

Elk Rapids Schools

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2010

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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, 2010.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$10,508,347 (*net assets*). Of this amount, *unrestricted net assets* had a balance of \$677,937.
- The government's total net assets increased by \$1,277,497.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,704,860, a decrease of \$534,921 in comparison with the prior year. This *net* decrease is mainly attributable to the spend-down of the 2008 School Improvement Bond Project. See page 30 for highlights of this net decrease. Of the \$1,704,860, approximately 71%, or \$1,208,859 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 \$1,208,859 or 9.8 percent of total general fund expenditures.
- Investments for the future were made by the spending of \$692,119 on infrastructural acquisitions and improvements. Of these acquisitions, \$146,080 is attributable to the construction of four tennis courts and a volunteer-built soccer pressbox accounted for within the Athletic Complex Fund (a fundraising capital projects fund.) The 2008 School Improvement Fund invested \$523,065 in new computers, remodeling, energy efficiency improvements and three new school buses.

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, 2010.

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 twelve 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 \$10,508,347 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

	Governmental Activities	
	2010	2009
Assets		
Current and other assets	\$ 3,455,289	\$4,213,587
Capital assets, net	<u>13,536,009</u>	<u>13,702,452</u>
Total assets	<u>16,991,298</u>	<u>17,916,039</u>
Liabilities		
Current liabilities	3,339,857	3,990,539
Long-term liabilities outstanding	<u>3,143,094</u>	<u>4,694,650</u>
Total liabilities	<u>6,482,951</u>	<u>8,685,189</u>
Net assets		
Invested in capital assets, net of related debt	9,631,115	8,351,663
Restricted	199,295	207,024
Unrestricted	<u>677,937</u>	<u>672,163</u>
Total net assets	<u>\$ 10,508,347</u>	<u>\$ 9,230,850</u>

Additional components of the District's net assets include \$144,460 for Debt service, and \$54,835 for capital projects. These represent resources that are subject to external restrictions on how they may be used. The remaining component of *net assets*, \$677,937 represents *unrestricted net assets*.

The government's net assets increased by \$1,277,497 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 \$7,237 per student.

Within the past decade, the District's enrollment has ranged between 1,500 and 1,600 students.

District's Changes in Net Assets

	Governmental Activities	
	2010	2009
Revenue		
Program revenue		
Charges for services	\$ 670,069	\$ 681,584
Operating grants/contributions	1,299,533	1,303,398
Capital grants/contributions	182,141	177,716
General revenue		
Property taxes	9,725,500	9,517,500
State school aid	3,177,202	3,569,392
Unrestricted investment earnings and other	490,320	532,687
Total Revenue	15,544,765	15,782,277
Expenses		
Instruction	\$7,964,975	\$7,834,460
Supporting services	4,048,025	4,196,308
Community services	273,536	279,643
Food services	634,424	639,205
Athletics	218,604	282,325
Depreciation – unallocated	858,562	788,998
Interest on long-term debt	192,216	258,750
Other	76,926	90,897
Total Expenses	14,267,268	14,370,586
Increase in net assets	1,277,497	1,411,691
Net assets, beginning of year	9,230,850	7,819,159
Net assets, end of year	\$ 10,508,347	\$ 9,230,850

Governmental activities. Net assets increased by \$1,277,497. The key elements of this increase are as follows:

- The \$2,016,291 *reduction* of Bonded and Bus Loan debt outstanding offset \$858,562 of depreciation expense incurred from capital assets by \$1,157,729. This provided a direct increase in the equity attributable to the District's capital assets.

- Net assets related to the release of previously deferred grants of \$66,476 became recognized when they were combined with other fundraising proceeds to complete a \$106,080 tennis court project.
- Net assets related to the in-kind value of \$40,000 attained from a volunteer-built soccer pressbox.

Financial Analysis of the Government’s Funds

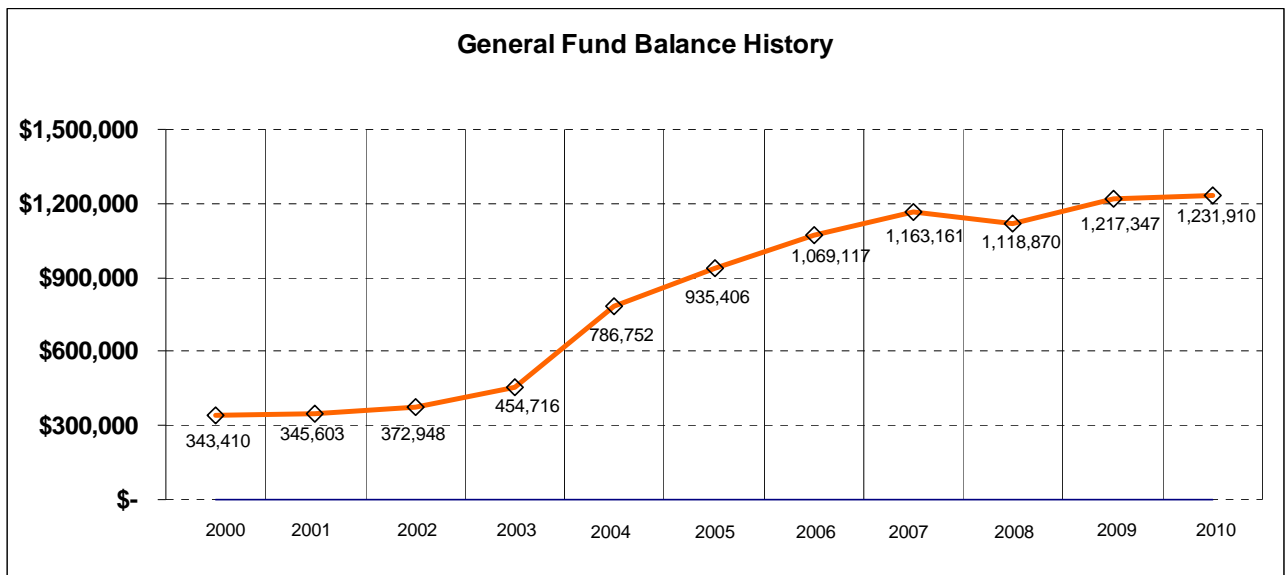
As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 \$1,704,860, a decrease of \$534,921 in comparison with the prior year. Approximately 71% of this total amount (\$1,208,859) 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 \$1,208,859. 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 9.8 percent of total general fund expenditures.

The fund balance of the District’s general fund increased by \$14,563 during the current fiscal year.



The Food Service Fund has a total fund balance of \$42,659, which increased by \$1,010.

The Athletics Fund has a total fund balance of \$31,386, which increased by \$2,955.

The Preschool & Kid's Club Fund has a total fund balance of \$819, which decreased by \$2,632.

The combined debt service funds have a total fund balance of \$172,542, which increased by \$11,595.

The Athletics Complex Fund has a total fund balance of \$34,924, which decreased by \$31,211. This fund is supported primarily by grants and donations related to a fundraising campaign titled 'Finish the Dream.'

The 2008 School Improvement capital project fund has a total fund balance of \$190,620, which decreased by \$531,201. 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 \$165 per-pupil cut (later amended to \$154 per-pupil) enacted by the state in the Fall of 2009 caused further revenue variances. 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, 2010, amounted to \$13,536,009 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was 1.2 percent.

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

- \$38,188 spent on energy efficiency systems and upgrades across the district. Funding was supported with bond proceeds from the 2008 School Improvement Fund.
- \$42,088 spent on new hallway flooring in the high school. Funding was supported with bond proceeds from the 2008 School Improvement Fund.
- \$218,717 for technology upgrades. Funding was supported with bond proceeds from the 2008 School Improvement Fund.
- \$146,080 in Athletic Complex Fund expenditures for four new tennis courts and a volunteer-built soccer pressbox. Funding support was provided by grants from 'finish the dream' fundraising.
- \$210,393 expended for the addition of three new school buses. Funding was supported with bond proceeds from the 2008 School Improvement Fund.

District's Capital Assets

(net of depreciation)

June 30, 2010

	Governmental <u>Activities</u>
Land	\$ 94,249
Buildings and building improvements	11,881,689
Machinery and equipment	741,808
Furniture and fixtures	150,729
Software	894
Vehicles	<u>666,640</u>
Total net assets	<u>\$ 13,536,009</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 \$52,910. 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 2003 School Building and Site debt outstanding of \$1,815,000. 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 \$90,000. 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 \$450,000. 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 \$1,550,000. 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 an installment purchase agreement outstanding of \$170,603. 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 \$2,016,291 (32.8 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 2010-11 fiscal year:

- The prolonged economic downswing of Michigan's economy has been a continuing concern. Although currently approved, the State Aid Bill could be subject to adverse revisions later in the year. 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 continue to present budgeting challenges for all Michigan school districts. Careful attention to official pupil counts and interim tallies is undertaken to assist with trending projections needed for budget forecasting.
- The continued economic slowdown affecting the State of Michigan could result in insufficient per-pupil increases in 2011-12. The impact from a funding freeze from 2010-11 levels would present very serious budgetary challenges for all districts. Spending decisions for 2010-11 are being made with consideration of potential 2011-12 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.



Business and Financial Advisors
Our clients' success – our business

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA

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 *Elk Rapids Schools* (the "School District") as of and for the year ended June 30, 2010, 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 2009 and 2008 financial statements and, in our reports dated September 17, 2009 and October 6, 2008, 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, 2010, 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



415 Munson Avenue, Post Office Box 947
Traverse City, Michigan 49685-0947
231.946.1722, FAX: 231.946.2762
www.dgncpa.com

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i through viii and page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's financial statements as a whole. The combining financial statements and other supplemental information on pages 29 - 32 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. The combining financial statements and other supplemental information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Dennis, Gartland & Niergarth

September 29, 2010

Elk Rapids Schools

STATEMENT OF NET ASSETS

June 30, 2010

	2010	For Comparative Purposes Only	
		2009	2008
	<u>Governmental Activities</u>	<u>Governmental Activities</u>	<u>Governmental Activities</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,478,144	\$ 3,110,037	\$ 3,765,142
Due from other governments	915,501	1,002,060	1,034,483
Accounts receivables	23,211	59,571	16,641
Inventory	10,792	9,791	4,911
Deposits	4,590	5,990	18,490
Prepays	<u>23,051</u>	<u>26,138</u>	<u>21,263</u>
Total current assets	3,455,289	4,213,587	4,860,930
Capital assets, net of accumulated depreciation	<u>13,536,009</u>	<u>13,702,452</u>	<u>13,661,742</u>
Total assets	<u>\$ 16,991,298</u>	<u>\$ 17,916,039</u>	<u>\$ 18,522,672</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities			
Accounts payable	\$ 102,936	\$ 74,963	\$ 50,587
Salaries payable and related expenses	1,349,468	1,493,157	1,435,911
Accrued expenses	62,377	147,838	162,262
Deferred revenue	210,820	233,682	258,427
Current portion of long-term liabilities	<u>1,614,256</u>	<u>2,040,899</u>	<u>2,113,198</u>
Total current liabilities	3,339,857	3,990,539	4,020,385
Non-current portion of long-term obligations	<u>3,143,094</u>	<u>4,694,650</u>	<u>6,683,128</u>
Total liabilities	<u>6,482,951</u>	<u>8,685,189</u>	<u>10,703,513</u>
NET ASSETS			
Invested in capital assets, net of related debt	9,631,115	8,351,663	7,023,040
Restricted for			
Capital Projects	54,835	85,246	81,860
Debt Service	144,460	121,778	188,740
Unrestricted	<u>677,937</u>	<u>672,163</u>	<u>525,519</u>
Total net assets	<u>10,508,347</u>	<u>9,230,850</u>	<u>7,819,159</u>
Total liabilities and net assets	<u>\$ 16,991,298</u>	<u>\$ 17,916,039</u>	<u>\$ 18,522,672</u>

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

Elk Rapids Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

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	\$ 7,964,975	\$ 5,310	\$ 875,657	\$ -	\$ (7,084,008)
Supporting Services	4,048,025	27,825	112,796	-	(3,907,404)
Community Services	273,536	213,299	47,250	-	(12,987)
Food Service	634,424	306,731	263,830	-	(63,863)
Athletics	218,604	116,904	-	182,141	80,441
Other	76,926	-	-	-	(76,926)
Interest on long-term debt	192,216	-	-	-	(192,216)
Depreciation-unallocated	<u>858,562</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(858,562)</u>
Total governmental activities	<u>\$ 14,267,268</u>	<u>\$ 670,069</u>	<u>\$ 1,299,533</u>	<u>\$ 182,141</u>	<u>(12,115,525)</u>
General purpose revenues					
Property taxes					
Levied for general purposes					7,615,865
Levied for Debt Service					2,109,635
State school aid - unrestricted					3,177,202
Investment and other					<u>490,320</u>
Total general purpose revenues					<u>13,393,022</u>
Change in net assets					1,277,497
Net assets, beginning of year					<u>9,230,850</u>
Net assets, end of year					<u>\$ 10,508,347</u>

Elk Rapids Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,962,302	\$ 515,842	\$ 2,478,144
Due from other governments	855,093	60,408	915,501
Accounts receivables	346	22,865	23,211
Due from other funds	2,967	1,727	4,694
Inventory	-	10,792	10,792
Deposits	4,590	-	4,590
Prepaid	23,051	-	23,051
	<u>\$ 2,848,349</u>	<u>\$ 611,634</u>	<u>\$ 3,459,983</u>
Total assets			
	<u>\$ 2,848,349</u>	<u>\$ 611,634</u>	<u>\$ 3,459,983</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued expenses	\$ 1,427,001	\$ 59,698	\$ 1,486,699
Deferred revenue	187,711	76,019	263,730
Due to other funds	1,727	2,967	4,694
	<u>1,616,439</u>	<u>138,684</u>	<u>1,755,123</u>
Total liabilities	<u>1,616,439</u>	<u>138,684</u>	<u>1,755,123</u>
FUND BALANCES			
Reserved for debt retirement	-	172,542	172,542
Reserved for Capital Projects	-	225,544	225,544
Reserved for inventory	-	10,792	10,792
Reserved for Food Service	-	31,867	31,867
Reserved for prepaid	23,051	-	23,051
Unreserved and undesignated, reported in special revenue funds	-	32,205	32,205
Unreserved and undesignated, reported in General Fund	1,208,859	-	1,208,859
	<u>1,208,859</u>	<u>-</u>	<u>1,208,859</u>
Total fund balances	<u>1,231,910</u>	<u>472,950</u>	<u>1,704,860</u>
Total liabilities and fund balances	<u>\$ 2,848,349</u>	<u>\$ 611,634</u>	<u>\$ 3,459,983</u>

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 \$23,468,983 and the accumulated depreciation is \$(9,932,974).

13,536,009

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

Deferred Durant settlement receivable 52,910

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

Installment purchase agreement and bonds payable	\$ (4,128,513)	
Accrued interest on bonds	(28,082)	
Accumulated leave liability	(628,837)	<u>(4,785,432)</u>

Total net assets - governmental activities \$ 10,508,347

Elk Rapids Schools

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

Year Ended June 30, 2010

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 7,615,865	\$ 2,099,425	\$ 9,715,290
Interest	13,104	14,575	27,679
State revenues	3,367,309	40,708	3,408,017
Federal revenues	962,843	235,678	1,198,521
Other	<u>409,553</u>	<u>796,131</u>	<u>1,205,684</u>
Total revenues	<u>12,368,674</u>	<u>3,186,517</u>	<u>15,555,191</u>
Expenditures			
Instruction	7,942,477	-	7,942,477
Supporting Services	4,030,797	-	4,030,797
Community Services	49,506	222,527	272,033
Food Service	-	627,247	627,247
Athletics	-	217,829	217,829
Other	11,788	-	11,788
Debt Service			
Principal	70,866	1,945,425	2,016,291
Interest and fees	8,683	200,992	209,675
Other	-	30,797	30,797
Capital outlay	<u>37,994</u>	<u>693,184</u>	<u>731,178</u>
Total expenditures	<u>12,152,111</u>	<u>3,938,001</u>	<u>16,090,112</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>216,563</u>	<u>(751,484)</u>	<u>(534,921)</u>
Other financing sources (uses)			
Operating transfers in	-	271,096	271,096
Operating transfers out	<u>(202,000)</u>	<u>(69,096)</u>	<u>(271,096)</u>
Total other financing sources (uses)	<u>(202,000)</u>	<u>202,000</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	14,563	(549,484)	(534,921)
Fund balance, beginning of year	<u>1,217,347</u>	<u>1,022,434</u>	<u>2,239,781</u>
Fund balance, end of year	<u>\$ 1,231,910</u>	<u>\$ 472,950</u>	<u>\$ 1,704,860</u>

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, 2010

Total Net Change in Fund Balances - Governmental Funds \$ (534,921)

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 depreciation exceeds capitalized outlays in the period.

Capitalized outlays	\$ 692,119	
Depreciation expense	<u>(858,562)</u>	(166,443)

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 earned was more than the amounts used by \$10,122. (10,122)

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 \$10,425. (10,425)

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. 2,016,291

Amortization of deferred refunding costs (27,970)

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. 11,087

Changes in Net Assets of Governmental Activities \$ 1,277,497

Elk Rapids Schools

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2010

	Private Purpose Trust Funds	<u>Agency Funds</u> Student Activities
ASSETS		
Cash and cash equivalents	\$ 11,941	\$ 149,160
LIABILITIES AND NET ASSETS		
LIABILITIES		
Due to student groups	\$ -	\$ 149,160
NET ASSETS		
Reserved for scholarships	3,753	
Reserved for auditorium maintenance	5,074	
Reserved for alumni activities	<u>3,114</u>	
Total net assets	<u>\$ 11,941</u>	

Elk Rapids Schools

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2010

	<u>Private Purpose Trust Funds</u>
Additions	
Private donations and interest	\$ 5,324
Deductions	
Auditorium maintenance	<u>8,363</u>
Change in net assets	(3,039)
Net assets, beginning of year	<u>14,980</u>
Net assets, end of year	<u><u>\$ 11,941</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, 2010, the School District employed 95 professional staff and 77 non-professional staff and had 1,537 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, 2010.

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.

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 Preschool and Kid's Club Fund. The School District has six 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 school improvement projects.

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, 2009 and 2008.

Accounting Changes

The School District will implement the provisions of Governmental Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the year ending June 30, 2011. In accordance with the standard, fund balance will be classified as nonspendable, restricted, committed, assigned or unassigned, and the Athletics Fund will be closed into the General Fund.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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.

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, 2010, the School District was in compliance with the Act.

NOTE C - CASH AND EQUIVALENTS

At June 30, 2010, the School District's cash and cash equivalent investments include the following:

	<u>Total</u>
Cash on hand	\$ 521
Bank deposits	1,284,501
Investments	<u>1,354,223</u>
	<u>\$ 2,639,245</u>

Bank Deposits

	<u>Carrying Value</u>	<u>Uncollateralized Bank Balances</u>		<u>Total</u>
		<u>Insured</u>	<u>Uninsured</u>	
Bank deposits	<u>\$ 1,284,501</u>	<u>\$ 1,298,959</u>	<u>\$ -</u>	<u>\$ 1,298,959</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, 2010 consisted of the following:

Investment Type	Fair Value	Investment Maturities (in years)			
		Current	1-5	6-10	More than 10
MILAF	\$ 1,354,223	\$ 1,354,223	\$ -	\$ -	\$ -

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 limits its 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 \$412.4 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, \$2.35 per \$1,000 of equalized principal, non-principal residence property and commercial property value of \$892.9 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, 2010 are as follows:

Due from the State of Michigan	
State Aid	\$ 644,686
Durant funds receivable	52,910
Other	<u>217,905</u>
	<u>\$ 915,501</u>

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2010</u>
Buildings	\$ 4,943,229	\$ 40,000	\$ -	\$ 4,983,229
Building improvements	14,311,065	196,776	-	14,507,841
Machinery and equipment	1,520,389	231,271	(168,468)	1,583,192
Software	17,882	-	-	17,882
Furniture and fixtures	1,069,976	13,679	-	1,083,655
Vehicles	<u>1,165,376</u>	<u>210,393</u>	<u>(176,834)</u>	<u>1,198,935</u>
Total depreciable assets	23,027,917	692,119	(345,302)	23,374,734
Less accumulated depreciation	(9,419,714)	(858,562)	345,302	(9,932,974)
Land	<u>94,249</u>	<u>-</u>	<u>-</u>	<u>94,249</u>
Total capital assets, net	<u>\$ 13,702,452</u>	<u>\$ (166,443)</u>	<u>\$ -</u>	<u>\$ 13,536,009</u>

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

Unallocated	<u>\$ 858,562</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, 2010 were as follows:

	Beginning Balance	New Debt	Payments	Ending Balance	Current Portion
General obligation bonds	\$5,903,335	\$ -	\$1,945,425	\$3,957,910	\$ 1,479,486
Unamortized refinancing costs	(27,970)	-	(27,970)	-	-
Installment purchase agreement	241,469	-	70,866	170,603	73,863
Accumulated leave liability	<u>618,715</u>	<u>10,122</u>	<u>-</u>	<u>628,837</u>	<u>60,907</u>
Long-term debt at June 30, 2010	<u>\$6,735,549</u>	<u>\$ 10,122</u>	<u>\$1,988,321</u>	<u>\$4,757,350</u>	<u>\$ 1,614,256</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, 2010, the School District's long-term debt consisted of the following:

2003 School Building and Site Bonds ; due in annual installments of \$621,819 to \$665,963 through May 2013; interest rate of 3.00% to 3.25%.	\$ 1,815,000
2005 School Building and Site Bonds ; due in annual installments of \$31,026 to \$33,078 through May 2013; interest rate of 3.42%.	90,000
2007 School Bus Facility Bonds ; due in annual installments of \$100,430 to \$104,540, through May 2015; interest rate of 4.54%.	450,000
2008 School Improvement Bonds ; due in annual installments of \$798,250 to \$821,500 through May 2012; interest rate of 3.0%.	1,550,000
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>52,910</u>
Total general obligation bonds	3,957,910
Installment purchase agreement , secured by buses, payable in monthly installments of \$6,629, including interest at 4.15%, with final payment due September 2012.	170,603
Accumulated leave liability	<u>628,837</u>
Total long-term debt	<u>\$ 4,757,350</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Total annual requirements to amortize bonds and notes payable outstanding as of June 30, 2010, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
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>\$ 4,128,513</u>	<u>\$ 275,379</u>

Interest expense for the year ended June 30, 2010 was \$192,216, and interest paid for the year ended June 30, 2010 was \$209,675.

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, 2010, 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, 2010.

<u>Years Ending</u> <u>June 30,</u>	<u>Amount</u>
2011	\$ 15,456

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	\$ 2,967	\$ 1,727
Other Governmental Funds		
Food Service	1,727	-
Preschool and Kid's Club Fund	-	1,266
2008 School Improvement Fund	<u>-</u>	<u>1,701</u>
	<u>\$ 4,694</u>	<u>\$ 4,694</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	\$ 202,000
Other Governmental Funds		Other Governmental Funds	
Athletics	130,000	Athletics	-
Food Service Fund	64,000	Food Service Fund	-
Preschool and Kid's Club Fund	8,000	Preschool and Kid's Club Fund	-
Athletic Complex Fund	-	Athletic Complex Fund	34,104
2008 School Improvement Bond	34,992	2008 School Improvement Bond	-
2005 School Bldg & Site Bond	34,104	2005 School Bldg & Site Bond	-
2002 Refunding Bond	<u>-</u>	2002 Refunding Bond	<u>34,992</u>
	<u>\$ 271,096</u>		<u>\$ 271,096</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 16.54% for the period July 1, 2009 to September 30, 2009 and 16.94% for the period October 1, 2009 to June 30, 2010 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, 2010, 2009 and 2008, were \$1,261,956, \$1,234,840 and \$1,262,276, 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 \$1,646,000. Of this amount, the School District issued bonds in the amount \$1,625,000. The remaining balance of approximately \$21,000 will be received in the form of interest income. As of June 30, 2010, \$1,454,291 has been expended to date, leaving a remaining capital acquisition commitment of approximately \$192,000. The project was considered complete as of June 30, 2010. The remaining 2008 School Improvement Fund balance of \$190,620 at June 30, 2010, is available for projects detailed in the bond issue or will be transferred to the related debt service fund.

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, 2010 through June 30, 2011.

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 School District has evaluated events and transactions to June 30, 2010 for potential recognition and disclosure through September 29, 2010, the date the financial statements were available to be issued. Management has not identified any subsequent events through September 29, 2010.

REQUIRED SUPPLEMENTARY INFORMATION

Elk Rapids Schools

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2010

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
	Revenues				
Local and intermediate sources	\$ 7,622,941	\$ 7,780,504	\$ 7,783,040	\$ 157,563	\$ 2,536
State revenues	3,529,012	3,353,376	3,367,309	(175,636)	13,933
Federal revenues	1,118,147	977,241	962,843	(140,906)	(14,398)
Other	<u>171,900</u>	<u>219,879</u>	<u>255,482</u>	<u>47,979</u>	<u>35,603</u>
Total revenues	<u>12,442,000</u>	<u>12,331,000</u>	<u>12,368,674</u>	<u>(111,000)</u>	<u>37,674</u>
Expenditures					
Current					
Instruction	7,907,200	7,968,963	7,954,853	(61,763)	14,110
Supporting Services	4,196,641	4,083,184	4,056,339	113,457	26,845
Other	<u>135,159</u>	<u>141,853</u>	<u>140,919</u>	<u>(6,694)</u>	<u>934</u>
Total expenditures	<u>12,239,000</u>	<u>12,194,000</u>	<u>12,152,111</u>	<u>45,000</u>	<u>41,889</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	203,000	137,000	216,563	(66,000)	79,563
Other financing uses					
Operating transfers out	<u>(203,000)</u>	<u>(202,000)</u>	<u>(202,000)</u>	<u>1,000</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-	(65,000)	14,563	(65,000)	79,563
Fund balance, beginning of year	<u>1,217,347</u>	<u>1,217,347</u>	<u>1,217,347</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,217,347</u>	<u>\$ 1,152,347</u>	<u>\$ 1,231,910</u>	<u>\$ (65,000)</u>	<u>\$ 79,563</u>

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

Elk Rapids Schools

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2010

	Special Revenue Funds			Debt Service Funds					Capital Projects		Total Non-Major Governmental
	Food Service	Athletics	Preschool and Kid's Club Fund	Durant 1998 School Improvement Bond	2003 School Bldg & Site Bond	2005 School Bldg & Site Bond	2007 School Bus Facilities Bond	2008 School Improvement Bond	Athletic Complex Fund	2008 School Improvement Fund	
ASSETS											
Cash and cash equivalents	\$ 29,057	\$ 38,488	\$ 18,706	\$ -	\$ 63,945	\$ 512	\$ 16,128	\$ 90,295	\$ 32,094	\$ 226,617	\$ 515,842
Due from other governments	7,498	-	-	52,910	-	-	-	-	-	-	60,408
Accounts receivables	7,310	-	390	-	3,436	-	601	8,298	2,830	-	22,865
Due from other funds	1,727	-	-	-	-	-	-	-	-	-	1,727
Inventory	10,792	-	-	-	-	-	-	-	-	-	10,792
Total assets	\$ 56,384	\$ 38,488	\$ 19,096	\$ 52,910	\$ 67,381	\$ 512	\$ 16,729	\$ 98,593	\$ 34,924	\$ 226,617	\$ 611,634
LIABILITIES AND FUND BALANCES											
LIABILITIES											
Accounts payable and accrued expenses	\$ 13,725	\$ 1,307	\$ 9,354	\$ -	\$ 295	\$ -	\$ 52	\$ 669	\$ -	\$ 34,296	\$ 59,698
Deferred revenue	-	5,795	7,657	52,910	2,661	-	464	6,532	-	-	76,019
Due to other funds	-	-	1,266	-	-	-	-	-	-	1,701	2,967
Total liabilities	13,725	7,102	18,277	52,910	2,956	-	516	7,201	-	35,997	138,684
FUND BALANCES											
Reserved for debt retirement	-	-	-	-	64,425	512	16,213	91,392	-	-	172,542
Reserved for inventory	10,792	-	-	-	-	-	-	-	-	-	10,792
Reserved for Food Service	31,867	-	-	-	-	-	-	-	-	-	31,867
Reserved for Capital Projects	-	-	-	-	-	-	-	-	34,924	190,620	225,544
Unreserved and undesignated	-	31,386	819	-	-	-	-	-	-	-	32,205
Total fund balances	42,659	31,386	819	-	64,425	512	16,213	91,392	34,924	190,620	472,950
Total liabilities and fund balances	\$ 56,384	\$ 38,488	\$ 19,096	\$ 52,910	\$ 67,381	\$ 512	\$ 16,729	\$ 98,593	\$ 34,924	\$ 226,617	\$ 611,634

Elk Rapids Schools

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

Year Ended June 30, 2010

	Special Revenue Funds			Debt Service Funds					Capital Projects		Total Non-Major Governmental	
	Food Service	Athletics	Preschool and Kid's Club Fund	Durant 1998 School Improvement Bond	2002 Refunding Bond	2003 School Bldg & Site Bond	2005 School Bldg & Site Bond	2007 School Bus Facilities Bond	2008 School Improvement Bond	Athletic Complex Fund		2008 School Improvement Fund
Revenues												
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 1,221,745	\$ 607,044	\$ -	\$ 107,726	\$ 162,910	\$ -	\$ -	\$ 2,099,425
Interest	873	867	24	-	7,766	3,897	45	82	137	84	800	14,575
State revenues	28,152	-	-	12,556	-	-	-	-	-	-	-	40,708
Federal revenues	235,678	-	-	-	-	-	-	-	-	-	-	235,678
Other	306,731	97,235	213,299	-	-	-	-	-	-	178,866	-	796,131
Total revenues	571,434	98,102	213,323	12,556	1,229,511	610,941	45	107,808	163,047	178,950	800	3,186,517
Expenditures												
Food Service	627,247	-	-	-	-	-	-	-	-	-	-	627,247
Athletics	-	217,829	-	-	-	-	-	-	-	-	-	217,829
Preschool and Kid's Club	-	-	222,527	-	-	-	-	-	-	-	-	222,527
Debt Service												
Principal	-	-	-	10,425	1,225,000	530,000	30,000	75,000	75,000	-	-	1,945,425
Interest	-	-	-	2,131	44,406	71,394	4,104	23,835	48,750	-	-	194,620
Other	-	-	-	-	2,510	1,644	-	751	1,467	-	-	6,372
Capital outlay	7,177	7,318	1,428	-	-	-	-	-	-	146,855	530,406	693,184
Other	-	-	-	-	-	-	-	-	-	29,202	1,595	30,797
Total expenditures	634,424	225,147	223,955	12,556	1,271,916	603,038	34,104	99,586	125,217	176,057	532,001	3,938,001
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(62,990)	(127,045)	(10,632)	-	(42,405)	7,903	(34,059)	8,222	37,830	2,893	(531,201)	(751,484)
Operating transfers in	64,000	130,000	8,000	-	-	-	34,104	-	34,992	-	-	271,096
Operating transfers out	-	-	-	-	(34,992)	-	-	-	-	(34,104)	-	(69,096)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	1,010	2,955	(2,632)	-	(77,397)	7,903	45	8,222	72,822	(31,211)	(531,201)	(549,484)
Fund balance, beginning of year	41,649	28,431	3,451	-	77,397	56,522	467	7,991	18,570	66,135	721,821	1,022,434
Fund balance, end of year	\$ 42,659	\$ 31,386	\$ 819	\$ -	\$ -	\$ 64,425	\$ 512	\$ 16,213	\$ 91,392	\$ 34,924	\$ 190,620	\$ 472,950

OTHER SUPPLEMENTARY INFORMATION

Elk Rapids Schools

2008 SCHOOL IMPROVEMENT BOND ISSUE CAPITAL PROJECTS FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

For the Twenty-Four Month and Five Day Period Ended June 30, 2010

Revenue	
Investment income	<u>\$ 19,911</u>
Expenditures	
Capital outlay	1,410,767
Other	10,945
Bond costs and fees	<u>32,579</u>
Total expenditures	<u>1,454,291</u>
REVENUES UNDER EXPENDITURES	<u>(1,434,380)</u>
Other financing sources	
Bond proceeds	<u>1,625,000</u>
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	190,620
Fund balances, beginning of period	<u>-</u>
Fund balances, end of period	<u><u>\$ 190,620</u></u>

FEDERAL PROGRAMS

Elk Rapids Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2010

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Receivable (Deferred Revenue) June 30, 2009	Current Year Receipts	Current Year Expenditures	Receivable (Deferred Revenue) June 30, 2010
United States Department of Education						
Passed through Michigan Department of Education						
Education Stabilization Fund						
092525-0809	84.394	\$ 578,125	\$ 578,125	\$ 578,125	\$ -	\$ -
102525-0910		<u>435,953</u>	<u>-</u>	<u>435,953</u>	<u>435,953</u>	<u>-</u>
Total Education Stabilization Grant		1,014,078	578,125	1,014,078	435,953	-
Title I Grants - Local Educational Agencies						
091530-0809	84.010	188,584	34,792	49,480	14,688	-
101530-0910		<u>177,206</u>	<u>-</u>	<u>150,085</u>	<u>169,296</u>	<u>19,211</u>
Total Title I Grants - Educationally Deprived		<u>365,790</u>	<u>34,792</u>	<u>199,565</u>	<u>183,984</u>	<u>19,211</u>
Technology Literacy Challenge						
094290-0809	84.318	<u>2,503</u>	<u>2,503</u>	<u>2,503</u>	<u>-</u>	<u>-</u>
Title IIA - Improving Teacher Quality						
090520-0809	84.367	56,148	15,106	15,106	-	-
090520-0910		28,117	-	28,117	28,117	-
100520-0910		<u>55,278</u>	<u>-</u>	<u>32,288</u>	<u>47,227</u>	<u>14,939</u>
Total Improving Teacher Quality		<u>139,543</u>	<u>15,106</u>	<u>75,511</u>	<u>75,344</u>	<u>14,939</u>
ARRA Title II Part D - Enhancing Education Through Technology						
104295-0910	84.386A	<u>3,601</u>	<u>-</u>	<u>-</u>	<u>3,222</u>	<u>3,222</u>
ARRA Title I - Part A - Improving Basic Programs						
101535-0910	84.389	<u>97,895</u>	<u>-</u>	<u>40,945</u>	<u>50,645</u>	<u>9,700</u>
Total passed through Michigan Department of Education		<u>1,623,410</u>	<u>630,526</u>	<u>1,332,602</u>	<u>749,148</u>	<u>47,072</u>
Passed through Traverse Bay Area ISD						
PreSchool Incentive						
100460-0910	84.173A	10,980	-	10,980	10,980	-
ARRA IDEA Flowthrough						
100455-0910	84.391	<u>198,166</u>	<u>-</u>	<u>133,888</u>	<u>162,842</u>	<u>28,954</u>
Total passed through Traverse Bay Area ISD		<u>209,146</u>	<u>-</u>	<u>144,868</u>	<u>173,822</u>	<u>28,954</u>
Total U.S. Department of Education		<u>1,832,556</u>	<u>630,526</u>	<u>1,477,470</u>	<u>922,970</u>	<u>76,026</u>

Elk Rapids Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

For the Year Ended June 30, 2010

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	(Deferred Revenue) June 30, 2009	Current Year Receipts	Current Year Expenditures	(Deferred Revenue) June 30, 2010
United States Department of Agriculture						
Nutrition Cluster						
Passed through Michigan Department of Education						
National School Lunch Program	10.555					
091950		\$ 2,833	\$ -	\$ 2,833	\$ 2,833	\$ -
091960		13,205	-	13,205	13,205	-
101950		28,258	-	28,258	28,258	-
101960		<u>119,588</u>	<u>-</u>	<u>119,588</u>	<u>119,588</u>	<u>-</u>
Total National School Lunch Program		<u>163,884</u>	<u>-</u>	<u>163,884</u>	<u>163,884</u>	<u>-</u>
National School Breakfast Program	10.553					
091970		3,346	-	3,346	3,346	-
101970		<u>37,911</u>	<u>-</u>	<u>37,911</u>	<u>37,911</u>	<u>-</u>
Total National School Breakfast Program		<u>41,257</u>	<u>-</u>	<u>41,257</u>	<u>41,257</u>	<u>-</u>
Summer Food Service Program for Children	10.559					
090900		8,366	-	8,366	8,366	-
091900		<u>885</u>	<u>-</u>	<u>885</u>	<u>885</u>	<u>-</u>
Total Summer Food Service Program for Children		<u>9,251</u>	<u>-</u>	<u>9,251</u>	<u>9,251</u>	<u>-</u>
Food Distribution	10.555					
Entitlement Commodities		20,261	-	20,261	20,261	-
Bonus Commodities		<u>1,024</u>	<u>-</u>	<u>1,024</u>	<u>1,024</u>	<u>-</u>
Total Food Distribution		<u>21,285</u>	<u>-</u>	<u>21,285</u>	<u>21,285</u>	<u>-</u>
Total U.S. Department of Agriculture		<u>235,677</u>	<u>-</u>	<u>235,677</u>	<u>235,677</u>	<u>-</u>
United States Department of Health and Human Services						
Passed through Traverse Bay Area ISD						
Medicaid - School Based Services	93.778	<u>39,874</u>	<u>-</u>	<u>39,874</u>	<u>39,874</u>	<u>-</u>
Total Federal Financial Assistance		<u>\$ 2,108,107</u>	<u>\$ 630,526</u>	<u>\$ 1,753,021</u>	<u>\$ 1,198,521</u>	<u>\$ 76,026</u>

Elk Rapids Schools

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2010

- 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>\$ 1,198,521</u>
Federal sources per financial statements	<u>\$ 1,198,521</u>



Business and Financial Advisors
Our clients' success – our business

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA

**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 *Elk Rapids Schools* (the "School District") as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements and have issued our report thereon dated September 29, 2010. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2010-1, to be a material weakness.

Member of



415 Munson Avenue, Post Office Box 947
Traverse City, Michigan 49685-0947
231.946.1722, FAX: 231.946.2762
www.dgncpa.com

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 29, 2010



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Thomas E. Gartland, CPA
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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 *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, 2010. 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, 2010.

Member of



415 Munson Avenue, Post Office Box 947
Traverse City, Michigan 49685-0947
231.946.1722, FAX: 231.946.2762
www.dgncpa.com

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 the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 29, 2010

Elk Rapids Schools

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2010

PRIOR YEAR

Finding Number 2009-1 is identical to 2010-1 and there is no change in its status.

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 programs were the Education Stabilization Fund (CFDA 84.394), Title I Grants - Local Educational Agencies (CFDA 84.010) and ARRA Title I - Part A - Improving Basic Programs (CFDA 84.389).
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 2010-1

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.

Elk Rapids Schools

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

June 30, 2010

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.