenses	<u>1,341,468</u>	<u>1,429,278</u>
Change in Net Position	<u>\$ 21,041</u>	<u>\$ (34,386)</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$1,341,468. Certain activities were partially funded from those who benefited from the programs, \$1,386, or by the other governments and organizations that subsidized certain programs with grants and categoricals of \$270,202. We paid for the remaining "public benefit" portion of our governmental activities with \$1,033,715 in State Foundation Allowance and with our other revenues, such as interest and entitlements.

The High School had an increase in net position of \$21,041. The major change in net position was the elimination of the on site childcare center at the end of the 2011-2012 school year and the building purchase in June 2013.

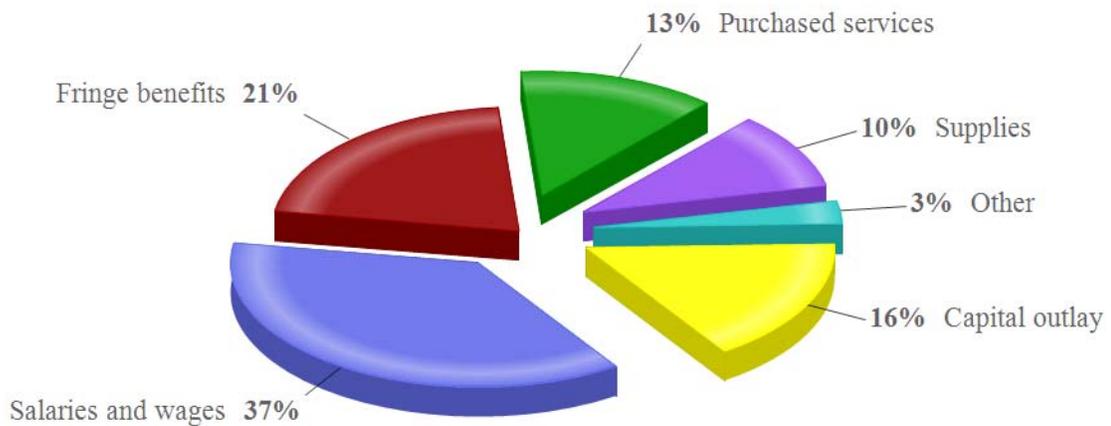
The High School's Funds

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

BAY-ARENAC COMMUNITY HIGH SCHOOL
Management's Discussion and Analysis
For the Year Ended June 30, 2013

As the graph below illustrates, the largest portions of General Fund expenditures are for salaries and fringe benefits. The High School by nature is a labor intensive organization.

Expenditures



Expenditures by Object	<u>2013</u>	<u>2012</u>
Salaries and wages	\$ 598,092	\$ 675,795
Fringe benefits	328,909	442,827
Purchased services	198,985	149,694
Supplies	161,213	105,959
Capital outlay	250,000	0
Other	54,269	55,003
Total	<u>\$ 1,591,468</u>	<u>\$ 1,429,278</u>

Expenditures have increased by \$162,190 from the prior year.

BAY-ARENAC COMMUNITY HIGH SCHOOL
 Management's Discussion and Analysis
For the Year Ended June 30, 2013

General Fund Budgetary Highlights

Over the course of the year, the High School revises its budget to reflect 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 High School'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 original budget were as follows:

- Budgeted revenues increased due to increase in Title monies, flood insurance reimbursement money, and WIA.
- Budgeted expenditures increased due to capital assets, Title expenses, expenses related to the September flood in the building, Technology and WIA.

Capital Assets

At June 30, 2013, the High School had \$250,000 invested in land and a building.

	2013	2012
Land	\$ 50,000	\$ 0
Building and improvements	200,000	0
Total capital assets	250,000	0
Less accumulated depreciation	0	0
Net capital assets	\$ 250,000	\$ 0

This year's additions of \$250,000 were for the new school building and the related land. No debt was issued for these additions.

We anticipate expending up to \$200,000 on remodeling and refurbishing of the newly acquired building.

Factors Expected to have an Effect on Future Operations

Our elected Board and administration consider many factors when setting the High School's 2014 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2014 fiscal year budget was adopted in June 2013, based on an estimate of students that will be enrolled in September 2013. Under State law, the High School cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2013-2014 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2014 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the High School to amend the budget if actual district resources are not sufficient to fund original appropriations.

BAY-ARENAC COMMUNITY HIGH SCHOOL
Management's Discussion and Analysis
For the Year Ended June 30, 2013

Since the High School's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to High Schools. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation until 2013-2014.

Another factor that will have an effect on future operations is the purchase of our own building in June of 2013. Building purchase will result in no future lease expenditures and will afford us the opportunity to lease out some space to bring in revenue. Because our relocation was one of only a few blocks, our state aid foundation allowance remains unaffected.

A final note on future operations: The High School's staff members are paid approximately $\frac{1}{2}$ - $\frac{3}{4}$ the salary that their counterparts earn in traditional districts and no raises were received for 2012-2013. The continued increase in the costs of providing quality medical benefits for the staff is a concern

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Superintendent
Bay-Arenac Community High School
1608 Hudson
Essexville, MI 48732

BAY-ARENAC COMMUNITY HIGH SCHOOL
Statement of Net Position
June 30, 2013

	Governmental Activities
<u>Assets</u>	
Cash and investments	\$ 153,532
Receivables - net:	
Internal balances	3,000
Due from other governmental units	282,413
Prepaid expenses	102,896
Capital assets less accumulated depreciation	250,000
Total assets	791,841
 <u>Liabilities</u>	
Accounts payable	91,295
Accrued payroll and other liabilities	113,586
Unearned revenue	46,025
Total liabilities	250,906
 <u>Net Position</u>	
Net investment in capital assets	200,000
Unrestricted	340,935
Total net position	\$ 540,935

See accompanying notes to financial statements.

BAY-ARENAC COMMUNITY HIGH SCHOOL
Statement of Activities
For the Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
Primary government - Governmental activities:				
Instruction	\$ 384,611	\$ 0	\$ 270,202	\$ (114,409)
Support	956,857	1,386	0	(955,471)
Total governmental activities	\$ 1,341,468	\$ 1,386	\$ 270,202	(1,069,880)
General revenues:				
State aid not restricted for specific purposes				1,033,715
Interest and investment earnings				358
Other				56,848
Total general revenues				1,090,921
Change in net position				21,041
Net position - beginning of year				519,894
Net position - end of year				\$ 540,935

See accompanying notes to financial statements.

BAY-ARENAC COMMUNITY HIGH SCHOOL
 Governmental Funds
 Balance Sheet
June 30, 2013

	<u>General</u>
<u>Assets</u>	
Cash and investments	\$ 153,532
Receivables - net:	
Due from other funds	3,000
Due from other governmental units	282,413
Prepaid expenditures	102,896
Total assets	\$ 541,841
<u>Liabilities and Fund Balance</u>	
<u>Liabilities</u>	
Accounts payable	\$ 91,295
Accrued payroll and other liabilities	113,586
Unearned revenue	46,025
Total liabilities	250,906
<u>Fund Balance</u>	
Nonspendable - prepaid expenditures	102,896
Assigned for technology	15,000
Unassigned	173,039
Total fund balance	290,935
Total liabilities and fund balance	\$ 541,841

See accompanying notes to financial statements.

BAY-ARENAC COMMUNITY HIGH SCHOOL
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2013

Total fund balance - governmental funds	\$ 290,935
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 are not reported in the funds	
Cost of the capital assets	<u>250,000</u>
Total net position - governmental activities	<u>\$ 540,935</u>

See accompanying notes to financial statements.

BAY-ARENAC COMMUNITY HIGH SCHOOL
 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2013

	<u>General</u>
<u>Revenues</u>	
Local sources	\$ 58,592
State sources	1,033,715
Federal sources	270,202
Total revenues	1,362,509
<u>Expenditures</u>	
Current:	
Instruction	384,611
Support services	926,894
Capital outlay	250,000
Total expenditures	1,561,505
Excess (deficiency) of revenues over expenditures	(198,996)
<u>Other Financing Sources (Uses)</u>	
Payments to other governmental units	(29,963)
Net change in fund balance	(228,959)
Fund balance - beginning of year	519,894
Fund balance - end of year	\$ 290,935

See accompanying notes to financial statements.

BAY-ARENAC COMMUNITY HIGH SCHOOL
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2013

Net change in fund balance - total governmental funds	\$ (228,959)
Amounts reported for governmental activities in the statements of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Capital outlay	<u>250,000</u>
Change in net position of governmental activities	<u>\$ 21,041</u>

See accompanying notes to financial statements.

BAY-ARENAC COMMUNITY HIGH SCHOOL
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2013

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and investments	\$ 2,415
Due from student groups	585
	<u>3,000</u>
<u>Liabilities</u>	
Due to other funds	<u>\$ 3,000</u>

See accompanying notes to financial statements.

BAY-ARENAC COMMUNITY HIGH SCHOOL
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Bay-Arenac Community High School (the "High School") conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the High School:

Reporting Entity

The High School is governed by an elected Board of Directors. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the High School's reporting entity, and which organizations are legally separate component units of the High School. The High School has no component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the High School's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items are not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even through the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

BAY-ARENAC COMMUNITY HIGH SCHOOL
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted State aid.

Fund-based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The High School reports the following major governmental funds:

General Fund - The General Fund is used to record the general operations of the High School pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Assets, Liabilities, and Net Position or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

BAY-ARENAC COMMUNITY HIGH SCHOOL
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both district-wide and fund financial statements.

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 \$2,000 and any asset susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The High School does not have infrastructure-type assets.

Building and improvements are depreciated using the straight-line method over the following useful lives:

Building and improvements	5-50 years
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Fund Equity - The fund balance classifications are reported on the extent to which a government is bound to observe constraints imposed on the use of the resources in governmental funds. The fund balances are classified as nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance represents amounts that are not in a spendable form. The High School's nonspendable fund balance represents inventories and prepaid expenditures. In the fund financial statements, governmental funds report restrictions on fund balances for amounts that are legally restricted by outside parties for a specific purpose. Committed fund balance represents funds formally set aside by the High School for a particular purpose. The use of committed funds would be approved by the Board of Education through the budget process or official board action.

Assigned fund balance would represent tentative management plans that are subject to change which at the present time the High School has an assigned fund balance of \$15,000 to be utilized for the replacement, repair and/or acquisition of computers and related technology supplies and/or materials. The High School's intent would be to spend uncommitted/unassigned funds prior to the use of committed funds. When both restricted and unrestricted resources are available for use, it is the High School's policy to use restricted resources first, then unrestricted resources as they are needed.

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

BAY-ARENAC COMMUNITY HIGH SCHOOL
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition to liabilities, the statement of net position will sometimes report a separate section for *deferred inflows of resources*, this represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The High School has no items that qualify for reporting in this category.

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

State Aid - For the fiscal year ended June 30, 2013, the State of Michigan adopted 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. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to High Schools based on information supplied by the districts. For the year ended June 30, 2013, the foundation allowance was based on the average pupil membership counts taken in February and September of 2012.

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 payments from October 2012 - August 2013. The local revenue is recognized as outlined in Note 1. Amounts receivable from the State of Michigan at June 30, 2013 relating to state aid is \$205,695.

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

Events Occurring After Reporting Date

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 the date of the accompanying independent auditors' report, which is the date the financial statements were available to be issued.

NOTE 2 - BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of High Schools prior to the expenditure of monies in a fiscal year.

BAY-ARENAC COMMUNITY HIGH SCHOOL
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 2 - BUDGETS (CONTINUED)

Bay-Arenac Community High School follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The High School's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end and therefore cancels all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

During the year ended June 30, 2013, the High School recognized unfavorable variances in certain budgetary funds as follows:

<u>Fund/Function</u>	<u>Budgeted Amount</u>	<u>Amount</u>	<u>Variance</u>
Revenues:			
General Fund:			
State sources	\$ 1,077,362	\$ 1,033,715	\$ (43,647)
Federal sources	317,572	270,202	(47,370)
Expenditures:			
General Fund:			
Business services	37,968	38,158	(190)
Capital outlay	200,000	250,000	(50,000)
Payments to other governmental units	29,862	29,963	(101)

NOTE 3 - CASH AND INVESTMENTS

State statutes and the High School's investment policy authorize the High School to make deposits in the accounts of federally insured banks, credit unions and savings and loan associations that have an office in Michigan; the High School is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds and investment pools that are composed of authorized investment vehicles. The High School's deposits are in accordance with statutory authority.

BAY-ARENAC COMMUNITY HIGH SCHOOL
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

At year-end, the High School's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Investments	\$ 153,532	\$ 2,415	\$ 155,947

The breakdown between deposits and investments for the High School is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 155,847
Petty cash and cash on hand	<u>100</u>
Total	<u>\$ 155,947</u>

Interest Rate Risk

In accordance with its investment policy, the High School 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.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the High School's deposits may not be returned to it. As of June 30, 2013, \$0 of the High School's bank balance of \$193,439 was exposed to custodial credit risk because it was uninsured and uncollateralized.

BAY-ARENAC COMMUNITY HIGH SCHOOL
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 4 - CAPITAL ASSETS

A summary of changes in governmental capital assets follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Disposals and</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2013</u>
Assets not being depreciated:				
Land	\$ 0	\$ 50,000	\$ 0	\$ 50,000
Capital assets being depreciated:				
Building and improvements	0	200,000	0	200,000
Accumulated depreciation:				
Building and improvements	0	0	0	0
Net capital assets being depreciated	<u>0</u>	<u>200,000</u>	<u>0</u>	<u>200,000</u>
Net capital assets	<u>\$ 0</u>	<u>\$ 250,000</u>	<u>\$ 0</u>	<u>\$ 250,000</u>

Depreciation expense for fiscal year ended June 30, 2013 was \$0. Included in accounts payable is a balance of \$50,000 that is connected to the current year acquisition of real estate capital assets. This amount is due on December 15, 2013.

NOTE 5 - INTERFUND TRANSFERS AND BALANCES

There were no interfund transfers during the fiscal year ended June 30, 2013. A summary of inter-fund receivable and payable balances at June 30, 2013 is as follows:.

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
General	\$ 3,000	\$ 0
Agency	<u>0</u>	<u>3,000</u>
	<u>\$ 3,000</u>	<u>\$ 3,000</u>

NOTE 6 - RECEIVABLES

Receivables at June 30, 2013 consist of intergovernmental grants.

A summary of the intergovernmental receivables (due from other governmental units) follows:

State aid and grants	\$ 205,695
Federal grants and other	<u>76,718</u>
	<u>\$ 282,413</u>

BAY-ARENAC COMMUNITY HIGH SCHOOL
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 7 - UNEARNED REVENUE

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also reflect unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, grant and categorical aid payments received prior to meeting all eligibility requirements amounted to \$46,025.

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

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

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

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

Benefit Provisions - Pension

Introduction

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

BAY-ARENAC COMMUNITY HIGH SCHOOL
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

Pension Reform 2010

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

Pension Reform 2012

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

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

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

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

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

BAY-ARENAC COMMUNITY HIGH SCHOOL
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

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

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

Funding Policy

Member Contributions

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

BAY-ARENAC COMMUNITY HIGH SCHOOL
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

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

Employer Contributions

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

BAY-ARENAC COMMUNITY HIGH SCHOOL
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

Fiscal Year Ending June 30,	Contributions to MPSERS
2013	\$ 148,037
2012	\$ 147,529
2011	\$ 115,788

Included in the amounts paid above, the High School received \$11,294 of section 147(c) State Aid for the sole purpose of making supplemental payments to MPSERS. The High School has recorded this amount as state revenue and additional pension expenditures/expenses for the year ended June 30, 2013.

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

BAY-ARENAC COMMUNITY HIGH SCHOOL
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (CONTINUED)

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

Public School Employee Pension Rates (FYE Sept. 30th)	Fiscal Year 2013				Fiscal Years 2012 and 2011					
	4 months ended 1/31/2013				FY 2011 - 2012		Eleven months ended 9/30/11		One month ended 10/31/2010	
	First worked before 7/1/10	First worked 6/30/10 and 9/3/12	Pension Plus and First worked after 9/3/12	Elected DC and First worked after 9/3/12	First worked before 7/1/10	First worked after 6/30/10	First worked before 7/1/10	First worked after 6/30/10	First worked before 7/1/10	First worked after 6/30/10
Pension Normal Cost (Prefunded)	3.47 %	2.24 %	2.24 %	0.00 %	3.47 %	2.24 %	3.74 %	2.24 %	3.74 %	2.24 %
Pension Unfunded Accrued Liability	11.42 %	11.42 %	11.42 %	11.42 %	12.49 %	12.49 %	8.42 %	8.42 %	8.42 %	8.42 %
Early Retirement Incentive Program	1.36 %	1.36 %	1.36 %	1.36 %	0.00 %	0.00 %	N/A	N/A	N/A	N/A
Pension Total Rate	16.25 %	15.02 %	15.02 %	12.78 %	15.96 %	14.73 %	12.16 %	10.66 %	12.16 %	10.66 %
Retiree Health Care Contribution (Cash basis)	0.93 %	0.93 %	0.00 %	0.00 %	5.50 %	5.50 %	5.50 %	5.50 %	7.25 %	7.25 %
Surcharge due to Injunction	8.18 %	8.18 %	8.18 %	8.18 %	3.00 %	3.00 %	3.00 %	3.00 %	N/A	N/A
Health Total Rate	9.11 %	9.11 %	8.18 %	8.18 %	8.50 %	8.50 %	8.50 %	8.50 %	7.25 %	7.25 %
Total	25.36 %	24.13 %	23.20 %	20.96 %	24.46 %	23.23 %	20.66 %	19.16 %	19.41 %	17.91 %

BAY-ARENAC COMMUNITY HIGH SCHOOL
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

Benefit Provisions - Other Postemployment

Introduction

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

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

Retiree Healthcare Reform of 2012

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

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

BAY-ARENAC COMMUNITY HIGH SCHOOL
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

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

1. Retirees with at least 21 years of service, who terminate employment after October 31, 1980, with vested deferred benefits, are eligible for subsidized employer paid health benefit coverage.
2. A delayed subsidy applies to retirees who became a member of the retirement system before July 1, 2008 and who purchased service credit on or after July 1, 2008. Such individuals are eligible for premium subsidy benefits at age 60 or when they would have been eligible to retire without having made a service purchase, whichever comes first. They may enroll in the insurances earlier, but are responsible for the full premium until the premium subsidy begins.

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

- They will be automatically enrolled in a 2% employee contribution into a 457 account as of their date of hire, earning them a 2% employer match into a 401(k) account.
- They will receive a credit into a Health Reimbursement Account (HRA) at termination if they have at least 10 years of service at termination. The credit will be \$2,000 for participants who are at least 60 years of age at termination or \$1,000 for participants who are less than 60 years of age at termination.

BAY-ARENAC COMMUNITY HIGH SCHOOL
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

Other Information

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

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

NOTE 9 - GRANTS

The High School receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the High School's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the High School administration believes such disallowance, if any, would be immaterial.

BAY-ARENAC COMMUNITY HIGH SCHOOL
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 10 - ECONOMIC DEPENDENCY

The High School received approximately 76% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the High School, the High School is considered to be economically dependent.

NOTE 11 - LEASE

The High School has entered into an agreement to lease the school premises through June 2014. The lease expense for year ended June 30, 2013 was \$43,000. The High School also entered into an agreement to lease the printers and copiers. Minimum future lease payments under noncancelable leases after June 30, 2013 are as follows:

2014	\$	60,597
2015		16,597
2016		4,816
2017		741
	<u>\$</u>	<u>82,751</u>

NOTE 12 - CONTRACTUAL COMMITMENTS

The High School has entered into an agreement with Bay-Arenac ISD to perform management services that include payroll, additional curricular and administrative services. The amount paid to Bay-Arenac ISD for these services during the year ended June 30, 2013 was \$29,963.

NOTE 13 - NEW ACCOUNTING STANDARDS

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

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

Summary:

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

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

BAY-ARENAC COMMUNITY HIGH SCHOOL
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 14 - UPCOMING ACCOUNTING PRONOUNCEMENT

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

BAY-ARENAC COMMUNITY HIGH SCHOOL
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
Local sources	\$ 6,740	\$ 55,344	\$ 58,592	\$ 3,248
State sources	1,109,528	1,077,362	1,033,715	(43,647)
Federal sources	231,970	317,572	270,202	(47,370)
Interdistrict and other sources	7,000	0	0	0
Total revenues	<u>1,355,238</u>	<u>1,450,278</u>	<u>1,362,509</u>	<u>(87,769)</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	391,830	333,125	309,728	23,397
Added needs	82,336	140,879	74,883	65,996
Support services:				
Pupil	291,321	313,348	293,353	19,995
Instructional staff	176,909	242,199	233,751	8,448
General administrative	232,521	228,659	216,022	12,637
Business services	800	37,968	38,158	(190)
Operations and maintenance	137,719	130,719	124,117	6,602
Transportation	10,000	17,659	10,423	7,236
Information services	0	10,570	10,570	0
Other	500	500	500	0
Community services	0	88	0	88
Capital outlay	0	200,000	250,000	(50,000)
Total expenditures	<u>1,323,936</u>	<u>1,655,714</u>	<u>1,561,505</u>	<u>94,209</u>
Excess (deficiency) of revenues over expenditures	31,302	(205,436)	(198,996)	6,440
<u>Other Financing Sources (Uses)</u>				
Payments to other governmental units	(29,862)	(29,862)	(29,963)	(101)
Net change in fund balance	1,440	(235,298)	(228,959)	6,339
Fund balance - beginning of year	<u>519,894</u>	<u>519,894</u>	<u>519,894</u>	<u>0</u>
Fund balance - end of year	<u>\$ 521,334</u>	<u>\$ 284,596</u>	<u>\$ 290,935</u>	<u>\$ 6,339</u>



WEINLANDER FITZHUGH

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

Independent Auditor's Report

November 11, 2013

Board of Education
Bay-Arenac Community High School
Essexville, Michigan

We have audited, in accordance with U.S. generally accepted auditing standards 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 Bay-Arenac Community High School (High School), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise Bay-Arenac Community High School' basic financial statements and have issued our report thereon dated November 11, 2013.

Internal Control Over Financial Reporting

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

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WEINLANDER FITZHUGH

Board of Education
Bay-Arenac Community High School
November 11, 2013

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 Bay-Arenac Community High School'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 High School'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 High School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weinlander Fitzhugh