



NILES COMMUNITY SCHOOLS
FINANCIAL STATEMENTS
Year Ended June 30, 2014

NILES COMMUNITY SCHOOLS

NILES, MICHIGAN

TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE NUMBER</u>
Independent Auditor's Report.....	1-3
Management's Discussion and Analysis.....	4-10
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Position.....	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	13
Reconciliation of Balance Sheet of Governmental Funds to Net Position.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	15
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities.....	16
Fiduciary Fund:	
Statement of Fiduciary Assets and Liabilities.....	17
Notes to Financial Statements.....	18-32
REQUIRED SUPPLEMENTAL INFORMATION	
Budgetary Comparison Schedule - General Fund.....	33
OTHER SUPPLEMENTAL INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds.....	34
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds.....	35
Capital Projects Funds:	
Combining Balance Sheet.....	36
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	37
Agency Fund:	
Statement of Changes in Assets and Liabilities.....	38
Schedules of Principal Requirements:	
Long Term Debt - Qualified Zone Academy Bonds.....	39
FEDERAL AWARDS SUPPLEMENTAL INFORMATION	
Issued under separate cover	



INDEPENDENT AUDITOR'S REPORT

September 24, 2014

Board of Education
Niles Community Schools
Niles, 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 Niles Community Schools, as of and for the year ended June 30, 2014, 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 basic 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 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 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.

Opinion

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

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule 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, which 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Niles Community Schools' basic financial statements. The other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated September 24, 2014, on our consideration of Niles Community Schools' internal control over financial reporting and 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* and should be considered in assessing Niles Community Schools' internal control over financial reporting and compliance.

Scarfone & Co., P.C.

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

As management of the Niles Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the notes and financial statements, which follow this section.

As with other sections of this financial report, the information contained within this MD&A should be considered only a part of a greater whole. The readers of this statement should take time to read and evaluate all sections of this report, including the footnotes and the other Required Supplemental Information ("RSI") that is provided in addition to this MD&A.

FINANCIAL HIGHLIGHTS

The District's net position is \$8,033,431 as of June 30, 2014, according to the Statement of Net Position. This represents a decrease of \$700,948 or 8% as compared to last year.

\$2,706,024 of the District's net position is classified as unrestricted and may be used to meet the District's ongoing obligations.

Total costs of all of the District's programs were \$38.4 million. An increase of approximately \$1.2 million from last year.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$2.6 million, or 7% of total general fund expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Niles Community Schools' finances, in a manner similar to a private-sector business.

1) The Statement of Net Position

This statement reports all assets and liabilities of the District as of June 30, 2014. The difference between total assets and total liabilities is reported as "net position." Increases in net position generally indicates an improvement in financial position while a decrease may indicate a deterioration of financial position.

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2014

OVERVIEW OF FINANCIAL STATEMENTS-CONCLUDED

2) The Statement of Activities

This statement serves the purpose of the traditional income statement. It provides consolidated reporting of the results of all activities of the District for the year ended June 30, 2014. Changes in net position are recorded in the period in which the underlying event takes place, which may differ from the period in which cash is received or disbursed. The Statement of Activities displays the expense of the District's various programs net of the related revenues, as well as a separate presentation of revenues available for general purposes.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by intergovernmental revenues (pupil allowance), taxes and other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The major governmental activities of Niles Community Schools include major instructional and instructional support activities. Other relevant governmental funds include Capital Projects and the Food Service Fund.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other Michigan schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual."

Governmental funds

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

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the school district's government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The District has one fiduciary fund, the School Activity Agency Fund.

Notes to the financial statements

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

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information. The combining statements referred to earlier in connection with nonmajor funds and fiduciary funds are presented immediately after the basic financial statements. Also included are budget comparisons for the general fund.

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The financial analysis will focus on the net position (Table 1) and changes in net position (Table 2) of the District's governmental activities.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At June 30, 2014, the District's assets exceeded liabilities by \$8,033,431 a decrease from 2013 of \$700,948.

A portion of the District's net position, \$732,364, represents resources subject to external restrictions on how they may be used.

Another portion of the District's net position, \$4.6 million reflects its investment in capital assets less depreciation and any related debt used to acquire those assets that is still outstanding. The District uses capital assets to provide services which in turn leave these assets not available for future spending.

Table 1
Statement of Net Position
Governmental Activities

	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 10,931,559	\$ 12,155,969
Capital assets (net)	<u>6,227,043</u>	<u>6,037,317</u>
Total assets	<u>17,158,602</u>	<u>18,193,286</u>
Current liabilities	7,258,142	7,372,763
Long-term liabilities outstanding	<u>1,867,029</u>	<u>2,086,144</u>
Total liabilities	<u>9,125,171</u>	<u>9,458,907</u>
Net investment in capital assets	4,595,043	4,201,317
Restricted	732,364	1,349,999
Unrestricted	<u>2,706,024</u>	<u>3,183,063</u>
Total net position	<u>\$ 8,033,431</u>	<u>\$ 8,734,379</u>

At the end of the current fiscal year the District is able to report positive balances in all three categories of net position.

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS- CONCLUDED

Table 2
Changes in Net Position

	<u>2014</u>	<u>2013</u>
Program Revenues:		
Charges for services	\$ 1,879,228	\$ 1,964,279
Operating grants and contributions	5,715,379	9,070,539
General Revenues:		
Property taxes	3,664,610	3,603,591
Michigan State Aid	26,512,601	22,920,603
Delinquent taxes	(247,557)	(3,080)
Other revenues	219,039	287,964
Total revenues	<u>37,743,300</u>	<u>37,843,896</u>
Expenses:		
Instruction	20,880,899	20,170,155
Support	14,748,653	14,051,717
Community services	549,022	581,637
Food service	1,655,969	1,823,840
Interest on short & long-term debt	50,090	49,979
Athletics	559,615	565,420
Total expenses	<u>38,444,248</u>	<u>37,242,748</u>
Change in net position	(700,948)	601,148
Beginning net position	<u>8,734,379</u>	<u>8,133,231</u>
Ending net position	<u>\$ 8,033,431</u>	<u>\$ 8,734,379</u>

GOVERNMENTAL ACTIVITIES

Niles Community Schools is heavily reliant on state aid, grants and property taxes to support operations. State aid provided 70%, grants 15% and taxes 10% of the school district's total revenues. Also, note that charges for services represent 5% of governmental operating revenues. This means that the District relies on state taxpayers and federal revenues to cover 95% of the governmental activities. For school districts, in general, self-generated revenue is a relatively small percentage of total revenues.

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2014

The District's largest category of functional expenses is related to the direct instruction of regular education, special education and other students. Instructional expenditures comprised \$20.9 million or 54% of the total expenses. These costs include teacher salaries and benefits, textbooks and supplies used in instruction.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

As noted earlier, Niles Community Schools uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds

The purpose of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$3,673,417. Of this amount, \$2,628,335 (72%) is unassigned fund balance, which is available for spending at the District's discretion. The unassigned fund balance will be used at the discretion of the School Board for revenue shortfalls, capital projects and any other unexpected expenditures.

The general fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,628,335, a decrease of \$132,227.

Individual fund data for each of the nonmajor governmental funds is provided in the form of the combining statements in the Supplemental Information section.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. The basic fiduciary funds financial statements can be found later in this report.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District adopts an annual appropriated budget for its general fund. The final budget expenditures were more than the original budget expenditures by \$2.3 million. The majority of this increase was due to the State's retirement system flow through of both revenues and expenditures. The remaining increase is due mostly to an increase in grant activity for both revenues and expenditures. An amended original budget can be explained by a current budget year overrun. The general fund budget is reviewed throughout the year and is revised twice a year with the approval of the School Board. At the end of the fiscal year the actual expenditures are projected and the budget is amended to prevent any budget overruns. The District tries to work within its original budget by increasing categories that will exceed budget while decreasing other categories to cover these overruns. If the transferring will not cover these expenditures, then the District must appropriate from its fund balance.

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2014

GENERAL FUND BUDGETARY HIGHLIGHTS- CONCLUDED

The actual revenues are \$148,885 over budget and expenditures are \$149,201 over budget. The \$148,885 increase includes overages in various accounts. The over spending of the expenditures can be attributed to overages in various accounts. In all, the District's budget has been prepared on a conservative basis and provided adequate resources to fund services provided. All schools have limited resources and, thus limited numbers of programs and services that can be provided. We are proud to say that we have done well in terms of maintaining a solid financially sound organization by spending well within our means.

CAPITAL ASSETS

The District's investment in capital assets for its governmental activities at June 30, 2014, amounts to \$6,227,043 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, automobiles and equipment. A detailed note of these capital assets can be found in the Notes to the Financial Statements (Note D).

Major capital asset additions during the current fiscal year included the following:

- Improvements to school buildings within the school district

Table 3
Capital Assets-Governmental Activities

	<u>2014</u>	<u>2013</u>
Capital assets not being depreciated:		
Land	\$ 151,500	\$ 151,500
Construction in progress	-	1,936,839
	<u>151,500</u>	<u>2,088,339</u>
Capital assets being depreciated:		
Building	18,380,343	15,924,436
Improvements other than buildings	2,292,006	2,292,006
Equipment	1,247,522	1,247,522
Vehicles	489,927	489,927
	<u>22,409,798</u>	<u>19,953,891</u>
Less accumulated depreciation for:		
Buildings	12,503,102	12,229,017
Improvements other than buildings	2,211,666	2,192,351
Equipment	1,155,433	1,128,912
Vehicles	464,054	454,633
	<u>16,334,255</u>	<u>16,004,913</u>
Total capital assets being depreciated, net	<u>6,075,543</u>	<u>3,948,978</u>
Total capital assets, net	<u>\$ 6,227,043</u>	<u>\$ 6,037,317</u>

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONCLUDED

June 30, 2014

DEBT ADMINISTRATION

At June 30, 2014, the District had debt outstanding for Qualified Zone Academy Bonds in the amount of \$1,632,000.

In addition to bonded debt, the school district has incurred liabilities for early retirement obligations and compensated absences earned by employees.

A detailed listing of this debt can be found in the Notes to the Financial Statements (Note G).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economic outlook for schools in Michigan has started to stabilize. By the end of the 13-14 school year multi-year bargaining agreements have been established with all negotiating groups. Through solid financial planning, stabilization in retirement rates, as well as small increases in state aid for the 14-15 school year, the upcoming years look to be more stable. The District has decreased the Fund Balance this year by \$278,262. The Fund Balance is still well below, currently 8% of expenditures, the recommended amount is 15%.

The budget for 2014-2015 includes modest increases for both expenditures and revenues.

REQUESTS FOR FINANCIAL INFORMATION

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

NILES COMMUNITY SCHOOLS

STATEMENT OF NET POSITION

June 30, 2014

ASSETS

Current Assets:

Cash and investments	\$ 4,476,544
Accounts receivable	26,527
Intergovernmental receivable	6,095,471
Prepaid expenses	279,053
Inventories	33,665
Other current assets	20,299
Total current assets	<u>10,931,559</u>

Noncurrent Assets:

Capital assets not being depreciated	151,500
Capital assets, being depreciated, net	6,075,543
Total noncurrent assets	<u>6,227,043</u>

Total Assets **\$ 17,158,602**

LIABILITIES

Current Liabilities:

Accounts payable	\$ 487,087
Accrued wages and benefits payable	2,000,379
State aid anticipation note	2,960,059
Accrued expenses	403,201
Intergovernmental payable	1,006,451
Unearned revenue	400,965

Long-term Liabilities:

Due within one year	439,029
Due in more than one year	<u>1,428,000</u>

Total Liabilities 9,125,171

NET POSITION

Net investment in capital assets	4,595,043
Restricted for capital projects	730,814
Restricted for food service	1,550
Unrestricted	<u>2,706,024</u>

Total Net Position **\$ 8,033,431**

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

STATEMENT OF ACTIVITIES

Year ended June 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u>		Governmental Activities Net (Expense) Revenue and Changes in Net Position
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$ 20,880,899	\$ 198,176	\$ 5,715,379	\$ (14,967,344)
Support services	14,748,653	45,612	-	(14,703,041)
Community services	549,022	-	-	(549,022)
Athletics	559,615	66,764	-	(492,851)
Food service	1,655,969	1,568,676	-	(87,293)
Interest expense	50,090	-	-	(50,090)
Total Governmental Activities	<u>\$ 38,444,248</u>	<u>\$ 1,879,228</u>	<u>\$ 5,715,379</u>	<u>\$ (30,849,641)</u>
General Revenues:				
				3,111,945
Property taxes levied for general purposes				552,665
Property taxes levied for capital projects				26,512,601
State of Michigan aid, unrestricted				1,386
Interest and investment earnings				(247,557)
Delinquent taxes				217,653
Other revenues				
				<u>30,148,693</u>
				(700,948)
				<u>8,734,379</u>
				<u>\$ 8,033,431</u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2014

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and investments	\$ 3,751,986	\$ 724,558	\$ 4,476,544
Accounts receivable	26,527	-	26,527
Due from other funds	30,215	115,744	145,959
Due from other governments	5,923,301	172,170	6,095,471
Prepaid expenses	279,053	-	279,053
Inventories	-	33,665	33,665
Other assets	20,299	-	20,299
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 10,031,381	\$ 1,046,137	\$ 11,077,518
	<hr/>	<hr/>	<hr/>
<u>LIABILITIES</u>			
Accounts payable	\$ 237,194	\$ 249,893	\$ 487,087
Payroll payable	2,000,379	-	2,000,379
Accrued expenses	403,201	-	403,201
Intergovernmental payable	1,006,451	-	1,006,451
Due to other funds	115,744	30,215	145,959
Short term liabilities	2,960,059	-	2,960,059
Unearned revenue	400,965	-	400,965
	<hr/>	<hr/>	<hr/>
Total Liabilities	7,123,993	280,108	7,404,101
	<hr/>	<hr/>	<hr/>
<u>FUND BALANCES</u>			
Nonspendable	279,053	33,665	312,718
Restricted	-	524,623	524,623
Committed	-	207,741	207,741
Unassigned	2,628,335	-	2,628,335
	<hr/>	<hr/>	<hr/>
Total Fund Balances	2,907,388	766,029	3,673,417
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	\$ 10,031,381	\$ 1,046,137	\$ 11,077,518
	<hr/>	<hr/>	<hr/>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL
FUNDS TO NET POSITION

June 30, 2014

Total Fund Balances - Governmental Funds \$ 3,673,417

Amounts reported for governmental activities on the statement
of net position are different as follows:

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

Cost of capital assets	\$	22,561,298	
Less, accumulated depreciation		<u>(16,334,255)</u>	6,227,043

Long term liabilities are not due and payable in the current
period and are therefore not reported in the governmental funds:

Bonds payable		(1,632,000)	
Compensated absences and severance pay		<u>(235,029)</u>	

Net Position of Governmental Activities \$ 8,033,431

NILES COMMUNITY SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year ended June 30, 2014

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Local sources:			
Property taxes	\$ 3,111,945	\$ 552,665	\$ 3,664,610
Tuition	73,944	-	73,944
Interest	1,208	178	1,386
Food sales	-	292,873	292,873
Athletic admissions	66,764	-	66,764
Other	376,760	20,010	396,770
Total local sources	<u>3,630,621</u>	<u>865,726</u>	<u>4,496,347</u>
State sources	28,289,516	77,636	28,367,152
Federal sources	3,094,734	1,178,157	4,272,891
Other sources	854,467	-	854,467
Total revenues	<u>35,869,338</u>	<u>2,121,519</u>	<u>37,990,857</u>
Expenditures:			
Current:			
Instruction	20,876,643	-	20,876,643
Support services	14,097,523	-	14,097,523
Athletics	559,615	-	559,615
Food services	-	1,639,552	1,639,552
Community services	549,022	-	549,022
Capital outlay	4,400	850,893	855,293
Debt Service:			
Principal repayment	16,320	187,680	204,000
Interest expense	44,077	6,013	50,090
Other	-	21,351	21,351
Total expenditures	<u>36,147,600</u>	<u>2,705,489</u>	<u>38,853,089</u>
Excess (deficiency) of revenues over expenditures	(278,262)	(583,970)	(862,232)
Fund Balances, Beginning of Year	<u>3,185,650</u>	<u>1,349,999</u>	<u>4,535,649</u>
Fund Balances, End of Year	<u><u>\$ 2,907,388</u></u>	<u><u>\$ 766,029</u></u>	<u><u>\$ 3,673,417</u></u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES

Year ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds \$ (862,232)

Amounts reported for governmental activities on the statement of activities are different as follows:

Some revenues in the governmental funds are deferred because they are not collected within the prescribed period after year-end. On the accrual basis, however, those revenues would be recognized, regardless of when they are collected:

Property taxes (247,557)

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

Depreciation	\$ (329,342)	
Capital outlay-over threshold	<u>519,068</u>	189,726

Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. 204,000

Decreases in compensated absences are reported as expenditures when financial resources are used in the governmental funds. 15,115

Change in Net Position of Governmental Activities \$ (700,948)

NILES COMMUNITY SCHOOLS

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

FIDUCIARY FUND

June 30, 2014

	<u>Agency Fund - Student Activities</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ <u>421,525</u>
Total Assets	\$ <u><u>421,525</u></u>
<u>LIABILITIES</u>	
Due to other funds	\$ 20,299
Due to student groups	<u>401,226</u>
Total Liabilities	\$ <u><u>421,525</u></u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Niles Community Schools District ("School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units and with the rules prescribed in the accounting manual by the Michigan Department of Education. A summary of significant policies adopted by the School District are as follows:

REPORTING ENTITY:

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board ("GASB") 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 School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District'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 segment 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. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FUND FINANCIAL STATEMENT PRESENTATION:

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

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FUND FINANCIAL STATEMENT PRESENTATION - CONTINUED:

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

When an expense is incurred for purposes for which both restricted and unrestricted net position of fund balance are available, it is the policy of the District to first apply restricted resources.

Fund Based Statements - Governmental fund financial statements are reported using 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 School District considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, 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 in the current fiscal period. All other revenue items are considered to be available only when cash is received by the District.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The District reports the following major governmental fund:

General Fund - The General Fund is the primary operating fund of the District and accounts for all revenues and expenditures of the District, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Additionally, the District reports the following fund types:

Special Revenue Funds - The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Food Service Fund is the only Special Revenue Fund maintained by the District.

Capital Projects Funds - The Capital Projects Funds are used to account for the accumulation of resources appropriated for capital outlay expenditures.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FUND FINANCIAL STATEMENT PRESENTATION - CONCLUDED:

Additionally, the District reports the following fund types - concluded:

Building and Site Fund - The Building and Site Capital Projects Fund accounts for the collection of property taxes related to a sinking fund millage approved by the taxpayers for the years 2008 through 2017. Such revenue can only be expended for allowable capital purposes in accordance with the initial ballot language.

The Building and Site Capital Projects Fund records capital projects activities funded with a sinking fund millage. For this fund, the District has complied with the applicable provisions of § 1212 of the Revised School Code.

Fiduciary Funds - The Fiduciary Fund is used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the Government-Wide financial statements. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The District presently maintains an Agency Fund to record the transactions of student and parent groups for school and school related purposes. The funds are segregated and held in trust for the student and parent groups.

BUDGETS AND BUDGETARY ACCOUNTING:

The District uses the following procedures in establishing the budgetary data reflected in the general purpose financial statements:

1. Prior to June 30, management of the District submits to the Board of Education a proposed operating budget for the fiscal year commencing July 1, of that year. The operating budget includes proposed revenues and expenditures for the General Fund and Special Revenue Fund.
2. Prior to July 1, the budget is legally enacted on an activity level basis through passage of a board resolution.
3. Budget amounts are reported in the basic financial statements as originally adopted or as amended by the Board of Education.
4. Budgets are adopted using the basis of accounting described above.

CASH AND CASH EQUIVALENTS:

Cash and cash equivalents are recorded at cost and include cash on hand, demand deposits and short-term investments with a maturity of three months or less.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

INVESTMENTS:

Investments are recorded at cost which approximates market value.

The types of investments authorized by resolution of the Board are as follows:

Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State of Michigan.

Certificates of deposit and savings receipts issued by a state or national bank, savings accounts of a state, national bank or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in the State of Michigan.

Commercial paper rated prime at the time of purchase and maturing no more than 270 days after the date of purchase.

RECEIVABLES AND PAYABLES:

In general, outstanding balances between funds are reported as "due from/due to other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The District considers all receivables to be fully collectible: accordingly, no allowance for uncollectible amounts is recorded.

INVENTORIES:

Inventories are stated at the lower of cost (first-in, first-out) or market. Inventories recorded in the Food Service Fund consist of food and paper goods. Additionally such inventories include donated USDA commodities inventories received which are valued at fair market value at the date of donation.

PROPERTY TAXES:

Property taxes are recognized as revenue on a levy year basis. The 2013 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within sixty days after the year end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues in the year collected. Property taxes are levied December 1 on the assessed value of the property located in the School District as of the preceding December 31. Assessed values are established annually by the various governmental units within the District and are equalized by the State of Michigan.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

STATE AID:

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenues 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, monies received which have not been expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

PREPAID ITEMS

Payments to vendors for services that will benefit periods beyond the District's fiscal year-end are recorded as prepaid items in both government-wide and fund financial statements.

CAPITAL ASSETS:

Capital assets, which include land, buildings, equipment, and vehicles are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the district as assets with an individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at 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 life are not capitalized. The District does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method of depreciation over the following useful lives:

Land improvements	20 years
Buildings	50 years
Buses and other vehicles	8 years
Furniture and other equipment	5-20 years

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

SALARIES PAYABLE AND ACCRUED EMPLOYEE BENEFITS:

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the District who do not work during the summer months when school is not in session but have elected to have their salaries paid over an entire year. The liability for accrued retirement and employer share of FICA related to the salaries payable has been recorded, as well as the liability for employee health insurance for the months of July and August.

COMPENSATED ABSENCES:

The liability for compensated absences reported in the government-wide statements consists of earned but unused accumulated vacation, sick leave, and retirement benefits. The liability has been calculated using the vesting method, in which leave amounts for employees who are currently eligible to receive termination payments in the future and other employees who are expected to become eligible to receive such payments upon termination are included. The liability in the fund financial statements is the current portion, if any, of unpaid compensated absences.

LONG-TERM OBLIGATIONS:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

FUND BALANCE:

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by outside parties, constitutional provisions or enabling legislation. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Education. A formal resolution of the Board of Education is required to establish, modify, or rescind a fund balance commitment. The District reports assigned fund balance for amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

When the District incurs expenditures for purposes for which various fund balance classifications can be used, it is the policy of the District to use restricted fund balance first, then committed fund balance, assigned fund balance and finally unassigned fund balance.

The Board of Education has adopted a minimum fund balance policy that states that the District will maintain a minimum fund balance equal to five percent of the prior year's actual expenditures and operating transfers. Deficiencies resulting in a fund balance of less than the minimum five percent shall be replenished over a period not to exceed three years.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONCLUDED:

ESTIMATES:

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America 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 expenditures during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND INVESTMENTS:

At June 30, 2014, the District's cash was reported in the basic financial statements as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and cash equivalents	\$ <u>4,476,544</u>	\$ <u>421,525</u>	\$ <u>4,898,069</u>

The breakdown between deposits and petty cash for the District is as follows:

Deposits (checking, and savings accounts)	\$ 4,897,969
Petty Cash	<u>100</u>
Total cash	\$ <u>4,898,069</u>

The District's cash is subject to custodial credit risk as detailed below:

Custodial Credit Risk- Deposits: Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. As of June 30, 2014, \$5,553,005 of the District's deposits in financial institutions was exposed to credit risk because this amount was not covered by federal depository insurance.

NOTE C - RECEIVABLES:

Receivables for the District's General Fund and the aggregated nonmajor funds at June 30, 2014 are as follows:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Accounts receivable	\$ 26,527	\$ -	\$ 26,527
Intergovernmental receivable	<u>5,923,301</u>	<u>172,170</u>	<u>6,095,471</u>
Total	\$ <u>5,949,828</u>	\$ <u>172,170</u>	\$ <u>6,121,998</u>

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2014

NOTE D - CAPITAL ASSETS:

Capital asset activity of the District's Governmental activities for the year ended June 30, 2014 were as follows:

	Balance June 30, 2013	<u>Additions</u>	<u>Deletions</u>	Balance June 30, 2014
Assets not being depreciated:				
Land	\$ 151,500	\$ -	\$ -	\$ 151,500
Construction in progress	1,936,839	-	1,936,839	-
	<u>2,088,339</u>	<u>-</u>	<u>1,936,839</u>	<u>151,500</u>
Capital assets being depreciated:				
Land improvements	2,292,006	-	-	2,292,006
Buildings	15,924,436	2,455,907	-	18,380,343
Equipment	1,247,522	-	-	1,247,522
Vehicles	489,927	-	-	489,927
	<u>19,953,891</u>	<u>2,455,907</u>	<u>-</u>	<u>22,409,798</u>
Accumulated depreciation:				
Land improvements	2,192,351	19,315	-	2,211,666
Buildings	12,229,017	274,085	-	12,503,102
Equipment	1,128,912	26,521	-	1,155,433
Vehicles	454,633	9,421	-	464,054
	<u>16,004,913</u>	<u>329,342</u>	<u>-</u>	<u>16,334,255</u>
Net capital assets being depreciated	<u>3,948,978</u>	<u>2,126,565</u>	<u>-</u>	<u>6,075,543</u>
Net capital assets	<u>\$ 6,037,317</u>	<u>\$ 2,126,565</u>	<u>\$ 1,936,839</u>	<u>\$ 6,227,043</u>

Depreciation expense was charged to programs of the primary governmental activities as follows:

Governmental activities	
Support Services	\$ 312,925
Food Service	<u>16,417</u>
Total primary governmental activities	<u>\$ 329,342</u>

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2014

NOTE E - INTERFUND RECEIVABLES AND PAYABLES:

Interfund balances primarily reflect balances utilized to facilitate appropriate cash flows for operations. The composition of interfund balances as of June 30, 2014 is as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	
General Fund	\$ 30,215	General Fund	\$ 115,744
Food Service Fund	105,268	Food Service Fund	30,000
Building & Site Fund	<u>10,476</u>	Building & Site Fund	<u>215</u>
	<u>\$ 145,959</u>		<u>\$ 145,959</u>

NOTE F - STATE AID ANTICIPATION NOTE:

On August 20, 2013, the District borrowed \$1,540,000, at 1.050% annual interest on a State Aid Anticipation Series 2013 B-2 Note, and \$1,260,000, at 1.378% annual interest on a State Aid Anticipation Series 2013 B-3 Note. Both notes plus interest are due on August 20, 2014. On August 20, 2013, the District also borrowed \$800,000 at 0.43% annual interest on a State Aid Anticipation Series 2013 B-1 Note. Terms of this note call for five monthly payments ranging from \$160,166 to \$162,007 including interest, beginning March 20, 2014 with a final payment due July 21, 2014. Interest on the Series B-1 note, the B-2 and the B-3 note amounted to \$2,584, \$16,170 and \$17,363 respectively, for the year ended June 30, 2014.

	Balance June 30, <u>2013</u>	<u>Additions</u>	<u>Repayments</u>	Balance June 30, <u>2014</u>
Series 2012 B-1	\$ 86,057	\$ -	\$ 86,057	\$ -
Series 2012 B-2	1,650,000	-	1,650,000	-
Series 2012 B-3	1,350,000	-	1,350,000	-
Series 2013 B-1	-	800,000	639,941	160,059
Series 2013 B-2	-	1,540,000	-	1,540,000
Series 2013 B-3	-	<u>1,260,000</u>	<u>-</u>	<u>1,260,000</u>
Total State Aid Anticipation Notes	<u>\$ 3,086,057</u>	<u>\$ 3,600,000</u>	<u>\$ 3,725,998</u>	<u>\$ 2,960,059</u>

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2014

NOTE G - GENERAL LONG-TERM DEBT:

The District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Other long-term obligations include severance pay and compensated absences. The following is a summary of the changes in general long-term debt for the year ended June 30, 2014.

	Balance June 30, 2013	<u>Additions</u>	<u>Repayments</u>	Balance June 30, 2014	Due Within <u>One Year</u>
Bonds payable	\$ 1,836,000	\$ -	\$ 204,000	\$ 1,632,000	\$ 204,000
	<u>1,836,000</u>	<u>-</u>	<u>204,000</u>	<u>1,632,000</u>	<u>204,000</u>
Severance pay	58,903	-	19,371	39,532	39,532
Compensated absences	191,241	4,256	-	195,497	195,497
	<u>250,144</u>	<u>4,256</u>	<u>19,371</u>	<u>235,029</u>	<u>235,029</u>
	<u>\$ 2,086,144</u>	<u>\$ 4,256</u>	<u>\$ 223,371</u>	<u>\$ 1,867,029</u>	<u>\$ 439,029</u>

General obligation bonds consist of the following at June 30, 2014:

Qualified Zone Academy Bonds dated September 22, 2011, with annual principal payments of \$204,000, and final maturity September 22, 2021.	<u>\$ 1,632,000</u>
--	---------------------

On September 22, 2011 the District issued \$2,040,000 of Qualified Zone Academy Bonds under Section 54E of the Internal Revenue Code of 1986, as amended and has elected under Code Section 6431(f) (2) to receive a direct credit from the United States Treasury. Credits, when received, on semi-annual interest payment dates, will be deposited to the debt retirement fund for the Bonds and will be used to pay all of the interest on the Bonds when due. If for any reason, the District does not receive the tax credit from the Internal Revenue Service within two days of the required interest payment, the District is liable for both the interest and principal payments. The District has contracted with the Bank of New York Mellon Trust Company, N.A to service the bond and associated credits.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2014

NOTE G - GENERAL LONG-TERM DEBT- CONCLUDED:

The Bonds were issued for the purpose of remodeling, equipping, and re-equipping school facilities, in part for energy conservation improvements.

The Bonds, issued at 4.49%, shall mature at the following schedule.

2015	\$	204,000
2016		204,000
2017		204,000
2018		204,000
2019		204,000
2020-2022		<u>612,000</u>
Total	\$	<u><u>1,632,000</u></u>

NOTE H - CONTINGENT LIABILITY - GENERAL LONG-TERM DEBT:

Under the terms of the \$2,040,000 Qualified Zone Academy Bonds issued by the District on September 22, 2011, the District elected to receive a direct credit from the United States Treasury for the semi-annual interest payments. If for any reason, the District does not receive the tax credit from the Internal Revenue Service within two days of the required interest payment, the District is liable for the interest payments. The tax credit was received for the interest payment paid on September 22, 2013 and March 22, 2014.

Following is a summary of future contingent bond interest requirements:

<u>June 30,</u>		<u>Interest</u>
2015	\$	68,697
2016		59,537
2017		50,378
2018		41,218
2019		32,059
2020-2022		<u>41,218</u>
Total	\$	<u><u>293,107</u></u>

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2014

NOTE I - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS:

Plan Description - The School District participates in the Michigan Public School Employee's Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employee's Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and post-employment healthcare plans. The report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Pension Benefits - Employer contributions to the pension system result from implementing the effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. For the period from July 1, 2013 through September 30, 2013, employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus with PHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension contributions	15.21%	15.02%	15.02%	12.78%	12.78%	12.78%	15.21%
Health contributions	9.11%	9.11%	8.18%	8.18%	9.11%	8.18%	8.18%
Defined contribution plan employer 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%

* First worked September 4, 2012 or later

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2014

NOTE I - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS - CONCLUDED:

For the period from October 1, 2013 through June 30, 2014, employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus with PHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension contributions	18.34%	18.11%	18.11%	15.44%	15.44%	15.44%	18.34%
Health contributions	6.45%	6.45%	5.52%	5.52%	6.45%	5.52%	5.52%
Defined Contribution Plan employer 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%

* First worked September 4, 2012 or later

Depending on the plan selected, plan member contributions ranged from 0 percent up to 7 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The District's required and actual contributions to all plans for the years ended June 30, 2014, 2013 and 2012 were approximately \$4,215,000, \$4,153,000, and \$4,008,300 respectively.

Postemployment Benefits - Under the MPSERS act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental and vision coverage at the time of receiving the benefits. The MPSERS Board of Trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate ranged from 8.18 percent to 9.11 percent of covered payroll for the period from July 1, 2013 through September 30, 2013 and from 5.52 percent to 6.45 percent of covered payroll for the period from October 1, 2013 through June 30, 2014, dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit, or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and also receive a 2 percent employer match into the employee's 401(k) account.

The District's contributions to MPSERS for such postemployment benefits are included in the contribution amounts detailed above.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2014

NOTE J - FUND BALANCES - GOVERNMENTAL FUNDS:

The District has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. Detailed information on fund balances of governmental funds is as follows:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Nonspendable:			
Inventory	\$ -	\$ 33,665	\$ 33,665
Prepaid Items	279,053	-	279,053
Total Nonspendable	<u>279,053</u>	<u>33,665</u>	<u>312,718</u>
Restricted for:			
Food Service Program	-	1,550	1,550
Capital Improvements	-	523,073	523,073
Total Restricted	<u>-</u>	<u>524,623</u>	<u>524,623</u>
Committed for:			
Capital Improvements	-	207,741	207,741
Unassigned	<u>2,628,335</u>	<u>-</u>	<u>2,628,335</u>
Total fund balances - governmental funds	<u>\$ 2,907,388</u>	<u>\$ 766,029</u>	<u>\$ 3,673,417</u>

NOTE K - INTEREST EXPENSE:

Interest expense of \$50,090 was charged to overall District operations and not specific activities as the District considers that its debt impacts multiple activities and allocation is not practical.

NOTE L - MICHIGAN EDUCATION HEALTH INSURANCE POOL EXPENSE:

At June 30, 2013, the District was a member of the Michigan Education Health Insurance Pool (MiEHIP) as a means to provide health insurance coverage for the District's maintenance/custodial staff and instructional aides. On June 25, 2012, the State of Michigan Department of Licensing and Regulatory Affairs Office of Financial Insurance Regulation issued an order of assessment to MiEHIP after finding that MiEHIP was not in a stable and unimpaired financial condition, and ordered MiEHIP to assess and collect a minimum \$2.3 million dollars, or whatever larger amount was necessary based on the most recent financial data at the time, to restore net assets to a positive position.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONCLUDED

Year ended June 30, 2014

NOTE L - MICHIGAN EDUCATION HEALTH INSURANCE POOL EXPENSE - CONCLUDED:

In November, 2013, the District changed insurance providers and withdrew from the MiEHIP pool. As of June 30, 2014, the District did not anticipate a return of any of its \$129,021 reserve capital balance with MiEHIP, and expensed such amount in the year ended June 30, 2014. The District plans to record any proceeds received from MiEHIP in the year such proceeds are received.

NOTE M - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS:

During the year ended June 30, 2014, the District incurred expenditures that were in excess of the amounts budgeted as follows:

<u>Item</u>	<u>Budget</u>	<u>Actual</u>	<u>Overrun</u>
Added needs	\$ 5,913,224	\$ 5,948,638	\$ 35,414
Adult/community	151,942	156,854	4,912
Pupil services	2,085,732	2,181,466	95,734
Instructional staff	2,318,185	2,319,190	1,005
General administration	614,040	655,579	41,539
School administration	2,477,178	2,535,232	58,054
Operations/maintenance	3,628,362	3,643,711	15,349
Transportation	1,899,284	2,103,457	204,173

NOTE N- SUBSEQUENT EVENTS:

On August 20, 2014, the District borrowed \$1,200,000, at 0.42% annual interest, on State Aid Anticipation Series B-1 note, \$1,540,000 at 1.05% annual interest, on State Aid Anticipation Series B-2 note, and, \$1,260,000 at 1.235% annual interest rate on State Aid Anticipation Series B-3 note. All three notes plus interest are due on August 20, 2015.

NOTE O - UPCOMING ACCOUNTING PRONOUNCEMENTS:

In June, 2012, the GASB issued Statement No 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pension plans to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide statements will be computed differently than the current unfunded actuarial liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information. The District is currently evaluating the impact this standard will have on the financial statements when adopted. Statement No. 68 will be implemented by the District for the year ending June 30, 2015.

REQUIRED SUPPLEMENTAL INFORMATION

NILES COMMUNITY SCHOOLS

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Local sources	\$ 3,400,100	\$ 3,506,100	\$ 3,630,621	\$ 124,521
State sources	26,831,200	28,242,303	28,289,516	47,213
Federal sources	3,234,000	3,127,005	3,094,734	(32,271)
Interdistrict sources	899,700	845,045	854,467	9,422
	<u>34,365,000</u>	<u>35,720,453</u>	<u>35,869,338</u>	<u>148,885</u>
Expenditures:				
Current:				
Instruction:				
Basic programs	13,357,000	14,873,496	14,771,151	102,345
Added needs	6,045,000	5,913,224	5,948,638	(35,414)
Adult/community	145,000	151,942	156,854	(4,912)
Support Services:				
Pupil services	2,037,000	2,085,732	2,181,466	(95,734)
Instructional staff	2,194,000	2,318,185	2,319,190	(1,005)
General administration	435,000	614,040	655,579	(41,539)
School administration	2,240,000	2,477,178	2,535,232	(58,054)
Business services	305,200	335,225	332,882	2,343
Operations/maintenance	3,425,000	3,628,362	3,643,711	(15,349)
Transportation	1,785,000	1,899,284	2,103,457	(204,173)
Other support services	295,000	332,979	326,006	6,973
Athletics	600,000	601,432	559,615	41,817
Capital outlay	12,000	12,000	4,400	7,600
Community services	679,480	684,200	549,022	135,178
Debt Service	71,120	71,120	60,397	10,723
	<u>33,625,800</u>	<u>35,998,399</u>	<u>36,147,600</u>	<u>(149,201)</u>
Excess (deficiency) of revenues over expenditures	739,200	(277,946)	(278,262)	(316)
Fund Balance, Beginning of Year	<u>3,185,650</u>	<u>3,185,650</u>	<u>3,185,650</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 3,924,850</u></u>	<u><u>\$ 2,907,704</u></u>	<u><u>\$ 2,907,388</u></u>	<u><u>\$ (316)</u></u>

See accompanying notes to financial statements.

OTHER SUPPLEMENTAL INFORMATION

NILES COMMUNITY SCHOOLS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS

June 30, 2014

	<u>Nonmajor Food Service Fund</u>	<u>Nonmajor Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>ASSETS</u>			
Cash and investments	\$ 4,005	\$ 720,553	\$ 724,558
Due from other governments	172,170	-	172,170
Due from other funds	105,268	10,476	115,744
Inventories	<u>33,665</u>	<u>-</u>	<u>33,665</u>
Total Assets	<u>\$ 315,108</u>	<u>\$ 731,029</u>	<u>\$ 1,046,137</u>
 <u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Accounts payable	\$ 249,893	\$ -	\$ 249,893
Due to other funds	<u>30,000</u>	<u>215</u>	<u>30,215</u>
Total liabilities	<u>279,893</u>	<u>215</u>	<u>280,108</u>
 Fund balances:			
Non-spendable	33,665	-	33,665
Restricted	1,550	523,073	524,623
Committed	<u>-</u>	<u>207,741</u>	<u>207,741</u>
Total fund balances	<u>35,215</u>	<u>730,814</u>	<u>766,029</u>
Total Liabilities and Fund Balances	<u>\$ 315,108</u>	<u>\$ 731,029</u>	<u>\$ 1,046,137</u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2014

	Nonmajor Food Service <u>Fund</u>	Nonmajor Capital Projects <u>Fund</u>	Total Nonmajor Governmental <u>Funds</u>
Revenues:			
Local sources:			
Property taxes	\$ -	\$ 552,665	\$ 552,665
Interest	16	162	178
Food sales	292,873	-	292,873
Other	20,010	-	20,010
Total local sources	<u>312,899</u>	<u>552,827</u>	<u>865,726</u>
State sources	77,636	-	77,636
Federal sources	<u>1,178,157</u>	<u>-</u>	<u>1,178,157</u>
Total revenues	<u>1,568,692</u>	<u>552,827</u>	<u>2,121,519</u>
Expenditures:			
Current operations:			
Food service	1,639,552	-	1,639,552
Capital outlay	-	850,893	850,893
Debt Service:			
Principal repayments	-	187,680	187,680
Interest expense	-	6,013	6,013
Other	<u>-</u>	<u>21,351</u>	<u>21,351</u>
Total expenditures	<u>1,639,552</u>	<u>1,065,937</u>	<u>2,705,489</u>
Excess (deficiency) of revenues over expenditures	<u>(70,860)</u>	<u>(513,110)</u>	<u>(583,970)</u>
Fund Balances, Beginning of Year	<u>106,075</u>	<u>1,243,924</u>	<u>1,349,999</u>
Fund Balances, End of Year	<u><u>\$ 35,215</u></u>	<u><u>\$ 730,814</u></u>	<u><u>\$ 766,029</u></u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

COMBINING BALANCE SHEET

CAPITAL PROJECTS FUNDS

June 30, 2014

	<u>Capital Development</u>	<u>Building & Site</u>	<u>2011 QZAB Fund</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and equivalents	\$ 207,741	\$ 511,806	\$ 1,006	\$ 720,553
Due from other funds	<u>-</u>	<u>10,476</u>	<u>-</u>	<u>10,476</u>
Total Assets	<u>\$ 207,741</u>	<u>\$ 522,282</u>	<u>\$ 1,006</u>	<u>\$ 731,029</u>
<u>LIABILITIES</u>				
Due to other funds	<u>\$ -</u>	<u>\$ 215</u>	<u>\$ -</u>	<u>\$ 215</u>
Total liabilities	<u>-</u>	<u>215</u>	<u>-</u>	<u>215</u>
<u>FUND BALANCES</u>				
Restricted	-	522,067	1,006	523,073
Committed	<u>207,741</u>	<u>-</u>	<u>-</u>	<u>207,741</u>
Total fund balances	<u>207,741</u>	<u>522,067</u>	<u>1,006</u>	<u>730,814</u>
Total Liabilities and Fund Balances	<u>\$ 207,741</u>	<u>\$ 522,282</u>	<u>\$ 1,006</u>	<u>\$ 731,029</u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

CAPITAL PROJECTS FUNDS

Year ended June 30, 2014

	<u>Capital Development</u>	<u>Building & Site</u>	<u>2011 QZAB Fund</u>	<u>Total</u>
REVENUES:				
Local sources:				
Property taxes	\$ -	\$ 552,665	\$ -	\$ 552,665
Interest	66	80	16	162
Total revenues	<u>66</u>	<u>552,745</u>	<u>16</u>	<u>552,827</u>
EXPENDITURES:				
Capital outlay	349,966	315,399	185,528	850,893
Debt Service:				
Principal repayment	-	187,680	-	187,680
Interest expense	-	6,013	-	6,013
Other	20,000	1,351	-	21,351
Total expenditures	<u>369,966</u>	<u>510,443</u>	<u>185,528</u>	<u>1,065,937</u>
Excess (deficiency) of revenues over expenditures	(369,900)	42,302	(185,512)	(513,110)
Fund Balances, Beginning of Year	<u>577,641</u>	<u>479,765</u>	<u>186,518</u>	<u>1,243,924</u>
Fund Balances, End of Year	<u><u>\$ 207,741</u></u>	<u><u>\$ 522,067</u></u>	<u><u>\$ 1,006</u></u>	<u><u>\$ 730,814</u></u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUND

Year ended June 30, 2014

	Balance June 30, <u>2013</u>	<u>Receipts</u>	<u>Disbursements</u>	Balance June 30, <u>2014</u>
<u>ASSETS</u>				
Cash and equivalents	\$ <u>368,408</u>	\$ <u>714,007</u>	\$ <u>660,890</u>	\$ <u>421,525</u>
<u>LIABILITIES</u>				
Due to other funds	\$ 38,836	\$ -	\$ 18,537	\$ 20,299
Due to student groups	<u>329,572</u>	<u>714,007</u>	<u>642,353</u>	<u>401,226</u>
	<u>\$ 368,408</u>	<u>\$ 714,007</u>	<u>\$ 660,890</u>	<u>\$ 421,525</u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

SCHEDULE OF PRINCIPAL REQUIREMENTS

LONG-TERM DEBT - QUALIFIED ZONE ACADEMY BONDS

Year ended June 30, 2014

Year Ending <u>June 30,</u>	Principal <u>September 22</u>
2015	\$ 204,000
2016	204,000
2017	204,000
2018	204,000
2019	204,000
2020	204,000
2021	204,000
2022	<u>204,000</u>
	\$ <u><u>1,632,000</u></u>



NILES COMMUNITY SCHOOLS
SINGLE AUDIT
Year Ended June 30, 2014

NILES COMMUNITY SCHOOLS

NILES, MICHIGAN

TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE NUMBER</u>
Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133.....	1
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-3
Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133.....	4-5
Schedule of Expenditures of Federal Awards.....	6-8
Schedule of Expenditures of Federal Awards Provided to Subrecipients.....	9
Notes to Schedule of Expenditures of Federal Awards.....	10-11
Schedule of Findings and Questioned Costs.....	12



REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

September 24, 2014

Board of Education
Niles Community Schools
Niles, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the remaining fund information of Niles Community Schools as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated September 24, 2014, which contained unmodified opinions on the financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to September 24, 2014.

The accompanying schedule of expenditures of federal awards is presented for the purpose 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 not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Scarpone & Co., P.C.



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

INDEPENDENT AUDITOR'S REPORT

September 24, 2014

Board of Education
Niles Community Schools
Niles, Michigan

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 Niles Community Schools, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 24 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Niles Community Schools' 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 Niles Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Niles Community Schools' 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 District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Niles Community Schools' 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 on internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* when considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Scarpone & Co., P.C.



REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

September 24, 2014

Board of Education
Niles Community Schools
Niles, Michigan

Report on Compliance for Each Major Federal Program

We have audited Niles Community Schools' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Niles Community Schools' major federal programs for the year ended June 30, 2014. Niles Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management 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 Niles Community Schools' major federal programs based on our audit of the types of compliance requirements referred to above.

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Niles Community Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Niles Community Schools complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The management of Niles Community Schools 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 Niles Community Schools' 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 Niles Community Schools' 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 a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that a 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.

Scarpone & Co., P.C.

NILES COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2014

Federal Grantor Pass Through Grantor <u>Program Title and Grant Number</u>	Federal CFDA <u>Number</u>	Pass-Through Grantor's <u>Number</u>	Approved Grant Award <u>Amount</u>	Prior Year(s) Expenditures <u>(Memo Only)</u>
Passed through Michigan Department of Education				
Child Nutrition Cluster				
National School Lunch Program				
Non-Cash Assistance:				
Entitlement Commodities	10.555	N/A	\$ 91,149	\$ -
Non-Cash Assistance Subtotal			<u>91,149</u>	<u>-</u>
Cash Assistance:				
National School Breakfast				
NSL Breakfast	10.553	131970	313,732	278,992
NSL Breakfast	10.553	141970	273,338	-
			<u>587,070</u>	<u>278,992</u>
NSL- Section 4 All Lunches	10.555	131960	836,984	742,634
NSL- Section 4 All Lunches	10.555	141960	684,580	-
			<u>1,521,564</u>	<u>742,634</u>
Special Milk Program	10.556	131940	493	493
Cash Assistance Subtotal			<u>2,109,127</u>	<u>1,022,119</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			\$ <u>2,200,276</u>	\$ <u>1,022,119</u>

See notes to Schedule of Expenditures of Federal Awards

<u>Accrued Revenue June 30, 2013</u>	<u>Adjustments</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts</u>	<u>Accrued Revenue June 30, 2014</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>91,149</u>	\$ <u>91,149</u>	\$ <u>-</u>
<u>-</u>	<u>-</u>	<u>91,149</u>	<u>91,149</u>	<u>-</u>
6,759	-	34,740	41,499	-
<u>-</u>	<u>-</u>	<u>273,338</u>	<u>223,517</u>	<u>49,821</u>
<u>6,759</u>	<u>-</u>	<u>308,078</u>	<u>265,016</u>	<u>49,821</u>
18,193	-	94,350	112,543	-
<u>-</u>	<u>-</u>	<u>684,580</u>	<u>562,231</u>	<u>122,349</u>
<u>18,193</u>	<u>-</u>	<u>778,930</u>	<u>674,774</u>	<u>122,349</u>
9	-	-	9	-
<u>9</u>	<u>-</u>	<u>-</u>	<u>9</u>	<u>-</u>
24,961	-	1,087,008	939,799	172,170
<u>24,961</u>	<u>-</u>	<u>1,087,008</u>	<u>939,799</u>	<u>172,170</u>
\$ <u>24,961</u>	\$ <u>-</u>	\$ <u>1,178,157</u>	\$ <u>1,030,948</u>	\$ <u>172,170</u>

See notes to Schedule of Expenditures of Federal Awards

NILES COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year ended June 30, 2014

Federal Grantor Pass Through Grantor Program Title and Grant Number	Federal CFDA Number	Pass-Through Grantor's Number	Approved Grant Award Amount	Prior Year(s) Expenditures (Memo Only)
Passed through Michigan Department of Education				
ABE Instruction	84.002	131130	\$ 511,483	\$ 497,164
ABE Instruction	84.002	131190	65,754	54,099
ABE Instruction	84.002	141130	515,000	-
ABE Instruction	84.002	141190	65,000	-
			<u>1,157,237</u>	<u>551,263</u>
Title I, Part A-Improving Basic Programs	84.010	131530	1,176,748	1,031,871
Title I, Part A-Improving Basic Programs	84.010	141530	1,103,944	-
			<u>2,280,692</u>	<u>1,031,871</u>
Title II, Part A -Teacher/Principal Training	84.367	130520	212,668	180,561
Title II, Part A -Teacher/Principal Training	84.367	140520	135,925	-
			<u>348,593</u>	<u>180,561</u>
Total Passed through Michigan Department of Education			<u>3,786,522</u>	<u>1,763,695</u>
Passed through Berrien RESA:				
IDEA 2012-2013	84.027		1,230,229	1,197,986
IDEA 2013-2014	84.027		1,006,701	-
			<u>2,236,930</u>	<u>1,197,986</u>
IDEA - Preschool Grants 2012-2013	84.173		128,530	128,530
IDEA - Preschool Grants 2013-2014	84.173		132,844	-
			<u>261,374</u>	<u>128,530</u>
CTE - Perkins 2013-2014	84.048		39,441	-
Total passed through Berrien RESA			<u>2,537,745</u>	<u>1,326,516</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>\$ 6,324,267</u>	<u>\$ 3,090,211</u>

See notes to Schedule of Expenditures of Federal Awards

<u>Accrued Revenue June 30, 2013</u>	<u>Adjustments</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts</u>	<u>Accrued Revenue June 30, 2014</u>
\$ 77,639	\$ -	\$ -	\$ 77,639	\$ -
5,828	-	-	5,828	-
-	-	511,533	388,435	123,098
-	-	51,738	46,947	4,791
<u>83,467</u>	<u>-</u>	<u>563,271</u>	<u>518,849</u>	<u>127,889</u>
21,371	-	-	21,371	-
-	-	1,013,554	982,862	30,692
<u>21,371</u>	<u>-</u>	<u>1,013,554</u>	<u>1,004,233</u>	<u>30,692</u>
23,468	-	-	23,468	-
-	-	135,925	119,101	16,824
<u>23,468</u>	<u>-</u>	<u>135,925</u>	<u>142,569</u>	<u>16,824</u>
<u>128,306</u>	<u>-</u>	<u>1,712,750</u>	<u>1,665,651</u>	<u>175,405</u>
370,832	(32,243)	-	338,589	-
-	-	1,195,471	922,940	272,531
<u>370,832</u>	<u>-</u>	<u>1,195,471</u>	<u>1,261,529</u>	<u>272,531</u>
-	32,243	-	32,243	-
-	-	132,845	83,762	49,083
<u>-</u>	<u>32,243</u>	<u>132,845</u>	<u>116,005</u>	<u>49,083</u>
-	-	39,441	39,441	-
<u>370,832</u>	<u>-</u>	<u>1,367,757</u>	<u>1,416,975</u>	<u>321,614</u>
\$ <u>499,138</u>	\$ <u>-</u>	\$ <u>3,080,507</u>	\$ <u>3,082,626</u>	\$ <u>497,019</u>

See notes to Schedule of Expenditures of Federal Awards

NILES COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

Year ended June 30, 2014

Federal Grantor Pass Through Grantor <u>Program Title and Grant Number</u>	Federal CFDA <u>Number</u>	Pass-Through Grantor's <u>Number</u>	Approved Grant Award <u>Amount</u>	Prior Year(s) Expenditures <u>(Memo Only)</u>
Passed through Tri-County Council for Child Development				
Head Start 2012-2013	93.600		\$ <u>425,679</u>	\$ <u>425,679</u>
Passed through Berrien RESA:				
Medicaid Outreach 2013-2014	93.778		\$ <u>14,227</u>	\$ <u>-</u>
TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			\$ <u>439,906</u>	\$ <u>425,679</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ <u><u>8,964,449</u></u>	\$ <u><u>4,538,009</u></u>

See notes to Schedule of Expenditures of Federal Awards

<u>Accrued Revenue June 30, 2013</u>	<u>Adjustments</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts</u>	<u>Accrued Revenue June 30, 2014</u>
\$ <u>80,134</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>80,134</u>	\$ <u>-</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>14,227</u>	\$ <u>14,227</u>	\$ <u>-</u>
\$ <u>80,134</u>	\$ <u>-</u>	\$ <u>14,227</u>	\$ <u>94,361</u>	\$ <u>-</u>
\$ <u><u>604,233</u></u>	\$ <u><u>-</u></u>	\$ <u><u>4,272,891</u></u>	\$ <u><u>4,207,935</u></u>	\$ <u><u>669,189</u></u>

See notes to Schedule of Expenditures of Federal Awards

NILES COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS PROVIDED TO SUBRECIPIENTS

Year ended June 30, 2014

<u>Federal Program Title/Subrecipients Name</u>	<u>CFDA #</u>	<u>Current Year Cash Provided to Subrecipients</u>
ABE - Instruction		
Ferry Street Resource Center	84.002	\$ 28,051
Michigan Works	84.002	95,166
Brandywine Community Schools	84.002	45,182
Dowagiac Union Schools	84.002	35,791
Heartland Human Care	84.002	71,763
		<hr/>
Total CFDA # 84.002		\$ <u><u>275,953</u></u>

NILES COMMUNITY SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2014

NOTE A - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Niles Community Schools under programs of the federal government for the year ended June 30, 2014. The information on this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Niles Community Schools, it is not intended to and does not present the financial position, or changes in net position of Niles Community Schools.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C - GRANT AUDITOR REPORT:

Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards.

NOTE D - NONCASH ASSISTANCE:

The value of noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

NOTE E - ADJUSTMENTS:

Adjustments resulted from changes in prior year award amounts during the year ended June 30, 2014 are as follows:

<u>Federal Program Title</u>	<u>CFDA #</u>	<u>Description</u>	<u>Amount</u>
IDEA	84.027	Prior year receivable booked to IDEA in error	\$ (32,243)
IDEA- Preschool	84.173	Prior year receivable booked to IDEA in error	32,243
Net adjustments			\$ <u><u>-</u></u>

NILES COMMUNITY SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

Year ended June 30, 2014

NOTE F - FEDERAL EXPENDITURES:

Federal expenditures are reported as revenue in the following funds in the financial statements:

General Fund	\$	3,094,734
Special Revenue Funds - Food Service		<u>1,178,157</u>
Total revenues per financial statements	\$	<u><u>4,272,891</u></u>

NILES COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2014

SECTION I -SUMMARY OF INDEPENDENT AUDITOR'S RESULTS:

Financial Statements:

Type of auditor's report issued: Unmodified

Internal controls over financial reporting:

Material weakness(es) identified?	<u> </u> yes	<u> x </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> x </u> none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal controls over major programs:

Material weakness(es) identified?	<u> </u> yes	<u> x </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> x </u> none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 yes x no

Identification of Major Program

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027	IDEA
84.173	IDEA - Preschool

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualifies as a low-risk auditee? yes x no

SECTION II -FINANCIAL STATEMENT AUDIT FINDINGS:

None

SECTION III -FEDERAL PROGRAM AUDIT FINDINGS:

None



September 24, 2014

Members of the Board of Education
Niles Community Schools
Niles, Michigan

We have audited the financial statements of the governmental activities and the aggregate remaining fund information of Niles Community Schools for the year ended June 30, 2014, and issued our report thereon dated September 24, 2014. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Niles Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

As part of obtaining reasonable assurance about whether Niles Community Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also in accordance with OMB Circular A-133, we examined on a test basis, evidence about Niles Community Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-111 Compliance Supplement* applicable to each of its major programs for the purpose of expressing an opinion on Niles Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination of Niles Community Schools' compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting principles and their application. The significant accounting policies used by Niles Community Schools are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2014. We noted no transactions entered into by Niles Community Schools during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

- Management's estimate of the useful lives of depreciable assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of accrued compensated absences is based on balances of earned but unused sick time and personnel policies and employment contracts.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School District, and business plans and strategies that may affect the risks of material misstatements with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management Responsibilities

We have requested certain representations from management that are included in the management representation letter dated September 24, 2014.

Management Consultations with Other Independent Accountants

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

Other Information in Documents Containing Audited Financial Statements

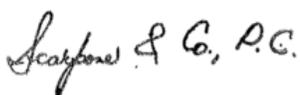
With respect to the supplemental information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplemental information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

We appreciate the opportunity to be of service to you. As always, should you have any questions, please do not hesitate to contact us.

Sincerely,

SCARPONE & CO., P.C.



James F. Scarpone, CFP, CPA, CVA