

Elk Rapids Schools

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2009

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Management's Discussion and Analysis

As management of Elk Rapids Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$9,230,850 (*net assets*). Of this amount, *unrestricted net assets* had a balance of \$672,163.
- The government's total net assets increased by \$1,411,691.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,239,781, a decrease of \$682,920 in comparison with the prior year. This *net* decrease is mainly attributable to the spend-down of the 2008 School Improvement Bond Project and the current year surplus addition to the General Fund. See page 7 and 29 for highlights of this net decrease. Of the \$2,239,781, approximately 53%, or \$1,191,209 is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,191,209 or 9.5 percent of total general fund expenditures.
- Investments for the future were made by the spending of \$829,708 on infrastructural acquisitions and improvements. Of these acquisitions, \$95,627 is attributable to acquisitions of field lights and visitor bleachers by the Athletic Complex Fund (a fundraising capital projects fund.) The 2008 School Improvement Fund invested \$718,206 in new computers, remodeling, energy efficiency improvements and a new telephone system.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains 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 District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, support services, food service, and athletics. The District has no business-type activities as of and for the year ended June 30, 2009.

The government-wide financial statements can be found on pages 5 - 6 of this report.

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 state and local governments, 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. *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.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains fourteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and 2008 School Improvement Fund which are considered to be a major funds. Data from the other twelve governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided for the General Fund herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 7 - 9 of this report.

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 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 basic fiduciary fund financial statements can be found on pages 10 - 11 of this report.

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. The notes to the financial statements can be found on pages 12 - 25 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to the financial statements. Combining fund statements can be found on pages 29 - 30 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$9,230,850 at the close of the most recent fiscal year.

The District’s net assets are primarily comprised of its investment in capital assets (e.g., land, buildings, vehicles, and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

District’s Net Assets

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Assets		
Current and other assets	\$ 4,213,587	\$4,860,930
Capital assets, net	<u>13,702,452</u>	<u>13,661,742</u>
Total assets	<u>17,916,039</u>	<u>18,522,672</u>
Liabilities		
Long-term liabilities outstanding	4,694,650	6,683,128
Other liabilities	<u>3,990,539</u>	<u>4,020,385</u>
Total liabilities	<u>8,685,189</u>	<u>10,703,513</u>
Net assets		
Invested in capital assets, net of related debt	8,351,663	7,023,040
Restricted	280,555	306,982
Unrestricted	<u>672,163</u>	<u>525,519</u>
Total net assets	<u>\$ 9,230,850</u>	<u>\$ 7,819,159</u>

Additional components of the District’s net assets include \$121,778 for Debt service, \$85,246 for capital projects and \$73,531 for school-based activities. These represent resources that are subject to external restrictions on how they may be used. The remaining component of *net assets*, \$598,632 represents *unrestricted net assets*.

The government’s net assets increased by \$1,411,691 during the current fiscal year. See subsequent page for the major components of this increase.

Included in the current fiscal year was foundation allowance funding, set by the State of Michigan, of \$7,391 per student.

Since the “Schools of Choice” legislation was enacted, the District’s enrollment has increased nearly every year, and now hovers around the 1,550 to 1,590 student range.

District’s Changes in Net Assets

	Governmental Activities	
	2009	2008
Revenue		
Program revenue		
Charges for services	\$ 681,584	\$689,870
Operating grants/contributions	1,303,398	647,240
Capital grants/contributions	177,716	139,155
General revenue		
Property taxes	9,517,500	9,132,527
State school aid	3,569,392	4,391,375
Unrestricted investment earnings and other	<u>532,687</u>	<u>637,961</u>
Total Revenue	<u>15,782,277</u>	<u>15,638,128</u>
Expenses		
Instruction	\$7,834,460	\$7,827,374
Supporting services	4,196,308	4,284,107
Community services	279,643	249,433
Food services	639,205	624,492
Athletics	282,325	298,555
Depreciation – unallocated	788,998	746,236
Interest on long-term debt	258,750	265,009
Other	<u>90,897</u>	<u>108,179</u>
Total Expenses	<u>14,370,586</u>	<u>14,403,385</u>
Increase in net assets	1,411,691	1,234,743
Net assets, beginning of year	<u>7,819,159</u>	<u>6,584,416</u>
Net assets, end of year	\$ 9,230,850	\$ 7,819,159

Governmental activities. Net assets increased by \$1,411,691. The key elements of this increase are as follows:

- Net assets related to the General and Special Revenue Funds increased by \$135,627 due to yearend surplus additions.
- The \$2,077,073 *reduction* of Bonded and Bus Loan debt outstanding offset \$788,998 of depreciation expense incurred from capital assets by \$1,288,075. This provided a direct increase in the equity attributable to the District's capital assets.

Financial Analysis of the Government's Funds

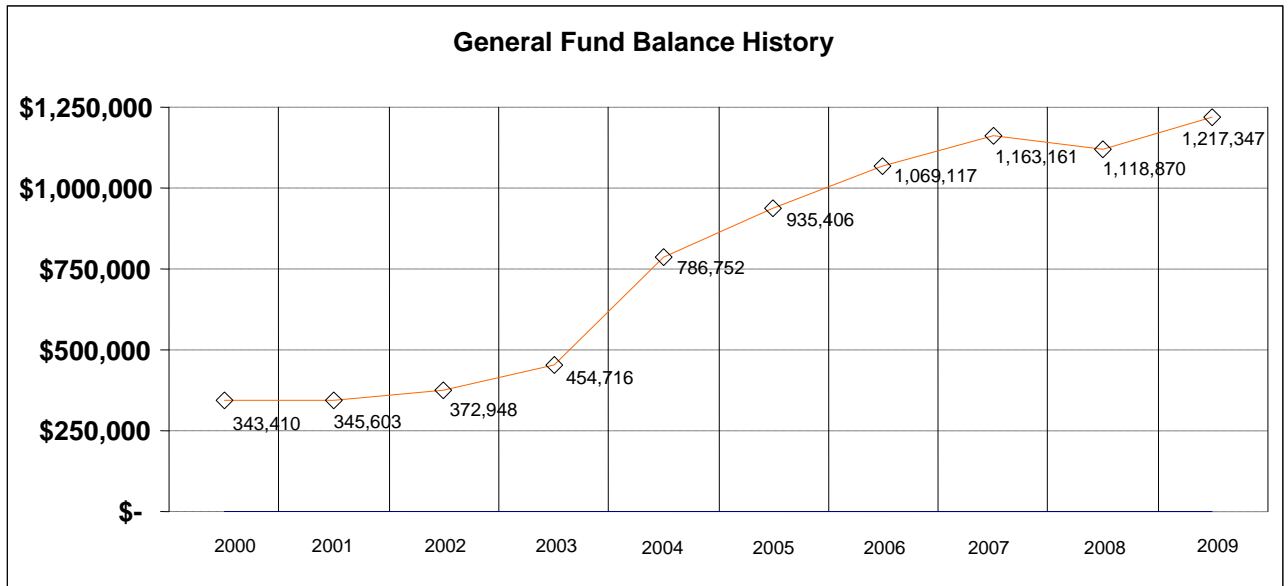
As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus 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, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,239,781, a decrease of \$682,920 in comparison with the prior year. Approximately 53% of this total amount (\$1,191,209) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are not available for current expenditure. This is because they are included as capital projects, school-based services and debt service fund accounts.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,191,209. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents approximately 9.5 percent of total general fund expenditures.

The fund balance of the District's general fund increased by \$98,479 during the current fiscal year.



The Food Service Fund has a total fund balance of \$41,649, which increased by \$22,412.

The Athletics Fund has a total fund balance of \$28,431, which increased by \$24,616.

The Kid's Club & Kinderpals Fund has a total fund balance of \$3,451, which decreased by \$9,879.

The combined debt service funds have a total fund balance of \$160,947, which decreased by \$70,039.

The Athletics Complex Fund has a total fund balance of \$66,135, which increased by \$763. This fund is supported primarily by grants and donations related to a fundraising campaign titled 'Finish the Dream.'

The 2007 School Bus Facility capital project fund was completely expended as of June 30, 2009. This fund was created to account for the voter-approved bus repair and maintenance facility.

The 2008 School Improvement capital project fund has a total fund balance of \$721,821, which decreased by \$733,278. This fund was created to account for the voter-approved improvements to technology, energy efficiency and the bus fleet.

General Fund Budgetary Highlights

Significant differences between the original and final amended budgets were partly due to actual enrollments falling short of projections. A substantial federal stimulus allocation late in the fiscal year offset a sizeable state aid cut of the same amount. Additionally, taxable valuation changes occurring throughout the year caused revenue originally budgeted as local source to be reclassified as state revenues.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2009, amounted to \$13,702,452 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment. The total increase in the District's investment in capital assets for the current fiscal year was 0.3 percent.

The major capital asset events during the current fiscal year were the following:

- \$333,801 spent on energy efficiency systems and upgrades across the district. Funding was supported with bond proceeds from the 2008 School Improvement Fund.
- \$280,045 for technology upgrades. Funding was supported with bond proceeds from the 2008 School Improvement Fund.
- \$95,627 in Athletic Complex Fund expenditures for football field lighting and visitor bleachers. Funding support was provided by grants from 'finish the dream' fundraising.
- \$91,169 expended to install a new telephone system. Funding was supported with bond proceeds from the 2008 School Improvement Fund.

District's Capital Assets

(net of depreciation)

June 30, 2009

	<u>Governmental Activities</u>
Land	\$ 94,249
Buildings and building improvements	12,178,818
Machinery and equipment	704,197
Furniture and fixtures	170,325
Software	2,682
Vehicles	<u>552,181</u>
Total net assets	<u>\$ 13,702,452</u>

Additional information on the District's capital assets can be found in Note E on page 19 of this report.

Long-term debt. At the end of the current fiscal year, the District had 1998 School Improvement (Durant) bonded debt outstanding of \$63,335. This bond issue is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations, and is payable solely from state aid payments from the State of Michigan.

At the end of the current fiscal year, the District had 2002 Refunding Bond debt outstanding of \$1,225,000. This bond issue is a general obligation-unlimited tax liability of the District. These bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax, levied without limitation as to rate or amount, on all taxable property within the district. This bond issue replaced the 1995 School Building and Site bond issue debt with bonds at lower interest rates resulting in a projected cumulative taxpayer-savings of approximately \$363,000.

At the end of the current fiscal year, the District had 2003 School Building and Site debt outstanding of \$2,345,000. This bond issue is a general obligation-unlimited tax liability of the District. These bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax, levied without limitation as to rate or amount, on all taxable property within the district.

At the end of the current fiscal year, the District had 2005 School Building and Site debt outstanding of \$120,000. This bond issue is a general obligation-limited tax liability of the District. These bonds are payable as to principal and interest from District resources and not from an annual unlimited ad valorem tax such as what the District's other four bond issues have in effect.

At the end of the current fiscal year, the District had 2007 School Bus Facility debt outstanding of \$525,000. This bond issue is a general obligation-unlimited tax liability of the District. These bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax, levied without limitation as to rate or amount, on all taxable property within the district.

At the end of the current fiscal year, the District had 2008 School Improvement debt outstanding of \$1,625,000. This bond issue is a general obligation-unlimited tax liability of the District. These bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax, levied without limitation as to rate or amount, on all taxable property within the district.

At the end of the current fiscal year, the District had a note payable to a bank outstanding of \$241,469. This debt was created from an installment purchase agreement made to acquire five new school buses in the Fall of 2007. The debt service is paid by appropriations from the District's General Fund.

The District's total general obligation bonds and notes payable decreased by \$2,077,763 (25.3 percent) during the current fiscal year.

Additional information on the District's long-term debt can be found in Note F on pages 20 - 21 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2009-10 fiscal year:

- The economic downswing of Michigan's economy has been a continuing concern. The latest State Aid proposals do not clearly identify what level of per-pupil funding increases may occur. The ultimate State Aid Bill is expected to provide the District with per pupil funding that is materially close to the budget projection.
- Uncertainties related to enrollment counts and energy costs continue to present budgeting challenges for all Michigan school districts. Enrollment projections were fairly consistent with fiscal year 2008-09 'actual counts.' Total energy budgeting was believed to be conservatively derived. Energy cost volatility continues to be a key budgetary concern.
- The continued economic slowdown affecting the State of Michigan could result in insufficient per-pupil increases in 2010-11. The impact from a funding freeze from 2009-10 levels would present very serious budgetary challenges for all districts. Spending decisions for 2009-10 are being made with consideration of potential 2010-11 funding issues.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, 707 E. Third Street, Elk Rapids, Michigan 49629.



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Our clients' success – our business

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Elk Rapids Schools

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Elk Rapids Schools* (the "School District") as of and for the year ended June 30, 2009, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit. The governmental activities comparative information has been derived from the School District's 2008 and 2007 financial statements and, in our reports dated October 6, 2008 and September 28, 2007, respectively, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Elk Rapids Schools as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Member of



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In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2009, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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 the results of our audit.

The management's discussion and analysis on pages i - ix and budgetary comparison information on page 27, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining and individual non-major fund financial statements on pages 28 - 29 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the School District. The combining and individual non-major fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dennis, Gartland & Niergarth

September 17, 2009

Elk Rapids Schools

STATEMENT OF NET ASSETS

June 30, 2009

	2009	For Comparative Purposes Only	
	<u>Governmental Activities</u>	<u>2008 Governmental Activities</u>	<u>2007 Governmental Activities</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 3,110,037	\$ 3,765,142	\$ 2,566,046
Due from other governments	1,002,060	1,034,483	969,350
Accounts receivables	59,571	16,641	15,703
Inventory	9,791	4,911	4,253
Deposits	5,990	18,490	-
Prepays	<u>26,138</u>	<u>21,263</u>	<u>30,379</u>
Total current assets	4,213,587	4,860,930	3,585,731
Capital assets, net of accumulated depreciation	<u>13,702,452</u>	<u>13,661,742</u>	<u>13,208,668</u>
Total assets	<u>\$ 17,916,039</u>	<u>\$ 18,522,672</u>	<u>\$ 16,794,399</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities			
Accounts payable	\$ 74,963	\$ 50,587	\$ 90,466
Salaries payable and related expenses	1,493,157	1,435,911	1,176,437
Accrued expenses	147,838	162,262	67,561
Deferred revenue	233,682	258,427	141,039
Current portion of long-term liabilities	<u>2,040,899</u>	<u>2,113,198</u>	<u>1,896,507</u>
Total current liabilities	3,990,539	4,020,385	3,372,010
Non-current portion of long-term obligations	<u>4,694,650</u>	<u>6,683,128</u>	<u>6,837,973</u>
Total liabilities	<u>8,685,189</u>	<u>10,703,513</u>	<u>10,209,983</u>
NET ASSETS			
Invested in capital assets, net of related debt	8,351,663	7,023,040	5,821,410
Restricted for			
Capital Projects	85,246	81,860	12,228
Debt Service	121,778	188,740	214,928
Unrestricted	<u>672,163</u>	<u>525,519</u>	<u>535,850</u>
Total net assets	<u>9,230,850</u>	<u>7,819,159</u>	<u>6,584,416</u>
Total liabilities and net assets	<u>\$ 17,916,039</u>	<u>\$ 18,522,672</u>	<u>\$ 16,794,399</u>

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

Elk Rapids Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

Functions/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes Net Assets
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Instruction	\$ 7,834,460	\$ 3,355	\$ 901,567	\$ -	\$ (6,929,538)
Supporting Services	4,196,308	9,412	128,389	-	(4,058,507)
Community Services	279,643	222,161	49,045	-	(8,437)
Food Service	639,205	330,939	224,397	-	(83,869)
Athletics	282,325	115,717	-	177,716	11,108
Other	90,897	-	-	-	(90,897)
Interest on long-term debt	258,750	-	-	-	(258,750)
Depreciation-unallocated	<u>788,998</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(788,998)</u>
Total governmental activities	<u>\$ 14,370,586</u>	<u>\$ 681,584</u>	<u>\$ 1,303,398</u>	<u>\$ 177,716</u>	<u>(12,207,888)</u>
General purpose revenues					
Property taxes					
Levied for general purposes					7,445,218
Levied for Debt Service					2,072,282
State school aid - unrestricted					3,569,392
Investment and other					<u>532,687</u>
Total general purpose revenues					<u>13,619,579</u>
Change in net assets					1,411,691
Net assets, beginning of year					<u>7,819,159</u>
Net assets, end of year					<u>\$ 9,230,850</u>

Elk Rapids Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2009

	General Fund	2008 School Improvement Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,934,361	\$ 797,438	\$ 378,238	\$ 3,110,037
Due from other governments	932,635	-	69,425	1,002,060
Accounts receivables	4,258	-	55,313	59,571
Due from other funds	1,046	-	6,284	7,330
Inventory	-	-	9,791	9,791
Deposits	5,990	-	-	5,990
Prepaid	26,138	-	-	26,138
 Total assets	 \$ 2,904,428	 \$ 797,438	 \$ 519,051	 \$ 4,220,917
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	\$ 1,535,664	\$ 75,617	\$ 65,508	\$ 1,676,789
Deferred revenue	146,251	-	150,766	297,017
Due to other funds	5,166	-	2,164	7,330
 Total liabilities	 1,687,081	 75,617	 218,438	 1,981,136
FUND BALANCES				
Reserved for debt retirement	-	-	160,947	160,947
Reserved for Capital Projects	-	721,821	66,135	787,956
Reserved for inventory	-	-	9,791	9,791
Reserved for Food Service	-	-	31,858	31,858
Reserved for prepaid	26,138	-	-	26,138
Unreserved and undesignated, reported in other governmental funds	-	-	31,882	31,882
Unreserved and undesignated, reported in General Fund	1,191,209	-	-	1,191,209
 Total fund balances	 1,217,347	 721,821	 300,613	 2,239,781
 Total liabilities and fund balances	 \$ 2,904,428	 \$ 797,438	 \$ 519,051	

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

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$23,122,166 and the accumulated depreciation is \$(9,419,714).

13,702,452

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.

Deferred Durant settlement receivable 63,335

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

Bonds and notes payable	\$ (6,144,804)	
Accrued interest on bonds	(39,169)	
Accumulated leave liability	(618,715)	
Unamortized refunding costs	27,970	(6,774,718)

Total net assets - governmental activities \$ 9,230,850

Elk Rapids Schools

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

Year Ended June 30, 2009

	General Fund	2008 School Improvement Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 7,445,218	\$ -	\$ 2,073,263	\$ 9,518,481
Interest	63,621	18,618	35,388	117,627
State revenues	3,755,415	-	37,940	3,793,355
Federal revenues	891,675	-	199,014	1,090,689
Other	429,922	-	842,154	1,272,076
Total revenues	12,585,851	18,618	3,187,759	15,792,228
Expenditures				
Instruction	7,841,084	-	-	7,841,084
Supporting Services	4,140,955	-	-	4,140,955
Community Services	51,068	-	225,610	276,678
Food Service	-	-	627,283	627,283
Athletics	-	-	264,419	264,419
Other	6,137	-	-	6,137
Debt Service				
Principal	117,822	-	1,959,951	2,077,773
Interest	12,559	-	249,266	261,825
Other	-	-	8,611	8,611
Other	-	10,450	37,686	48,136
Capital outlay	27,747	741,446	153,054	922,247
Total expenditures	12,197,372	751,896	3,525,880	16,475,148
REVENUES OVER (UNDER) EXPENDITURES	388,479	(733,278)	(338,121)	(682,920)
Other financing sources (uses)				
Operating transfers in	-	-	346,448	346,448
Operating transfers out	(290,000)	-	(56,448)	(346,448)
Total other financing sources (uses)	(290,000)	-	290,000	-
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	98,479	(733,278)	(48,121)	(682,920)
Fund balance, beginning of year	1,118,868	1,455,099	348,734	2,922,701
Fund balance, end of year	\$ 1,217,347	\$ 721,821	\$ 300,613	\$ 2,239,781

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

Elk Rapids Schools

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

Year Ended June 30, 2009

Total Net Change in Fund Balances - Governmental Funds \$ (682,920)

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

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

Capitalized outlays	\$ 829,708	
Depreciation expense	<u>(788,998)</u>	40,710

In the statement of activities, certain operating expenses (unused sick days) are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time used was more than the amounts earned by \$11,017. 11,017

Other long-term assets are not available to pay for current period expenditures, and, therefore, associated revenues are deferred in the funds. The previously deferred Durant settlement recognized in the current year in fund financial statements was \$9,951. (9,951)

Repayment of bond and notes principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 2,077,763

Amortization of deferred refunding costs (28,003)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities; however, interest expense is recognized as the interest accrues, regardless of when it is due. The lower interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds and notes payable. 3,075

Changes in Net Assets of Governmental Activities \$ 1,411,691

Elk Rapids Schools

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2009

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds Student Activities</u>
ASSETS		
Cash and cash equivalents	\$ 14,980	\$ 133,525
LIABILITIES AND NET ASSETS		
LIABILITIES		
Due to student groups	\$ -	\$ 133,525
NET ASSETS		
Reserved for scholarships	3,746	
Reserved for auditorium maintenance	8,126	
Reserved for alumni activities	<u>3,108</u>	
Total net assets	<u>\$ 14,980</u>	

Elk Rapids Schools

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2009

	<u>Private Purpose Trust Funds</u>
Additions	
Private donations and interest	\$ 3,872
Deductions	
Fees and other	<u>4,743</u>
Change in net assets	(871)
Net assets, beginning of year	<u>15,851</u>
Net assets, end of year	<u><u>\$ 14,980</u></u>

Elk Rapids Schools

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Elk Rapids Schools (the "School District") is a Michigan public school district consisting of two elementary buildings, one middle school and one high school building. The School District primarily serves the Elk Rapids community. As of June 30, 2009, the School District employed 98 professional staff and 74 non-professional staff and had 1,555 students enrolled within its School District.

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

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2009.

Financial Reporting Entity

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

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed.

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

NOTES TO FINANCIAL STATEMENTS - Continued

Fund Financial Statements

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The School District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

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

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

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

Fund Types and Major Funds

Activities in Major Funds

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

The 2008 School Improvement Fund is used to account for financial resources to be used for the school improvement project.

NOTES TO FINANCIAL STATEMENTS - Continued

Other Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Athletics Fund, the Food Service Fund and the Kids Club and Kinderpals Fund.

The School District has seven Debt Service Funds, which are used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

The School District has two non-major Capital Project Funds, which are used to account for financial resources to be used for the acquisition or construction of athletic equipment, athletic-related infrastructure and the bus facility project.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Private Purpose Trust Funds account for contributions earmarked for scholarships available to qualifying students of the School District, the maintenance of a school auditorium and alumni activities.

Cash and Cash Equivalents

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

Investments

Investments are stated at market value.

Inventories

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

Capital Assets

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

Buildings	25-50 years
Vehicles	10-12 years
Furniture and equipment	5-20 years

Long-term Debt, Deferred Debt Expense and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the interest method.

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

Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes. Designations of fund balance represent tentative management plans that are subject to change.

Program Revenues

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

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

Spending Policy

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

Encumbrance Accounting

The School District formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which goods or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

Allocation of Expenses

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

NOTES TO FINANCIAL STATEMENTS - Continued

The School District has elected to not allocate indirect expenses.

Use of Estimates in the Preparation of Financial Statements

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

Prior Year Comparative Information

The financial statements include certain prior year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School District's financial statements for the years ended June 30, 2007 and 2008.

NOTE B - BUDGETARY POLICY AND PRACTICE

The School District has adopted these procedures in establishing the budgets as reflected in the financial statements.

1. As early as possible in the preceding fiscal year (generally in the spring), the Superintendent formulates preliminary budgets for the coming year, which he submits to the Board of Education for their review.
2. A public hearing is held prior to June 30 on the proposed budgets to obtain taxpayer comments.
3. The Board of Education reviews the proposed budget and then in June adopts a formal resolution approving the needed appropriations for the coming operating year.
4. All transfers of budget amounts and any amendments to the formal Appropriation Act are approved by the Board of Education.
5. It is the Superintendent's responsibility to supervise and monitor the budget process. He does this by reviewing the monthly financial data and reporting and recommending any needed amendments to the Board of Education.
6. The budget is adopted on a basis consistent with generally accepted accounting principles.
7. The budgets presented in these financial statements are as originally adopted and as formally amended by the Board of Education.
8. All annual appropriations lapse at fiscal year-end.

NOTES TO FINANCIAL STATEMENTS - Continued

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2009, the School District incurred expenditures which were in excess of the amounts appropriated as reflected in the budgetary comparison schedule as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Other	\$ 187,748	\$ 188,162	\$ (414)

NOTE C - CASH AND EQUIVALENTS

At June 30, 2009, the School District's cash and cash equivalent investments include the following:

	<u>Total</u>
Cash on hand	\$ 588
Bank deposits	338,945
Investments	<u>2,919,009</u>
	<u>\$ 3,258,542</u>

Bank Deposits

	<u>Carrying Value</u>	<u>Uncollateralized Bank Balances</u>		<u>Total</u>
		<u>Insured</u>	<u>Uninsured</u>	
Bank deposits	<u>\$ 338,945</u>	<u>\$ 354,902</u>	<u>\$ -</u>	<u>\$ 354,902</u>

All of the School District's bank deposits are with financial institutions which provide FDIC insurance coverage.

Investments

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

1. Bonds, bills or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States or the State of Michigan.
2. Certificates of deposit issued by financial institutions organized and authorized to operate in Michigan.
3. Commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government or Federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the Federal deposit insurance corporation.

NOTES TO FINANCIAL STATEMENTS - Continued

5. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
6. Michigan Investment Liquid Asset Fund Plus ("MILAF").

Investments at June 30, 2009 consisted of the following:

Investment Type	Fair Value	Investment Maturities (in years)			
		Current	1-5	6-10	More than 10
MILAF	\$ 2,919,009	\$ 2,919,009	\$ -	\$ -	\$ -

Interest Rate Risk

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

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District's investment policy further limit it's investment choices as described above. The School District's investment in the MILAF investment pool was rated AAAM by Standard & Poor's.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

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

During the fiscal year, \$18 per \$1,000 of equalized non-principal residence property value of \$401.1 million and \$6 per \$1,000 of equalized commercial personal property value of \$6 million was levied for general operating purposes. For debt service purposes, \$2.39 per \$1,000 of equalized principal, non-principal residence property and commercial property value of \$863.4 million was levied for bonded debt repayments by the Debt Service Fund.

NOTES TO FINANCIAL STATEMENTS - Continued

Intergovernmental Receivables and Deferred Revenue

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

Amounts due from other governments at June 30, 2009 are as follows:

Due from the Federal Government		
Federal ARRA Grant	\$	578,125
Due from the State of Michigan		
State Aid		233,585
Durant funds receivable		63,335
Other		<u>127,015</u>
	\$	<u><u>1,002,060</u></u>

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2009</u>
Buildings	\$ 4,847,602	\$ 95,627	\$ -	\$ 4,943,229
Building improvements	13,951,564	359,501	-	14,311,065
Machinery and equipment	1,145,809	374,580	-	1,520,389
Software	17,882	-	-	17,882
Furniture and fixtures	1,069,976	-	-	1,069,976
Vehicles	<u>1,165,376</u>	<u>-</u>	<u>-</u>	<u>1,165,376</u>
Total depreciable assets	22,198,209	829,708	-	23,027,917
Less accumulated depreciation	(8,630,716)	(788,998)	-	(9,419,714)
Land	<u>94,249</u>	<u>-</u>	<u>-</u>	<u>94,249</u>
Total capital assets, net	<u>\$ 13,661,742</u>	<u>\$ 40,710</u>	<u>\$ -</u>	<u>\$ 13,702,452</u>

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

Unallocated	<u>\$ 788,998</u>
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NOTES TO FINANCIAL STATEMENTS - Continued

NOTE F - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2009 were as follows:

	Beginning Balance	New Debt	Payments	Ending Balance	Current Portion
General obligation bonds	\$7,863,286	\$ -	\$1,959,951	\$5,903,335	\$1,945,425
Unamortized refinancing costs	(55,973)	-	(28,003)	(27,970)	-
Notes payable	359,281	-	117,812	241,469	70,866
Accumulated leave liability	<u>629,732</u>	<u>-</u>	<u>11,017</u>	<u>618,715</u>	<u>24,608</u>
Long-term debt at June 30, 2009	<u>\$8,796,326</u>	<u>\$ -</u>	<u>\$2,060,777</u>	<u>\$6,735,549</u>	<u>\$2,040,899</u>

Payments on general obligation bonds are made by the Debt Service Fund. The notes payable and accumulated leave liability will be liquidated primarily by the General Fund.

At June 30, 2009, the School District's long-term debt consisted of the following:

2003 School Building and Site Bonds ; due in annual installments of \$601,394 to \$665,963 through May 2013; interest rate of 2.75% to 3.25%.	\$ 2,345,000
2002 Refunding Bonds ; due in an annual installment of \$1,269,406 in May 2010; interest rate of 3.625%.	1,225,000
2005 School Building and Site Bonds ; due in annual installments of \$31,026 to \$34,104 through May 2013; interest rate of 3.42%.	120,000
2007 School Bus Facility Bonds ; due in annual installments of \$98,835 to \$104,540, through May 2015; interest rate of 4.54%.	525,000
2008 School Improvement Bonds ; due in annual installments of \$123,750 to \$821,500 through May 2012; interest rate of 3.0%.	1,625,000
1998 School Improvement Bond (Durant) ; due in installments of \$12,556 to \$37,667 through May 2013; average interest rate of 4.76%. This debt will be repaid using revenues provided by the State of Michigan specifically for this purpose. If the Michigan Legislature fails to appropriate funds, the School District is not liable for repayment of these bonds.	<u>63,335</u>
Total general obligation bonds	5,903,335
Note payable to a bank , secured by buses, payable in monthly installments of \$6,629, including interest at 4.15%, with final payment due September 2012.	241,469
Accumulated leave liability	618,715
Unamortized refinancing costs	<u>(27,970)</u>
Total long-term debt	<u>\$ 6,735,549</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Total annual requirements to amortize bonds and notes payable outstanding as of June 30, 2009 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 2,016,291	\$ 203,303
2011	1,553,349	140,694
2012	1,583,428	85,646
2013	796,736	35,646
2014	95,000	8,853
2015	<u>100,000</u>	<u>4,540</u>
	<u>\$ 6,144,804</u>	<u>\$ 478,682</u>

Interest expense for the year ended June 30, 2009 was \$258,750 and interest paid for the year ended June 30, 2009 was \$261,825.

Accumulated Leave Liability

Employees of the School District accumulate earned but unused compensated sick leave days, as specified by the bargaining units' contract. 50% of sick leave is accrued when incurred for non-teachers and 40% for teachers. Upon either resignation or retirement, the employees are compensated at daily rates specified in the bargaining units' contracts.

Durant Settlement

As a result of the Durant v State of Michigan settlement regarding State underfunding of school revenues, the School District opted to participate in a bonding program enabling it to receive a lump-sum payment of \$178,810 on November 15, 1998. The debt will be repaid over a 15-year period beginning May 15, 1999 using revenues provided by the State specifically for this purpose.

As part of the Executive Budget Recommendation for fiscal year 2004, the State refunded the bonds. The refunding changes the payment schedule without changing the total payments. There were no debt service payments for fiscal years 2004 and 2005, and payments resumed in 2006. There were no debt service payments in 2007 and 2008, and payments resumed in 2009.

NOTE G - OPERATING LEASES

The School District leases various items of equipment pursuant to noncancellable leases which qualify as operating leases under generally accepted accounting principles. Net rental expense on operating leases for the year ended June 30, 2009 was \$18,547.

NOTES TO FINANCIAL STATEMENTS - Continued

The following is a schedule of annual future minimum lease payments required under noncancellable operating leases with initial or remaining lease terms in excess of one year as of June 30, 2009.

<u>Years Ending</u> <u>June 30,</u>	<u>Amount</u>
2010	\$ 18,547
2011	<u>15,456</u>
	<u>\$ 34,003</u>

NOTE H - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

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

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

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

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

Receivables and Payables

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

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds		
General Fund	\$ 1,046	\$ 5,166
Other Governmental Funds		
Food Service	6,284	-
Kids Club and Kinderpals	<u>-</u>	<u>2,164</u>
	<u>\$ 7,330</u>	<u>\$ 7,330</u>

Transfers and Payments

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

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

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

<u>Transfer in</u>	<u>Amount</u>	<u>Transfer out</u>	<u>Amount</u>
Major Governmental Funds		Major Governmental Funds	
General Fund	\$ -	General Fund	\$ 290,000
Other Governmental Funds		Other Governmental Funds	
Athletics	185,000	Athletic Fund	-
Food Service Fund	105,000	Food Service Fund	-
Athletic Complex Fund	-	Athletic Complex Fund	29,959
2005 School Bldg & Site Bond	29,959	2005 School Bldg & Site Bond	-
2003 Refunding Bond	-	2003 Refunding Bond	26,489
2002 Refunding Bond	<u>26,489</u>	2002 Refunding Bond	<u>-</u>
	<u>\$346,448</u>		<u>\$346,448</u>

NOTE J - PENSION PLAN

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

Funding Policy

Plan members who participate in MIP are required to contribute 3.0% to 4.3% of their annual covered salary; Plan members who participate in the Basic Plan may not contribute to the Plan; and the School District is required to contribute at an actuarially determined rate using the entry age actuarial cost method. The rate was 16.72% for the period July 1, 2008 to September 30, 2008 and 16.54% for the period October 1, 2008 to June 30, 2009 of annual covered payroll. The contribution requirements of plan members and the School District are established and may be amended by the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2009, 2008 and 2007 were \$1,234,840, \$1,262,276 and \$1,278,244, respectively, which is equal to the required contributions for each year.

Post-Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care are included as part of the School District's total contribution to the MPSERS plan discussed above.

NOTE K - COMMITMENTS AND CONTINGENCIES

School Improvement Commitment

The School District began work on a 2008 school improvement capital project during the year ended June 30, 2008. The School District has committed to a total project cost of approximately \$1,650,000. Of this amount, the School District issued bonds in the amount \$1,625,000. The remaining balance of approximately \$25,000 will be received in the form of interest income. As of June 30, 2009, \$922,290 has been expended to date, leaving a remaining capital acquisition commitment of approximately \$728,000. The 2008 School Improvement Fund balance was \$721,821 at June 30, 2009. The expected completion date is August 2011.

NOTES TO FINANCIAL STATEMENTS - Continued

Federal and State Grants

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

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Elk Rapids Education Association. The Board of Education and the Elk Rapids Education Association have a contract for the period September 1, 2009 through August 31, 2012.

The support personnel at the School District are organized under the Northern Michigan Education Association. The Board of Education and the Northern Michigan Education Association have a contract for the period July 1, 2007 through June 30, 2010.

The transportation personnel at the School District are organized under the Elk Rapids Schools Transportation Association. The Board of Education and the Elk Rapids Schools Transportation Association have a contract for September 1, 2008 through August 31, 2011.

NOTE L - SUBSEQUENT EVENT

The construction of four tennis courts was approved in July 2009. The construction was finished in September 2009 with an overall cost of approximately \$105,000. The funding came from a combination of Finish-the-Dream fundraising and Rotary Charities Grants.

REQUIRED SUPPLEMENTARY INFORMATION

Elk Rapids Schools

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2009

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
	Revenues				
Local and intermediate sources	\$ 7,478,362	\$ 7,564,174	\$ 7,558,330	\$ 85,812	\$ (5,844)
State revenues	4,560,005	3,752,390	3,755,415	(807,615)	3,025
Federal revenues	265,319	888,404	891,675	623,085	3,271
Other	<u>228,314</u>	<u>379,032</u>	<u>380,431</u>	<u>150,718</u>	<u>1,399</u>
Total revenues	<u>12,532,000</u>	<u>12,584,000</u>	<u>12,585,851</u>	<u>52,000</u>	<u>1,851</u>
Expenditures					
Current					
Instruction	7,912,540	7,870,888	7,845,477	41,652	25,411
Supporting Services	4,198,782	4,165,364	4,163,733	33,418	1,631
Other	<u>169,678</u>	<u>187,748</u>	<u>188,162</u>	<u>(18,070)</u>	<u>(414)</u>
Total expenditures	<u>12,281,000</u>	<u>12,224,000</u>	<u>12,197,372</u>	<u>57,000</u>	<u>26,628</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	251,000	360,000	388,479	109,000	28,479
Other financing sources (uses)					
Operating transfers out	<u>(251,000)</u>	<u>(290,000)</u>	<u>(290,000)</u>	<u>(39,000)</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	-	70,000	98,479	70,000	28,479
Fund balance, beginning of year	<u>1,118,868</u>	<u>1,118,868</u>	<u>1,118,868</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,118,868</u>	<u>\$ 1,188,868</u>	<u>\$ 1,217,347</u>	<u>\$ 70,000</u>	<u>\$ 28,479</u>

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

Elk Rapids Schools

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2009

	Special Revenue Funds			Debt Service Funds						Capital Projects			Total Non-Major Governmental
	Food Service	Athletics	Kids Club and Kinderpals	Durant 1998 School Improvement Bond	2002 Refunding Bond	2003 Refunding Bond	2003 School Bldg & Site Bond	2005 School Bldg & Site Bond	2007 School Bus Facilities Bond	2008 School Improvement Bond	Athletic Complex Fund	2007 School Bus Facility Fund	
ASSETS													
Cash and cash equivalents	\$ 24,320	\$ 46,084	\$ 16,576	\$ -	\$ 77,591	\$ -	\$ 56,600	\$ 467	\$ 8,004	\$ 18,579	\$ 130,017	\$ -	\$ 378,238
Due from other governments	6,090	-	-	63,335	-	-	-	-	-	-	-	-	69,425
Accounts receivables	3,618	4,936	729	-	3,577	-	1,422	-	245	140	40,646	-	55,313
Due from other funds	6,284	-	-	-	-	-	-	-	-	-	-	-	6,284
Inventory	9,791	-	-	-	-	-	-	-	-	-	-	-	9,791
Total assets	\$ 50,103	\$ 51,020	\$ 17,305	\$ 63,335	\$ 81,168	\$ -	\$ 58,022	\$ 467	\$ 8,249	\$ 18,719	\$ 170,663	\$ -	\$ 519,051
LIABILITIES AND FUND BALANCES													
LIABILITIES													
Accounts payable and accrued expenses	\$ 8,454	\$ 15,994	\$ 7,681	\$ -	\$ 216	\$ -	\$ 87	\$ -	\$ 14	\$ 10	\$ 33,052	\$ -	\$ 65,508
Deferred revenue	-	6,595	4,009	63,335	3,555	-	1,413	-	244	139	71,476	-	150,766
Due to other funds	-	-	2,164	-	-	-	-	-	-	-	-	-	2,164
Total liabilities	8,454	22,589	13,854	63,335	3,771	-	1,500	-	258	149	104,528	-	218,438
FUND BALANCES													
Reserved for debt retirement	-	-	-	-	77,397	-	56,522	467	7,991	18,570	-	-	160,947
Reserved for inventory	9,791	-	-	-	-	-	-	-	-	-	-	-	9,791
Reserved for food service	31,858	-	-	-	-	-	-	-	-	-	-	-	31,858
Reserved for Capital Projects	-	-	-	-	-	-	-	-	-	-	66,135	-	66,135
Unreserved and undesignated	-	28,431	3,451	-	-	-	-	-	-	-	-	-	31,882
Total fund balances	41,649	28,431	3,451	-	77,397	-	56,522	467	7,991	18,570	66,135	-	300,613
Total liabilities and fund balances	\$ 50,103	\$ 51,020	\$ 17,305	\$ 63,335	\$ 81,168	\$ -	\$ 58,022	\$ 467	\$ 8,249	\$ 18,719	\$ 170,663	\$ -	\$ 519,051

Elk Rapids Schools

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

Year Ended June 30, 2009

	Special Revenue Funds			Debt Service Funds						Capital Projects			Total Non-Major Governmental
	Food Service	Athletics	Kids Club and Kinderpals	Durant 1998 School Improvement Bond	2002 Refunding Bond	2003 Refunding Bond	2003 School Bldg & Site Bond	2005 School Bldg & Site Bond	2007 School Bus Facilities Bond	2008 School Improvement Bond	Athletic Complex Fund	2007 School Bus Facility Fund	
Revenues													
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 754,350	\$ 615,986	\$ 546,298	\$ -	\$ 95,998	\$ 60,631	\$ -	\$ -	\$ 2,073,263
Interest	1,281	60	400	-	12,216	9,930	8,651	136	708	369	1,496	141	35,388
State revenues	25,383	-	-	12,557	-	-	-	-	-	-	-	-	37,940
Federal revenues	199,014	-	-	-	-	-	-	-	-	-	-	-	199,014
Other	330,939	120,181	217,720	-	-	-	-	-	-	-	173,314	-	842,154
Total revenues	556,617	120,241	218,120	12,557	766,566	625,916	554,949	136	96,706	61,000	174,810	141	3,187,759
Expenditures													
Food Service	627,283	-	-	-	-	-	-	-	-	-	-	-	627,283
Athletics	-	264,419	-	-	-	-	-	-	-	-	-	-	264,419
Kids Club and Kinderpals	-	-	225,610	-	-	-	-	-	-	-	-	-	225,610
Debt Service													
Principal	-	-	-	9,951	740,000	645,000	475,000	25,000	65,000	-	-	-	1,959,951
Interest	-	-	-	2,606	69,381	20,963	83,269	4,959	26,786	41,302	-	-	249,266
Other	-	-	-	-	2,593	2,181	1,920	-	789	1,128	-	-	8,611
Capital outlay	11,922	16,206	2,389	-	-	-	-	-	-	-	107,902	14,635	153,054
Other	-	-	-	-	-	-	-	-	-	-	36,186	1,500	37,686
Total expenditures	639,205	280,625	227,999	12,557	811,974	668,144	560,189	29,959	92,575	42,430	144,088	16,135	3,525,880
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(82,588)	(160,384)	(9,879)	-	(45,408)	(42,228)	(5,240)	(29,823)	4,131	18,570	30,722	(15,994)	(338,121)
Operating transfers in	105,000	185,000	-	-	26,489	-	-	29,959	-	-	-	-	346,448
Operating transfers out	-	-	-	-	-	(26,489)	-	-	-	-	(29,959)	-	(56,448)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	22,412	24,616	(9,879)	-	(18,919)	(68,717)	(5,240)	136	4,131	18,570	763	(15,994)	(48,121)
Fund balance, beginning of year	19,237	3,815	13,330	-	96,316	68,717	61,762	331	3,860	-	65,372	15,994	348,734
Fund balance, end of year	<u>\$ 41,649</u>	<u>\$ 28,431</u>	<u>\$ 3,451</u>	<u>\$ -</u>	<u>\$ 77,397</u>	<u>\$ -</u>	<u>\$ 56,522</u>	<u>\$ 467</u>	<u>\$ 7,991</u>	<u>\$ 18,570</u>	<u>\$ 66,135</u>	<u>\$ -</u>	<u>\$ 300,613</u>

FEDERAL PROGRAMS

Elk Rapids Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2009

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Receivable (Deferred Revenue) June 30, 2008	Current Year Receipts	Current Year Expenditures	Receivable (Deferred Revenue) June 30, 2009
United States Department of Education						
Passed through Michigan Department of Education						
Education Stabilization Fund	84.394					
092525-0809		\$ 578,125	\$ -	\$ -	\$ 578,125	\$ 578,125
Title I Grants - Local Educational Agencies						
081530-0708	84.010	185,670	18,198	33,898	15,700	-
081530-0809		10,502	-	10,502	10,502	-
091530-0809		<u>188,584</u>	<u>-</u>	<u>139,104</u>	<u>173,896</u>	<u>34,792</u>
Total Title I Grants - Educationally Deprived		<u>384,756</u>	<u>18,198</u>	<u>183,504</u>	<u>200,098</u>	<u>34,792</u>
Title VI - Innovation Educational Program Strategies						
Self Provider Self Review	84.027					
080440-0708		<u>4,000</u>	<u>2,000</u>	<u>2,000</u>	<u>-</u>	<u>-</u>
Technology Literacy Challenge						
084290-0708	84.318	1,745	1,500	1,500	-	-
094290-0809		<u>2,503</u>	<u>-</u>	<u>-</u>	<u>2,503</u>	<u>2,503</u>
Total Technology Literacy Challenge		<u>4,248</u>	<u>1,500</u>	<u>1,500</u>	<u>2,503</u>	<u>2,503</u>
Title IIA - Improving Teacher Quality						
080520-0708	84.367	55,260	8,037	8,037	-	-
080520-0809		26,076	-	26,076	26,076	-
090520-0809		<u>56,148</u>	<u>-</u>	<u>12,925</u>	<u>28,031</u>	<u>15,106</u>
Total Improving Teacher Quality		<u>137,484</u>	<u>8,037</u>	<u>47,038</u>	<u>54,107</u>	<u>15,106</u>
Total passed through Michigan Department of Education		<u>1,108,613</u>	<u>29,735</u>	<u>234,042</u>	<u>834,833</u>	<u>630,526</u>
Passed through Traverse Bay Area ISD						
Transition Grant	84.027A					
090490-TS		174	-	174	174	-
PreSchool Incentive	84.173A					
090460-0809		12,330	-	12,330	12,330	-
Discovery Champions	84.318					
084240-Pro4		435	-	435	435	-
Technology Literacy	84.318					
09420-MOD		<u>87</u>	<u>-</u>	<u>87</u>	<u>87</u>	<u>-</u>
Total passed through Traverse Bay Area ISD		<u>13,026</u>	<u>-</u>	<u>13,026</u>	<u>13,026</u>	<u>-</u>

Elk Rapids Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

For the Year Ended June 30, 2009

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	(Deferred Revenue) June 30, 2008	Current Year Receipts	Current Year Expenditures	(Deferred Revenue) June 30, 2009
Passed through Kaleva Norman Dickson School District						
Technology Literacy Challenge	84.318	\$ 2,000	\$ (1,695)	\$ -	\$ 1,695	\$ -
Technology Literacy Challenge	84.318	<u>2,000</u>	<u>(2,000)</u>	<u>-</u>	<u>2,000</u>	<u>-</u>
Total passed through Kaleva Norman Dickson School District		<u>4,000</u>	<u>(3,695)</u>	<u>-</u>	<u>3,695</u>	<u>-</u>
Total U.S. Department of Education		<u>1,125,639</u>	<u>26,040</u>	<u>247,068</u>	<u>851,554</u>	<u>630,526</u>
United States Department of Agriculture						
Nutrition Cluster						
Passed through Michigan Department of Education						
National School Lunch Program						
081950	10.555	3,157	-	3,157	3,157	-
081960		13,829	-	13,829	13,829	-
091950		25,698	-	25,698	25,698	-
091960		<u>106,665</u>	<u>-</u>	<u>106,665</u>	<u>106,665</u>	<u>-</u>
Total National School Lunch Program		<u>149,349</u>	<u>-</u>	<u>149,349</u>	<u>149,349</u>	<u>-</u>
Food Distribution						
Entitlement Commodities	10.555	11,575	-	11,575	11,575	-
Bonus Commodities		<u>1,462</u>	<u>-</u>	<u>1,462</u>	<u>1,462</u>	<u>-</u>
Total Food Distribution		<u>13,037</u>	<u>-</u>	<u>13,037</u>	<u>13,037</u>	<u>-</u>
Total Nutrition Cluster		<u>162,386</u>	<u>-</u>	<u>162,386</u>	<u>162,386</u>	<u>-</u>
National School Breakfast Program						
081970	10.553	3,541	-	3,541	3,541	-
091970		<u>33,087</u>	<u>-</u>	<u>33,087</u>	<u>33,087</u>	<u>-</u>
Total National School Breakfast Program		<u>36,628</u>	<u>-</u>	<u>36,628</u>	<u>36,628</u>	<u>-</u>
Total U.S. Department of Agriculture		<u>199,014</u>	<u>-</u>	<u>199,014</u>	<u>199,014</u>	<u>-</u>
United States Department of Health and Human Services						
Passed through Traverse Bay Area ISD						
Medicaid - School Based Services	93.778	<u>40,121</u>	<u>-</u>	<u>40,121</u>	<u>40,121</u>	<u>-</u>
Total Federal Financial Assistance		<u>\$ 1,364,774</u>	<u>\$ 26,040</u>	<u>\$ 486,203</u>	<u>\$ 1,090,689</u>	<u>\$ 630,526</u>

Elk Rapids Schools

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2009

- Note 1** The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting.
- Note 2** Management has reported that expenditures in this Schedule of Expenditures of Federal Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3** The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete, accurate and contain information that is supported by the books and records from which the basic financial statements have been prepared. Grant receipts reported on the Schedule of Expenditures of Federal Awards, as passed through the Michigan Department of Education, reconcile to the Grant Section Auditor's Report (R7120). Unreconciled differences have been disclosed to the auditor.
- Note 4** A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards with Federal sources reported on the financial statements are as follows:

Federal expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 1,090,689</u>
Federal sources per financial statements	<u>\$ 1,090,689</u>



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

Board of Education
Elk Rapids Schools

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Elk Rapids Schools* (the "School District") as of and for the year ended June 30, 2009, which collectively comprise the School District's basic financial statements and have issued our report thereon dated September 17, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2009-1 to be a significant deficiency in internal control over financial reporting.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in the accompanying Schedule of Findings and Questioned Costs is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of 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*.

The School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, Michigan Department of Education, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

September 17, 2009



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the *Elk Rapids Schools* (the "School District") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2009. The School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2009.

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Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the School District's 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Education, management, Michigan Department of Education, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

September 17, 2009

Elk Rapids Schools

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2009

PRIOR YEAR

No findings.

CURRENT YEAR

Section 1 - Summary of Auditors' Results

1. The auditor's report represents an unqualified opinion on the financial statements of Elk Rapids Schools.
2. There was one material weakness in internal control reported as a result of the audit of the financial statements. See Section 2 - Findings in Accordance with Governmental Auditing Standards.
3. There were no compliance findings disclosed that were material to the School District's financial statements.
4. There were no significant deficiencies in internal control over major programs.
5. The report over compliance for major programs was unqualified.
6. There were no audit findings relative to major programs that are required to be reported.
7. The School District's major program was the Education Stabilization Fund (CFDA 84.394).
8. The dollar threshold for distinguishing between Type A and Type B programs was \$300,000.
9. The School District does not qualify as a low risk auditee.

Section 2 - Findings in Accordance with Governmental Auditing Standards

Finding Number 2009-1

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

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

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

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

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

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

No findings or questioned costs.