

Elk Rapids Schools

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2011

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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, 2011.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$11,029,669 (*net assets*). Of this amount, *unrestricted net assets* had a balance of \$553,377.
- The government's total net assets increased by \$521,322.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,456,305, a decrease of \$248,555 in comparison with the prior year. Of the \$1,456,305, approximately 54 percent, or \$793,525 is *available for spending* at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$804,845 or 6.7 percent of total general fund expenditures.
- Investments for the future were made by the spending of \$66,032 on infrastructural acquisitions and improvements. Of this, the 2008 School Improvement Fund invested \$60,697 in new computers and energy efficiency improvements.

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, 2011.

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 which is considered to be a major fund. Data from the other eleven 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 \$11,029,669 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	
	2011	2010
Assets		
Current and other assets	\$ 3,189,445	\$3,455,289
Capital assets, net	<u>12,757,592</u>	<u>13,536,009</u>
Total assets	<u>15,947,037</u>	<u>16,991,298</u>
Liabilities		
Long-term liabilities outstanding	1,553,608	3,143,094
Other liabilities	<u>3,363,760</u>	<u>3,339,857</u>
Total liabilities	<u>4,917,368</u>	<u>6,482,951</u>
Net assets		
Invested in capital assets, net of related debt	10,307,527	9,631,115
Restricted	168,765	199,295
Unrestricted	<u>553,377</u>	<u>677,937</u>
Total net assets	<u>\$ 11,029,669</u>	<u>\$10,508,347</u>

Additional components of the District's net assets include \$114,782 for Debt service, and \$53,983 for capital projects. These represent resources that are subject to external restrictions on how they may be used. The remaining component of *net assets*, \$553,377 represents *unrestricted net assets*.

The government's net assets increased by \$521,322 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 \$7,221 per student.

Within the past decade, the District's enrollment has ranged between 1,400 and 1,600 students.

District's Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Revenue		
Program revenue		
Charges for services	\$ 668,732	\$ 670,069
Operating grants/contributions	1,427,463	1,299,533
Capital grants/contributions	55,773	182,141
General revenue		
Property taxes	8,726,656	9,725,500
State school aid	3,322,168	3,177,202
Unrestricted investment earnings and other	<u>379,167</u>	<u>490,320</u>
Total Revenue	<u>14,579,959</u>	<u>15,544,765</u>
Expenses		
Instruction	\$7,901,671	\$7,964,975
Supporting services	4,005,625	4,048,025
Community services	286,727	273,536
Food services	609,684	634,424
Athletics	247,289	218,604
Depreciation – unallocated	844,449	858,562
Interest on long-term debt	126,526	192,216
Other	<u>36,666</u>	<u>76,926</u>
Total Expenses	<u>14,058,637</u>	<u>14,267,268</u>
Increase in net assets	521,322	1,277,497
Net assets, beginning of year	<u>10,508,347</u>	<u>9,230,850</u>
Net assets, end of year	<u>\$ 11,029,669</u>	<u>\$ 10,508,347</u>

Governmental activities. Net assets increased by \$521,322. The key elements of this increase are as follows:

- The \$1,553,349 *reduction* of Bonded and Bus Loan debt outstanding offset \$844,449 of depreciation expense incurred from capital assets by \$708,900. This provided a direct increase in the equity attributable to the District's capital assets.
- Net assets related to the general and special revenue funds decreased by \$134,819 due to operating losses for the year.
- Net assets decreased by \$43,847 within the debt service funds in response to declining bond-related debt levels.

Financial Analysis of the Government's Funds

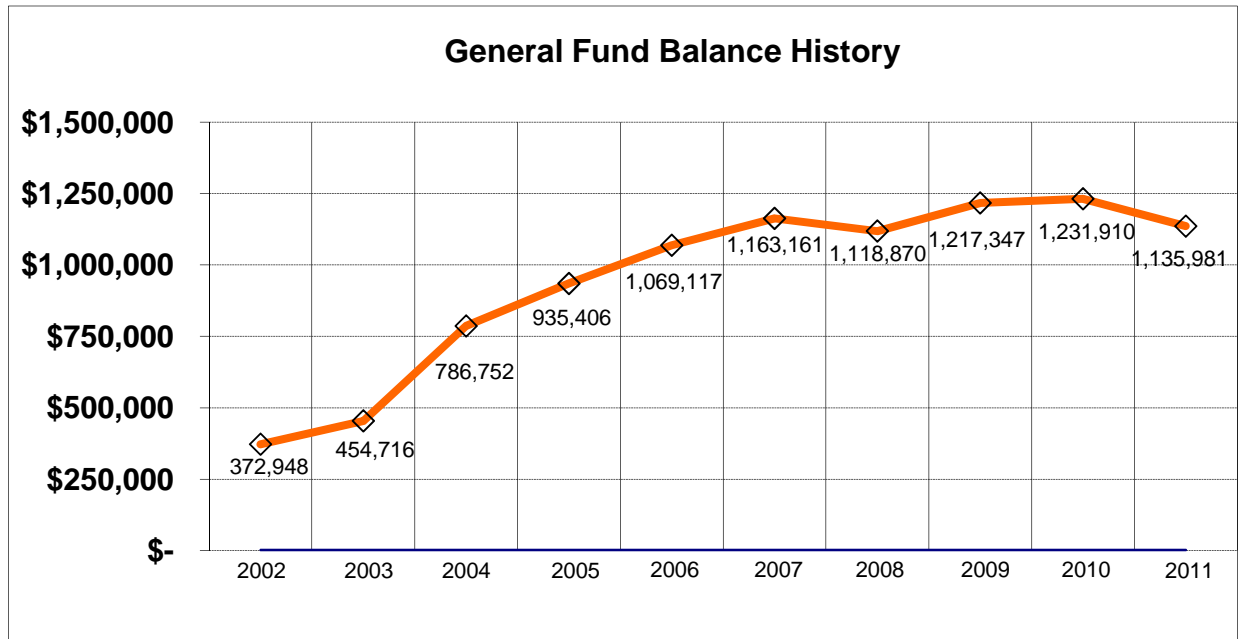
As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,456,305, a decrease of \$248,555 in comparison with the prior year. Approximately 54 percent of this total amount (\$793,525) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *non-spendable, restricted* or *assigned* 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, unassigned fund balance of the general fund was \$804,845. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents approximately 6.7 percent of total general fund expenditures.

The fund balance of the District's general fund decreased by \$95,929 during the current fiscal year.



The Food Service Fund has a total fund balance of \$915, which decreased by \$41,744.

The Athletics Fund has a total fund balance of \$25,799, which decreased by \$5,587.

The Preschool & Kid's Club Fund has a total fund balance of \$9,258, which increased by \$8,439.

The combined debt service funds have a total fund balance of \$128,695, which decreased by \$43,847.

The Athletics Complex Fund has a total fund balance of \$33,788, which decreased by \$1,136. 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 \$121,748, which decreased by \$68,872. This fund was created to account for the voter-approved improvements to technology, energy efficiency and the bus fleet.

The Yuba School capital project fund, created during the year, has a total fund balance of \$121. This fund was created to account for monetary and in-kind donations directed at restoring the district-owned Yuba School in Acme Township.

General Fund Budgetary Highlights

Significant differences between the original and final amended budgets were partly due to actual enrollments falling short of projections. 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, 2011, amounted to \$12,757,592 (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 5.8 percent.

The major capital asset event during the current fiscal year was the following:

- \$60,697 for technology and energy efficiency upgrades. Funding was supported with bond proceeds from the 2008 School Improvement Fund.

District's Capital Assets

(net of depreciation)

June 30, 2011

Governmental Activities

Land	\$ 94,249
Buildings and building improvements	11,351,677
Machinery and equipment	608,768
Furniture and fixtures	128,078
Vehicles	<u>574,820</u>
Total net assets	<u>\$12,757,592</u>

Additional information on the District's capital assets can be found in Note E on page 20 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 \$23,425. 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 \$1,250,000. 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 \$60,000. 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 \$370,000. 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 \$775,000. 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 \$96,739. 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 \$1,553,349 (37.6 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 2011-12 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 2012-13. The impact from a funding freeze from 2011-12 levels would present very serious budgetary challenges for all districts. Spending decisions for 2011-12 are being made with consideration of potential 2012-13 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

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Elk Rapids Schools

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *Elk Rapids Schools* (the "School District") as of and for the year ended June 30, 2011, 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 2010 and 2009 financial statements and, in our reports dated September 29, 2010 and September 17, 2009, 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 Elk Rapids Schools as of June 30, 2011, 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.

As described in Note A to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011, 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 on pages 29 - 30 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 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

October 31, 2011

Elk Rapids Schools

STATEMENT OF NET ASSETS

June 30, 2011

	2011	For Comparative Purposes Only	
	<u>Governmental Activities</u>	<u>2010 Governmental Activities</u>	<u>2009 Governmental Activities</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,304,139	\$ 2,478,144	\$ 3,110,037
Due from other governments	828,846	915,501	1,002,060
Accounts receivables	17,524	23,211	59,571
Inventory	12,235	10,792	9,791
Deposits	6,565	4,590	5,990
Prepays	<u>20,136</u>	<u>23,051</u>	<u>26,138</u>
Total current assets	3,189,445	3,455,289	4,213,587
Capital assets, net of accumulated depreciation	<u>12,757,592</u>	<u>13,536,009</u>	<u>13,702,452</u>
Total assets	<u>\$ 15,947,037</u>	<u>\$ 16,991,298</u>	<u>\$ 17,916,039</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities			
Accounts payable	\$ 52,568	\$ 102,936	\$ 74,963
Salaries payable and related expenses	1,434,271	1,349,468	1,493,157
Accrued expenses	15,733	62,377	147,838
Deferred revenue	221,056	210,820	233,682
Current portion of long-term liabilities	<u>1,640,132</u>	<u>1,614,256</u>	<u>2,040,899</u>
Total current liabilities	3,363,760	3,339,857	3,990,539
Non-current portion of long-term obligations	<u>1,553,608</u>	<u>3,143,094</u>	<u>4,694,650</u>
Total liabilities	<u>4,917,368</u>	<u>6,482,951</u>	<u>8,685,189</u>
NET ASSETS			
Invested in capital assets, net of related debt	10,307,527	9,631,115	8,351,663
Restricted for			
Capital Projects	53,983	54,835	85,246
Debt Service	114,782	144,460	121,778
Unrestricted	<u>553,377</u>	<u>677,937</u>	<u>672,163</u>
Total net assets	<u>11,029,669</u>	<u>10,508,347</u>	<u>9,230,850</u>
Total liabilities and net assets	<u>\$ 15,947,037</u>	<u>\$ 16,991,298</u>	<u>\$ 17,916,039</u>

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

Elk Rapids Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

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	\$ 7,901,671	\$ 6,200	\$ 973,050	\$ -	\$ (6,922,421)
Supporting Services	4,005,625	23,904	114,421	-	(3,867,300)
Community Services	286,727	239,684	47,469	-	426
Food Service	609,684	267,164	279,252	-	(63,268)
Athletics	247,289	131,780	13,271	55,773	(46,465)
Other	36,666	-	-	-	(36,666)
Interest on long-term debt	126,526	-	-	-	(126,526)
Depreciation-unallocated	844,449	-	-	-	(844,449)
Total governmental activities	<u>\$ 14,058,637</u>	<u>\$ 668,732</u>	<u>\$ 1,427,463</u>	<u>\$ 55,773</u>	<u>(11,906,669)</u>
General purpose revenues					
Property taxes					
Levied for general purposes					7,222,561
Levied for Debt Service					1,504,095
State school aid - unrestricted					3,322,168
Investment and other					<u>379,167</u>
Total general purpose revenues					<u>12,427,991</u>
Change in net assets					521,322
Net assets, beginning of year					<u>10,508,347</u>
Net assets, end of year					<u>\$ 11,029,669</u>

Elk Rapids Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,945,059	\$ 359,084	\$ 2,304,143
Due from other governments	796,810	32,036	828,846
Accounts receivables	156	17,368	17,524
Due from other funds	16,287	-	16,287
Inventory	-	12,235	12,235
Deposits	6,565	-	6,565
Prepaid	20,136	-	20,136
	<u>\$ 2,785,013</u>	<u>\$ 420,723</u>	<u>\$ 3,205,736</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued expenses	\$ 1,456,980	\$ 31,683	\$ 1,488,663
Deferred revenue	192,052	52,429	244,481
Due to other funds	-	16,287	16,287
	<u>1,649,032</u>	<u>100,399</u>	<u>1,749,431</u>
FUND BALANCES			
Non-spendable	20,136	12,235	32,371
Restricted for debt retirement	-	128,695	128,695
Restricted for capital projects	-	155,657	155,657
Assigned reported in special revenue funds	-	35,057	35,057
Assigned for subsequent year expenditures	311,000	-	311,000
Unassigned	804,845	(11,320)	793,525
	<u>1,135,981</u>	<u>320,324</u>	<u>1,456,305</u>
Total liabilities and fund balances	<u>\$ 2,785,013</u>	<u>\$ 420,723</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 \$23,535,015 and the accumulated depreciation is \$(10,777,423). 12,757,592

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

Deferred Durant settlement receivable 23,425

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	\$ (2,575,164)	
Accrued interest on bonds	(13,913)	
Accumulated leave liability	(618,576)	<u>(3,207,653)</u>

Total net assets - governmental activities \$ 11,029,669

Elk Rapids Schools

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

Year Ended June 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 7,222,561	\$ 1,504,096	\$ 8,726,657
Interest	9,264	2,142	11,406
State revenues	3,536,459	67,274	3,603,733
Federal revenues	886,792	249,645	1,136,437
Other	417,833	713,379	1,131,212
Total revenues	12,072,909	2,536,536	14,609,445
Expenditures			
Instruction	7,910,987	-	7,910,987
Supporting Services	3,982,435	-	3,982,435
Community Services	55,236	230,609	285,845
Food Service	-	609,685	609,685
Athletics	-	240,041	240,041
Other	2,807	-	2,807
Debt Service			
Principal	73,864	1,479,485	1,553,349
Interest and fees	5,686	140,003	145,689
Other	-	29,965	29,965
Capital outlay	21,823	75,374	97,197
Total expenditures	12,052,838	2,805,162	14,858,000
REVENUES OVER (UNDER) EXPENDITURES	20,071	(268,626)	(248,555)
Other financing sources (uses)			
Operating transfers in	-	149,078	149,078
Operating transfers out	(116,000)	(33,078)	(149,078)
Total other financing sources (uses)	(116,000)	116,000	-
REVENUES UNDER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(95,929)	(152,626)	(248,555)
Fund balance, beginning of year	1,231,910	472,950	1,704,860
Fund balance, end of year	\$ 1,135,981	\$ 320,324	\$ 1,456,305

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, 2011

Total Net Change in Fund Balances - Governmental Funds \$ (248,555)

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	\$ 66,032	
Depreciation expense	<u>(844,449)</u>	(778,417)

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 less than the amounts used by \$10,261. 10,261

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 the fund financial statements was \$29,485. (29,485)

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. 1,553,349

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. 14,169

Changes in Net Assets of Governmental Activities \$ 521,322

Elk Rapids Schools

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2011

	Private Purpose Trust Funds	<u>Agency Funds</u> Student Activities
ASSETS		
Cash and cash equivalents	\$ 10,920	\$ 170,593
LIABILITIES AND NET ASSETS		
LIABILITIES		
Due to student groups	\$ -	\$ 170,593
NET ASSETS		
Reserved for scholarships	3,756	
Reserved for auditorium maintenance	2,747	
Reserved for alumni activities	<u>4,417</u>	
Total net assets	<u>\$ 10,920</u>	

Elk Rapids Schools

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2011

	<u>Private Purpose Trust Funds</u>
Additions	
Private donations and interest	\$ 3,881
Deductions	
Auditorium maintenance	<u>4,902</u>
Change in net assets	(1,021)
Net assets, beginning of year	<u>11,941</u>
Net assets, end of year	<u><u>\$ 10,920</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, 2011, the School District employed 92 professional staff and 72 non-professional staff and had 1,463 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, 2011.

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 five 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 three 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

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

Spending Policy

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

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.

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.

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, 2010 and 2009.

Accounting Changes

For the year ended June 30, 2011, the School District implemented the provisions of Governmental Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with the standard, fund balance is classified as nonspendable, restricted, committed, assigned or unassigned.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

3. The Board of Education reviews the proposed budget and then in June adopts a formal resolution approving the needed appropriations for the coming operating year.
4. All transfers of budget amounts and any amendments to the formal Appropriation Act are approved by the Board of Education.
5. It is the Superintendent's responsibility to supervise and monitor the budget process. He does this by reviewing the monthly financial data and reporting and recommending any needed amendments to the Board of Education.
6. The budget is adopted on a basis consistent with generally accepted accounting principles.
7. The budgets presented in these financial statements are as originally adopted and as formally amended by the Board of Education.
8. All annual appropriations lapse at fiscal year-end.

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, 2011, the School District was in compliance with the Act.

NOTE C - CASH AND EQUIVALENTS

At June 30, 2011, the School District's cash and cash equivalent investments include the following:

	<u>Total</u>
Cash on hand	\$ 505
Bank deposits	1,326,332
Investments	<u>1,158,815</u>
	<u>\$ 2,485,652</u>

Bank Deposits

	<u>Carrying Value</u>	<u>Uncollateralized Bank Balances</u>		<u>Total</u>
		<u>Insured</u>	<u>Uninsured</u>	
Bank deposits	<u>\$ 1,326,332</u>	<u>\$ 1,356,814</u>	<u>\$ -</u>	<u>\$ 1,356,814</u>

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

NOTES TO FINANCIAL STATEMENTS - Continued

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.
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, 2011 consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
MILAF	<u>\$ 1,158,815</u>	<u>\$ 1,158,815</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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 \$395.6 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, \$1.72 per \$1,000 of equalized principal, non-principal residence property and commercial property value of \$869.8 million was levied for bonded debt repayments by the Debt Service Fund.

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, 2011 are as follows:

Due from the State of Michigan	
State Aid	\$ 643,985
Durant funds receivable	23,425
Other	<u>161,436</u>
	<u>\$ 828,846</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2011</u>
Buildings	\$ 4,983,229	\$ -	\$ -	\$ 4,983,229
Building improvements	14,507,841	6,895	-	14,514,736
Machinery and equipment	1,583,192	59,137	-	1,642,329
Software	17,882	-	-	17,882
Furniture and fixtures	1,083,655	-	-	1,083,655
Vehicles	<u>1,198,935</u>	<u>-</u>	<u>-</u>	<u>1,198,935</u>
Total depreciable assets	23,374,734	66,032	-	23,440,766
Less accumulated depreciation	(9,932,974)	(844,449)	-	(10,777,423)
Land	<u>94,249</u>	<u>-</u>	<u>-</u>	<u>94,249</u>
Total capital assets, net	<u>\$ 13,536,009</u>	<u>\$ (778,417)</u>	<u>\$ -</u>	<u>\$ 12,757,592</u>

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

Unallocated	<u>\$ 844,449</u>
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NOTE F - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2011 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$3,957,910	\$ -	\$1,479,485	\$2,478,425	\$1,506,440
Installment purchase agreement	170,603	-	73,864	96,739	76,988
Accumulated leave liability	<u>628,837</u>	<u>-</u>	<u>10,261</u>	<u>618,576</u>	<u>56,704</u>
Long-term debt at June 30, 2011	<u>\$4,757,350</u>	<u>\$ -</u>	<u>\$1,563,610</u>	<u>\$3,193,740</u>	<u>\$1,640,132</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, 2011, the School District's long-term debt consisted of the following:

2003 School Building and Site Bonds; due in annual installments of \$644,869 to \$665,963 through May 2013; interest rate of 3.125% to 3.25%.	\$ 1,250,000
2005 School Building and Site Bonds; due in annual installments of \$31,026 to \$32,052 through May 2013; interest rate of 3.42%.	60,000
2007 School Bus Facility Bonds; due in annual installments of \$101,798 to \$104,540, through May 2015; interest rate of 4.54%.	370,000

NOTES TO FINANCIAL STATEMENTS - Continued

2008 School Improvement Bonds ; due in annual installment of \$798,250 in May 2012; interest rate of 3.0%.	\$ 775,000
1998 School Improvement Bond (Durant) ; due in installments of \$12,556 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>23,425</u>
Total general obligation bonds	2,478,425
Installment purchase agreement , secured by buses, payable in monthly installments of \$6,629, including interest at 4.15%, with final payment due September 2012.	96,739
Accumulated leave liability	<u>618,576</u>
Total long-term debt	<u>\$ 3,193,740</u>

Total annual requirements to amortize bonds and notes payable outstanding as of June 30, 2011, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
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>\$ 2,575,164</u>	<u>\$ 134,685</u>

Interest expense for the year ended June 30, 2011 was \$126,526, and interest paid for the year ended June 30, 2011 was \$145,689.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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, 2011, was \$15,456. The operating leases expired as of April 2011.

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	\$ 16,287	\$ -
Other Governmental Funds		
Food Service	-	15,400
Preschool and Kid's Club Fund	<u>-</u>	<u>887</u>
	<u>\$ 16,287</u>	<u>\$ 16,287</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	\$ 116,000
Other Governmental Funds		Other Governmental Funds	
Athletics	95,000	Athletics	-
Food Service Fund	21,000	Food Service Fund	-
Athletic Complex Fund	-	Athletic Complex Fund	33,078
2005 School Bldg & Site Bond	<u>33,078</u>	2005 School Bldg & Site Bond	<u>-</u>
	<u>\$ 149,078</u>		<u>\$ 149,078</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 6.0% to 7.3% 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 16.94% and 15.44%, dependent upon the entrance date, for the period July 1, 2010 to September 30, 2010, 19.41% and 17.91% for the period October 1, 2010 to October 31, 2010 and 20.66% and 19.16%, dependent upon the entrance date, for the period November 1, 2010 to June 30, 2011, 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, 2011, 2010 and 2009, were \$1,460,672, \$1,261,956 and \$1,234,840, 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

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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, 2011 through June 30, 2012.

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, 2011 through August 31, 2012.

NOTE L - SUBSEQUENT EVENTS

School Pathway

A paved pedestrian walkway was installed near the football field fencing at the Cherryland Middle School. This project was provided as an in-kind contribution from the Village of Elk Rapids in August 2011 and is valued at \$46,502.

Water Main Extension

Municipal water was extended to Mill Creek Elementary in Williamsburg in August 2011. This project was provided as an in-kind contribution from Whitewater Township and is valued at \$25,100.

REQUIRED SUPPLEMENTARY INFORMATION

Elk Rapids Schools

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
	Revenues				
Local and intermediate sources	\$ 7,813,456	\$ 7,575,400	\$ 7,577,687	\$ (238,056)	\$ 2,287
State revenues	3,651,112	3,537,025	3,536,459	(114,087)	(566)
Federal revenues	569,910	888,416	886,792	318,506	(1,624)
Other	<u>64,522</u>	<u>71,159</u>	<u>71,971</u>	<u>6,637</u>	<u>812</u>
Total revenues	<u>12,099,000</u>	<u>12,072,000</u>	<u>12,072,909</u>	<u>(27,000)</u>	<u>909</u>
Expenditures					
Current					
Instruction	7,806,738	7,917,830	7,911,933	(111,092)	5,897
Supporting Services	4,062,467	4,023,006	4,003,081	39,461	19,925
Other	<u>130,795</u>	<u>138,164</u>	<u>137,824</u>	<u>(7,369)</u>	<u>340</u>
Total expenditures	<u>12,000,000</u>	<u>12,079,000</u>	<u>12,052,838</u>	<u>(79,000)</u>	<u>26,162</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	99,000	(7,000)	20,071	(106,000)	27,071
Other financing uses					
Operating transfers out	<u>(99,000)</u>	<u>(116,000)</u>	<u>(116,000)</u>	<u>(17,000)</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-	(123,000)	(95,929)	(123,000)	27,071
Fund balance, beginning of year	<u>1,231,910</u>	<u>1,231,910</u>	<u>1,231,910</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,231,910</u>	<u>\$ 1,108,910</u>	<u>\$ 1,135,981</u>	<u>\$ (123,000)</u>	<u>\$ 27,071</u>

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

Elk Rapids Schools

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2011

	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		Yuba Capital Projects Fund
ASSETS												
Cash and cash equivalents	\$ 6,421	\$ 39,252	\$ 24,468	\$ -	\$ 44,468	\$ 533	\$ 11,274	\$ 72,413	\$ 38,386	\$ 121,748	\$ 121	\$ 359,084
Due from other governments	8,611	-	-	23,425	-	-	-	-	-	-	-	32,036
Accounts receivables	4,906	-	-	-	2,904	-	502	6,834	2,222	-	-	17,368
Inventory	<u>12,235</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,235</u>
Total assets	<u>\$ 32,173</u>	<u>\$ 39,252</u>	<u>\$ 24,468</u>	<u>\$ 23,425</u>	<u>\$ 47,372</u>	<u>\$ 533</u>	<u>\$ 11,776</u>	<u>\$ 79,247</u>	<u>\$ 40,608</u>	<u>\$ 121,748</u>	<u>\$ 121</u>	<u>\$ 420,723</u>
LIABILITIES AND FUND BALANCES												
LIABILITIES												
Accounts payable and accrued expenses	\$ 15,858	\$ 2,701	\$ 11,304	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,820	\$ -	\$ -	\$ 31,683
Deferred revenue	-	10,752	3,019	23,425	2,902	-	502	6,829	5,000	-	-	52,429
Due to other funds	<u>15,400</u>	<u>-</u>	<u>887</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,287</u>
Total liabilities	<u>31,258</u>	<u>13,453</u>	<u>15,210</u>	<u>23,425</u>	<u>2,902</u>	<u>-</u>	<u>502</u>	<u>6,829</u>	<u>6,820</u>	<u>-</u>	<u>-</u>	<u>100,399</u>
FUND BALANCES												
Nonspendable	12,235	-	-	-	-	-	-	-	-	-	-	12,235
Restricted for Debt Service	-	-	-	-	44,470	533	11,274	72,418	-	-	-	128,695
Restricted for Capital Projects	-	-	-	-	-	-	-	-	33,788	121,748	121	155,657
Assigned for fund use	-	25,799	9,258	-	-	-	-	-	-	-	-	35,057
Unassigned	<u>(11,320)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,320)</u>
Total fund balances	<u>915</u>	<u>25,799</u>	<u>9,258</u>	<u>-</u>	<u>44,470</u>	<u>533</u>	<u>11,274</u>	<u>72,418</u>	<u>33,788</u>	<u>121,748</u>	<u>121</u>	<u>320,324</u>
Total liabilities and fund balances	<u>\$ 32,173</u>	<u>\$ 39,252</u>	<u>\$ 24,468</u>	<u>\$ 23,425</u>	<u>\$ 47,372</u>	<u>\$ 533</u>	<u>\$ 11,776</u>	<u>\$ 79,247</u>	<u>\$ 40,608</u>	<u>\$ 121,748</u>	<u>\$ 121</u>	<u>\$ 420,723</u>

Elk Rapids Schools

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

Year Ended June 30, 2011

	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	Yuba Capital Projects Fund	
Revenues												
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 603,387	\$ -	\$ 96,192	\$ 804,517	\$ -	\$ -	\$ -	\$ 1,504,096
Interest	524	625	15	-	306	21	52	421	15	163	-	2,142
State revenues	29,607	-	-	37,667	-	-	-	-	-	-	-	67,274
Federal revenues	249,645	-	-	-	-	-	-	-	-	-	-	249,645
Other	267,165	145,051	239,684	-	-	-	-	-	55,773	-	5,706	713,379
Total revenues	546,941	145,676	239,699	37,667	603,693	21	96,244	804,938	55,788	163	5,706	2,536,536
Expenditures												
Food Service	609,685	-	-	-	-	-	-	-	-	-	-	609,685
Athletics	-	240,041	-	-	-	-	-	-	-	-	-	240,041
Preschool and Kid's Club	-	-	230,609	-	-	-	-	-	-	-	-	230,609
Debt Service												
Principal	-	-	-	29,485	565,000	30,000	80,000	775,000	-	-	-	1,479,485
Interest	-	-	-	8,182	56,819	3,078	20,430	46,500	-	-	-	135,009
Other	-	-	-	-	1,829	-	753	2,412	-	-	-	4,994
Capital outlay	-	6,222	651	-	-	-	-	-	1,026	67,475	-	75,374
Other	-	-	-	-	-	-	-	-	22,820	1,560	5,585	29,965
Total expenditures	609,685	246,263	231,260	37,667	623,648	33,078	101,183	823,912	23,846	69,035	5,585	2,805,162
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(62,744)	(100,587)	8,439	-	(19,955)	(33,057)	(4,939)	(18,974)	31,942	(68,872)	121	(268,626)
Operating transfers in	21,000	95,000	-	-	-	33,078	-	-	-	-	-	149,078
Operating transfers out	-	-	-	-	-	-	-	-	(33,078)	-	-	(33,078)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(41,744)	(5,587)	8,439	-	(19,955)	21	(4,939)	(18,974)	(1,136)	(68,872)	121	(152,626)
Fund balance, beginning of year	42,659	31,386	819	-	64,425	512	16,213	91,392	34,924	190,620	-	472,950
Fund balance, end of year	\$ 915	\$ 25,799	\$ 9,258	\$ -	\$ 44,470	\$ 533	\$ 11,274	\$ 72,418	\$ 33,788	\$ 121,748	\$ 121	\$ 320,324

FEDERAL PROGRAMS

Elk Rapids Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Receivable (Deferred Revenue) June 30, 2010	Current Year Receipts	Current Year Expenditures	Receivable (Deferred Revenue) June 30, 2011
United States Department of Education						
Passed through Michigan Department of Education						
Education Stabilization Fund	84.394	\$ 178,543	\$ -	\$ 178,543	\$ 178,543	\$ -
112525-1011						
Education Jobs Fund	84.410A	335,277	-	335,277	335,277	-
112545-1011						
Title I Cluster						
Title I Grants - Local Educational Agencies						
101530-0910	84.010	177,206	19,211	27,121	7,910	-
111530-1011		202,021	-	170,773	186,222	15,449
Total Title I Grants - Educationally Deprived		379,227	19,211	197,894	194,132	15,449
ARRA Title I - Part A - Improving Basic Programs						
101535-0910	84.389	97,895	9,700	9,700	-	-
111535-1011		47,250	-	47,250	47,250	-
Total ARRA Title I - Part A		145,145	9,700	56,950	47,250	-
Total Title I Cluster		524,372	28,911	254,844	241,382	15,449
Title IIA - Improving Teacher Quality						
100520-0910	84.367	55,278	14,938	22,990	8,052	-
110520-1011		57,285	-	57,285	57,285	-
Total Improving Teacher Quality		112,563	14,938	80,275	65,337	-
ARRA Title II Part D - Enhancing Education Through Technology						
104295-0910	84.386A	3,601	3,222	3,222	-	-
114295-1011		379	-	379	379	-
Total ARRA Title II Part D		3,980	3,222	3,601	379	-
Total passed through Michigan Department of Education		1,154,735	47,071	852,540	820,918	15,449
Passed through Traverse Bay Area ISD						
Special Education Cluster						
PreSchool Incentive	84.173A					
100460-1011		10,064	-	10,064	10,064	-
ARRA IDEA Flowthrough	84.391					
100455-0910		198,166	28,954	64,278	35,324	-
ARRA PreSchool	84.392					
100465-0910		14,837	-	-	12,560	12,560
Total Special Education Cluster		223,067	28,954	74,342	57,948	12,560

Elk Rapids Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

For the Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Receivable (Deferred Revenue) June 30, 2010	Current Year Receipts	Current Year Expenditures	Receivable (Deferred Revenue) June 30, 2011
Passed through Grand Traverse Band of Ottawa & Chippewa Indians Indian Education - Grants to Local Education Agencies Title VII - Indian Education (10-11) S060A092116	84.060A	\$ 5,000	\$ -	\$ 5,000	\$ 5,000	\$ -
Total U.S. Department of Education		<u>1,382,802</u>	<u>76,025</u>	<u>931,882</u>	<u>883,866</u>	<u>28,009</u>
United States Department of Agriculture Child Nutrition Cluster Passed through Michigan Department of Education National School Lunch Program	10.555					
101950		2,906	-	2,906	2,906	-
101960		13,723	-	13,723	13,723	-
111950		27,815	-	27,815	27,815	-
111960		<u>120,433</u>	<u>-</u>	<u>120,433</u>	<u>120,433</u>	<u>-</u>
Total National School Lunch Program		<u>164,877</u>	<u>-</u>	<u>164,877</u>	<u>164,877</u>	<u>-</u>
National School Breakfast Program	10.553					
101970		3,753	-	3,753	3,753	-
111970		<u>38,162</u>	<u>-</u>	<u>38,162</u>	<u>38,162</u>	<u>-</u>
Total National School Breakfast Program		<u>41,915</u>	<u>-</u>	<u>41,915</u>	<u>41,915</u>	<u>-</u>
Summer Food Service Program for Children	10.559					
100900		13,353	-	13,353	13,353	-
101900		<u>1,397</u>	<u>-</u>	<u>1,397</u>	<u>1,397</u>	<u>-</u>
Total Summer Food Service Program for Children		<u>14,750</u>	<u>-</u>	<u>14,750</u>	<u>14,750</u>	<u>-</u>
USDA Commodities	10.555					
Entitlement		27,891	-	27,891	27,891	-
Bonus		<u>211</u>	<u>-</u>	<u>211</u>	<u>211</u>	<u>-</u>
Total USDA Commodities		<u>28,102</u>	<u>-</u>	<u>28,102</u>	<u>28,102</u>	<u>-</u>
Total Child Nutrition Cluster		<u>249,644</u>	<u>-</u>	<u>249,644</u>	<u>249,644</u>	<u>-</u>

Elk Rapids Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

For the Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Receivable (Deferred Revenue) June 30, 2010	Current Year Receipts	Current Year Expenditures	Receivable (Deferred Revenue) June 30, 2011
United States Department of Health and Human Services Passed through Traverse Bay Area ISD						
Medicaid - School Based Services	93.778	\$ 2,837	\$ -	\$ 2,837	\$ 2,837	\$ -
Learn & Serve	94.004					
MSFB-11-28255		<u>90</u>	<u>-</u>	<u>90</u>	<u>90</u>	<u>-</u>
Total passed through Traverse Bay Area Intermediate		<u>2,927</u>	<u>-</u>	<u>2,927</u>	<u>2,927</u>	<u>-</u>
Total Federal Financial Assistance		<u>\$ 1,635,373</u>	<u>\$ 76,025</u>	<u>\$ 1,184,453</u>	<u>\$ 1,136,437</u>	<u>\$ 28,009</u>

Elk Rapids Schools

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2011

- 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>\$ 1,136,437</u>
Federal sources per financial statements	<u>\$ 1,136,437</u>



Business and Financial Advisors
Our clients' success – our business

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

Board of Education
Elk Rapids Schools

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *Elk Rapids Schools* (the "School District") as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 31, 2011. 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 a deficiency 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 2011-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

Dennis, Gartland & Niergarth

October 31, 2011



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Elk Rapids Schools

Compliance

We have audited *Elk Rapids Schools'* (the "School District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the School District's major Federal programs for the year ended June 30, 2011. 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 could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the 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 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

October 31, 2011

Elk Rapids Schools

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2011

PRIOR YEAR

Finding Number 2010-1 is identical to 2011-1 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 reported 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 Jobs Fund (CFDA #84.410A), and Title I Cluster: 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 2011-1

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, 2011

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.