

**Central Montcalm Public School  
Stanton, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2011**

Central Montcalm Public School

Stanton, Michigan

BOARD OF EDUCATION

June 30, 2011

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Central Montcalm Public School

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Education  
Central Montcalm Public School  
Stanton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Montcalm Public School (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Central Montcalm Public School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Central Montcalm Public School 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2011, on our consideration of Central Montcalm Public School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Central Montcalm Public School's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note M, during the year the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. As a result of implementation, fund balance classifications in the governmental fund financial statements have been changed to reflect the new classifications under GASB Statement No. 54, as applicable.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 28, 2011

Central Montcalm Public School

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

This section of the Central Montcalm Public School's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2011. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Central Montcalm Public School financially as a whole. The **district-wide** financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The **fund** financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant (major) funds, (the General Fund and 2005 Debt Fund) with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary (Student Activities Agency) assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

**District-wide Financial Statements**

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided, the condition of the district's assets and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

**Fund Financial Statements**

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Central Montcalm Public School

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

**The School District as Trustee - Reporting the School District's Fiduciary Responsibilities**

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**The School District as a Whole**

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2011, with comparative information as of June 30, 2010:

Table 1

	<u>Statement of Net Assets</u>	
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Assets		
Current and other assets	\$ 6,250,656	\$ 5,053,216
Capital Assets	<u>24,978,667</u>	<u>23,983,013</u>
Total Assets	31,229,323	29,036,229
Liabilities		
Current Liabilities	6,688,490	4,593,070
Noncurrent Liabilities	<u>18,552,408</u>	<u>18,299,033</u>
Total Liabilities	<u>25,240,898</u>	<u>22,892,103</u>
Net Assets		
Invested in capital assets, net of related debt	5,257,861	4,772,878
Restricted	292,533	277,323
Unrestricted	<u>438,031</u>	<u>1,093,925</u>
	<u>\$ 5,988,425</u>	<u>\$ 6,144,126</u>

The analysis in Table 1 focuses on the net assets of the district. The effect on net assets as a result of the fiscal year activities is reflected in Table 2.

Central Montcalm Public School

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

The School District's net assets were \$5,988,425 on at June 30, 2011, and \$6,144,126 at June 30, 2010, (Table 1). The \$155,701 decrease in net assets is mainly due to excess capital expenditures over asset depreciation of \$1.0 million, additional accrued interest expense on the School Bond Loan Fund (\$.1) million, installment note borrowings of (\$1.7) million and long-term debt principal retirement of \$1.3 million.

Net assets invested in capital assets, net of related debt totaling \$5,257,861, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Capital assets also reflect investments in capital assets from operating funds. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Durant loan obligations of the State are included in Long-Term obligations of the School District. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. Restricted Net Assets reflect the Debt Service fund balances less accrued interest on long-term debt as of June 30, 2011. Unrestricted Net Assets reflect those assets available to the school district for use in its operation.

The \$438,031 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the condensed statement of activities (Table 2), which shows the changes in net assets for fiscal year 2010/2011. Depreciation costs are not allocated to areas of activities but reflected in the Statement of Activities as unallocated.

Governmental Activities

Table 2

	Year Ended,	
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Revenues		
Program Revenues:		
Charges for services	\$ 362,985	\$ 340,717
Operating and capital grants and contributions	2,565,849	3,143,464
General Revenues:		
Property Taxes	3,584,914	3,737,727
State foundation allowance	11,000,057	10,758,657
Other	<u>701,881</u>	<u>567,300</u>
Total Revenue	18,215,686	18,547,865
Functions/Program Expenses		
Instruction	9,995,513	9,994,887
Support Services	5,338,355	6,199,263
Food Services	979,074	889,101
Community service	34,670	21,329
Interest and costs on long-term debt	1,033,339	872,107
Unallocated depreciation	<u>990,436</u>	<u>868,914</u>
Total Expenses	18,371,387	18,845,601
Increase (Decrease) in Net Assets	<u>\$ (155,701)</u>	<u>\$ (297,736)</u>

Central Montcalm Public School

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

The 2010/2011 fiscal year presented a number of challenges for the school district, particularly in the General Fund. It was anticipated that expenses would outpace revenues. There continues to be a strain on the State's ability to adequately fund public schools. Expenses continue to increase without a corresponding increase in revenues. Other factors that affect the value of Net Assets are year-to-year fund balances in the debt service funds, amounts of debt outstanding, as well as the fund balance in the School Service funds at year-end.

As reported in the Statement of Activities, the cost of all of our *governmental* activities this year was \$18,371,387. Certain activities were partially funded from those who benefited from the programs (362,985 charges for services) or by other governments and organizations that subsidized certain programs with operating grants and contributions (\$2,565,849). We paid for the remaining "public benefit" portion of our governmental activities with \$3,584,914 in taxes (for General and Debt funds) and \$11,701,938 in State foundation allowance and other revenues, i.e., interest and general entitlements.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

**The School District's Funds**

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$1,100,953, which is a decrease of approximately \$607,878 from last year. The primary reason for the decrease was an increase of \$400,000 in supporting service expense compared to last year while revenues remained relatively unchanged.

Our Special Revenue Funds increased by approximately \$48,000. Special Revenue Funds include the Food Service and Community Service Funds. The Food Service Fund decreased by \$46,000 due to increased expenditures.

**General Fund Highlights**

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year-end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplementary information of these financial statements.

There were several revisions made to the 2010-2011 General Fund original budget. The total expenditure budget was amended approximately \$1.2 million.

**Debt Service Fund Highlights**

The Debt Service Funds consist of two (2) separate debt funds as follows: Durant and 2005 Debt. The Debt Service Funds are set up to collect taxes and pay annual debt payments. The 2005 Debt Fund was considered a major fund in 10/11. At June 30, 2011, the Debt Service Funds had \$433,117 in fund equity available for future bond payments.

Central Montcalm Public School  
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

**Capital Assets and Debt Administration**

***Capital Assets***

As of June 30, 2011, the School District had approximately \$25.0 million invested in a broad range of net capital assets, including land, buildings, vehicles, furniture, and equipment (net of accumulated depreciation). This amount represents a net increase (including additions and disposals) of approximately \$1,000,000 from last year's historical cost of capital assets. Below is the historical cost (net of accumulated depreciation) of all District capital assets:

	2011	2010
Land	\$ 12,802	\$ 12,802
Construction in progress	889,787	-
Buildings and building improvements	22,230,341	22,701,989
Buses and other vehicles	525,880	619,973
Furniture and equipment	1,319,857	648,249
Total historical cost	\$ 24,978,667	\$ 23,983,013

See the notes to the financial statements for more details related to capital assets.

This year's additions to historical cost of approximately \$2.0 million included miscellaneous equipment, furniture, vehicles, and building improvements.

***Debt***

At the end of this year, the School District had almost \$19.4 million in bonds and other obligations outstanding versus almost \$20.6 million in the previous year. Those debts consisted of the following:

	2011	2010
General Obligation Bonds	\$ 15,656,974	\$ 16,606,880
School Bond Loan	2,106,522	2,199,663
Installment purchase agreements	1,907,630	350,990
Compensated absences	218,787	205,596
Capitalized bond items less deferred amounts	49,680	52,602
Total	\$ 19,939,593	\$ 19,415,731

The State limits the amount of general obligation debt that schools can issue up to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding qualified general obligation debt of approximately \$16 million is below this statutorily imposed limit.

Other obligations including accrued vacation pay and sick leave are reported as required by GASB. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Central Montcalm Public School

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

**Economic Factors and Next Year's Budgets and Rates**

Our elected officials and administration considered many factors when setting the School District's 2010/2011 fiscal year budgets. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2012 fiscal year is 25 percent and 75 percent of the February 2011 and September 2011 student counts, respectively. The 2011/2012 budget was adopted in June 2011, based on an estimate of students that will be enrolled in September 2011. Approximately 67 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues.

**Contacting the District's Management**

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Business Office.

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## **BASIC FINANCIAL STATEMENTS**

Central Montcalm Public School

STATEMENT OF NET ASSETS

June 30, 2011

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash	\$ 2,989,627
Cash on hand with paying agent	786,600
Accounts receivable	78
Due from other governmental units	2,390,080
Prepays	45,247
Inventories	<u>39,024</u>
Total current assets	6,250,656
Noncurrent assets	
Capital assets not being depreciated	902,589
Capital assets, net of accumulated depreciation	<u>24,076,078</u>
Total noncurrent assets	<u>24,978,667</u>
TOTAL ASSETS	31,229,323
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	169,613
Accrued payroll	928,268
Other accrued liabilities	706,176
Unearned revenue	93,500
Accrued interest payable	151,602
Short-term note payable	3,200,000
Due to other governmental units	52,146
Current portion of compensated absences	89,796
Current portion of long-term debt	<u>1,297,389</u>
Total current liabilities	6,688,490
Noncurrent liabilities	
Noncurrent portion of compensated absences	128,991
Noncurrent portion of long-term debt	<u>18,423,417</u>
Total noncurrent liabilities	<u>18,552,408</u>
TOTAL LIABILITIES	<u>25,240,898</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	5,257,861
Restricted for debt service	281,515
Restricted for capital projects	11,018
Unrestricted	<u>438,031</u>
TOTAL NET ASSETS	<u>\$ 5,988,425</u>

See accompanying notes to financial statements.

Central Montcalm Public School

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction	\$ 9,995,513	\$ -	\$ 1,584,763	\$ -	\$ (8,410,750)
Supporting services	5,338,355	36,878	293,145	-	(5,008,332)
Food service	979,074	262,266	670,803	-	(46,005)
Community services	34,670	63,841	-	-	29,171
Interest and costs on long-term debt	1,033,339	-	-	17,138	(1,016,201)
Unallocated depreciation	990,436	-	-	-	(990,436)
<b>TOTAL EXPENSES</b>	<b>\$ 18,371,387</b>	<b>\$ 362,985</b>	<b>\$ 2,548,711</b>	<b>\$ 17,138</b>	<b>(15,442,553)</b>
General revenues					
Property taxes					3,584,914
State school aid - unrestricted					11,000,057
ARRA Stabilization Funds					216,410
Education Jobs Funds					413,559
Investment earnings					6,116
Miscellaneous					65,796
<b>TOTAL GENERAL REVENUES</b>					<b>15,286,852</b>
<b>CHANGE IN NET ASSETS</b>					<b>(155,701)</b>
Net assets, beginning of year					6,144,126
Net assets, end of year					<b>\$ 5,988,425</b>

See accompanying notes to financial statements.

Central Montcalm Public School

Governmental Funds

BALANCE SHEET

June 30, 2011

	General	2005 Debt	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$ 2,384,837	\$ 433,117	\$ 171,673	\$ 2,989,627
Cash on hand with paying agent	786,600	-	-	786,600
Accounts receivable	78	-	-	78
Due from other funds	-	-	1,192	1,192
Due from other governmental units	2,367,670	-	22,410	2,390,080
Prepays	45,247	-	-	45,247
Inventories	22,672	-	16,352	39,024
<b>TOTAL ASSETS</b>	<b>\$ 5,607,104</b>	<b>\$ 433,117</b>	<b>\$ 211,627</b>	<b>\$ 6,251,848</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 12,555	\$ -	\$ 157,058	\$ 169,613
Accrued payroll	928,268	-	-	928,268
Other accrued liabilities	706,176	-	-	706,176
Deferred revenue	93,500	-	-	93,500
Due to other funds	1,192	-	-	1,192
Due to other governmental units	52,146	-	-	52,146
Short-term note payable	3,200,000	-	-	3,200,000
<b>TOTAL LIABILITIES</b>	<b>4,993,837</b>	<b>-0-</b>	<b>157,058</b>	<b>5,150,895</b>
<b>FUND BALANCES</b>				
<b>Nonspendable</b>				
Inventories	22,672	-	16,352	39,024
Prepays	45,247	-	-	45,247
<b>Restricted for:</b>				
Debt service	-	433,117	-	433,117
Capital projects	-	-	11,018	11,018
<b>Assigned to:</b>				
Food and nutrition	-	-	27,199	27,199
Unassigned	545,348	-	-	545,348
<b>TOTAL FUND BALANCES</b>	<b>613,267</b>	<b>433,117</b>	<b>54,569</b>	<b>1,100,953</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 5,607,104</b>	<b>\$ 433,117</b>	<b>\$ 211,627</b>	<b>\$ 6,251,848</b>

See accompanying notes to financial statements.

Central Montcalm Public School

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS

June 30, 2011

**Total fund balances - governmental funds** \$ 1,100,953

Amounts reported for the 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 the governmental funds.

The cost of capital assets is	\$ 37,752,847	
Accumulated depreciation is	<u>(12,774,180)</u>	
		24,978,667

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

Bonds and loans payable	(19,720,806)	
Accrued interest payable on long-term debt	(151,602)	
Compensated absences	<u>(218,787)</u>	
		<u>(20,091,195)</u>

**Net assets of governmental activities** \$ 5,988,425

Central Montcalm Public School

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2011

	General	2005 Debt	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Local sources	\$ 1,736,013	\$ 1,955,291	\$ 292,113	\$ 3,983,417
State sources	11,829,155	-	49,614	11,878,769
Federal sources	1,577,778	-	638,327	2,216,105
<b>TOTAL REVENUES</b>	<b>15,142,946</b>	<b>1,955,291</b>	<b>980,054</b>	<b>18,078,291</b>
<b>EXPENDITURES</b>				
Current				
Instruction	9,982,322	-	-	9,982,322
Supporting services	6,434,658	-	-	6,434,658
Food service	-	-	979,074	979,074
Community service	3,190	-	31,480	34,670
Capital outlay	-	-	889,787	889,787
Debt service	268,431	1,949,213	17,138	2,234,782
<b>TOTAL EXPENDITURES</b>	<b>16,688,601</b>	<b>1,949,213</b>	<b>1,917,479</b>	<b>20,555,293</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,545,655)</b>	<b>6,078</b>	<b>(937,425)</b>	<b>(2,477,002)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Other transactions	137,395	-	-	137,395
Proceeds from debt issuances	1,714,000	17,729	-	1,731,729
Transfers in	-	-	900,000	900,000
Transfers out	(900,000)	-	-	(900,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>951,395</b>	<b>17,729</b>	<b>900,000</b>	<b>1,869,124</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(594,260)</b>	<b>23,807</b>	<b>(37,425)</b>	<b>(607,878)</b>
Restated fund balances, beginning of year	1,207,527	409,310	91,994	1,708,831
Fund balances, end of year	<u>\$ 613,267</u>	<u>\$ 433,117</u>	<u>\$ 54,569</u>	<u>\$ 1,100,953</u>

See accompanying notes to financial statements.

Central Montcalm Public School

RECONCILIATION OF THE CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

**Net change in fund balances - total governmental funds** **\$ (607,878)**

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 1,986,090	
Depreciation expense	<u>(990,436)</u>	
Excess of capital outlay over depreciation expense		995,654

Repayments of long-term debt and borrowings of long-term debt are reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. In the current year, these amounts consisted of:

Net effect of long-term debt principal retirements and related items	1,335,257	
Installment note proceeds	(1,714,000)	
Bond proceeds (accrued SBLF principal)	(17,729)	
Bond proceeds (accrued SBLF interest)	<u>(114,199)</u>	
Excess of debt proceeds over principal retirements and related items		(510,671)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	(19,615)	
(Increase) in compensated absences	<u>(13,191)</u>	
		<u>(32,806)</u>

**Change in net assets of governmental activities** **\$ (155,701)**

Central Montcalm Public School

Fiduciary Fund

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2011

	<u>Agency Fund</u>
ASSETS	
Cash	<u>\$ 156,237</u>
LIABILITIES	
Due to student activities	<u>\$ 156,237</u>

See accompanying notes to financial statements.

Central Montcalm Public School  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Central Montcalm Public School (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 4*, these financial statements present the financial activities of Central Montcalm Public School (primary government). The District has no activities that would be classified as component units.

Based upon the application of these criteria, the financial statements of the District contain all the funds controlled by the District.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the District are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal accounting entity with a self-balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's major funds and aggregated nonmajor funds. A separate column is shown for each major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. Fiduciary funds are reported by type.

The major governmental funds of the District are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.
- b. 2005 Debt Fund - The 2005 Debt Fund is used to account for the debt service on bonds issued by the District.

Central Montcalm Public School  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

3. Measurement Focus

The district-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the district-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenses.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

If/when both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The District reports deferred revenue on its governmental funds balance sheet, when applicable. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

5. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue Funds. All unexpended appropriations lapse at fiscal year end.

Central Montcalm Public School  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

5. Budgets and Budgetary Accounting - continued

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted at the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
- f. The budget, as presented, has been amended in a legally permissible manner. Three (3) supplemental appropriations were made during the year with the final amendments being approved June 27, 2011.

6. Cash

Cash consists of checking accounts.

7. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments, related to the fiscal year ended June 30, 2011, to be paid in July and August 2011. The total amount of \$2,390,080 due from other governmental units consists of \$2,152,426 and \$237,654 related to State Aid and grant and local programs, respectively.

9. Inventories

Inventories are stated at cost on a first in/first out basis. The General Fund inventory consists of paper. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance "nonspendable" designation which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Central Montcalm Public School  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

10. Capital Assets

Capital assets include land, buildings and building improvements, furniture and equipment, and buses and other vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than five (5) years. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and building improvements	20-50 years
Buses and other vehicles	5-10 years
Furniture and equipment	5-20 years

11. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

12. Deferred/Unearned Revenues

The unexpended balance of certain state aid amounts are carried forward as deferred revenue in governmental funds until the period in which eligible expenditures are incurred. Amounts shown as unearned revenue on the Statement of Net Assets relate to the same state aid amounts but are shown here because they are not earned.

13. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements as a current liability under the appropriate heading.

14. Short-Term Note Obligations

Short-term debt is recognized as a liability of a governmental fund and is included on the balance sheet of the applicable fund. During the current year the District borrowed funds to meet short-term cash flow borrowing needs. The final payment is due and payable in August 2011 and anticipated State Aid along with cash on hand with paying agent is expected to be sufficient to cover this commitment.

15. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the Debt Service Funds for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

Central Montcalm Public School  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

16. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied.

The District levies taxes of \$18.00 per \$1,000 of taxable valuation on most nonprimary residency exempt property and \$6 per \$1,000 of taxable valuation on commercial personal property for general governmental services and \$7 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained. Total 2010 taxable value of the District, which was used for the basis of the tax revenue for the General and 2005 Debt Service Funds, was \$278,640,073.

17. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state wide formula. Prior to the fiscal year ended June 30, 1995, the State utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2011, the foundation allowance was based on the average of pupil membership counts taken in September 2010 and February 2010. The average calculation was weighted 75% for the September 2010 count and 25% for the February 2010 count.

The State portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

18. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

19. Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers. Transfers are netted as part of the reconciliation to the district-wide financial statements.

20. Federal Programs

Federal programs are accounted for in the General Fund and specific Special Revenue Funds. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

Central Montcalm Public School  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

21. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

**NOTE B: CASH**

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or national bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime 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.
5. United States government or federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2011, the carrying amount of the District's deposits was \$3,144,192 and the bank balance was \$3,441,647, of which \$750,025 was insured by the Federal Depository Insurance Corporation. The balance of \$2,691,622 was uninsured and uncollateralized. The District had \$1,672 of cash on hand at year end. The District also had \$786,600 on deposit with the State of Michigan at the Michigan Finance Authority in relation to the set aside payments to repay the State Aid Anticipation Note, Series 2010D-1 that is due and payable August 19, 2011.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issue by nationally recognized statistical rating organizations (NRSRO'S). As of June 30, 2011, they had no investments that were subject to ratings.

Central Montcalm Public School  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE B: CASH - CONTINUED**

Interest rate risk

The District has adopted a policy that indicates how the 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 limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The District has adopted a policy that indicates how the District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District has adopted a policy that indicates how the District will minimize custodial credit risk. Custodial credit risk is the risk of loss due to the failure of the security issuer or backer. The Board policy limits investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with the Board approved policy.

As of June 30, 2011, the cash referred to above have been reported in the cash caption in the basic financial statements as follows:

	Governmental Activities	Fiduciary Fund	Total
Cash	\$ 2,989,627	\$ 156,237	\$ 3,145,864
Cash on hand with paying agent	786,600	-	786,600
	\$ 3,776,227	\$ 156,237	\$ 3,932,464

**NOTE C: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets not being depreciated				
Land	\$ 12,802	\$ -	\$ -	\$ 12,802
Construction in progress	-	889,787	-	889,787
Total capital assets not being depreciated	12,802	889,787	-0-	902,589
Capital assets being depreciated				
Buildings and building improvements	30,459,285	146,783	-	30,606,068
Buses and other vehicles	1,762,903	8,138	-	1,771,041
Furniture and equipment	3,531,767	941,382	-	4,473,149
Total capital assets being depreciated	35,753,955	1,096,303	-0-	36,850,258

Central Montcalm Public School  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE C: CAPITAL ASSETS - CONTINUED**

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Less accumulated depreciation for:				
Buildings and building improvements	\$ (7,757,296)	\$ (618,431)	\$ -	\$ (8,375,727)
Buses and other vehicles	(1,142,930)	(102,231)	-	(1,245,161)
Furniture and equipment	(2,883,518)	(269,774)	-	(3,153,292)
Total accumulated depreciation	(11,783,744)	(990,436)	-0-	(12,774,180)
Net capital assets being depreciated	23,970,211	105,867	-0-	24,076,078
Capital assets, net	<u>\$ 23,983,013</u>	<u>\$ 995,654</u>	<u>\$ -0-</u>	<u>\$ 24,978,667</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

**NOTE D: LONG-TERM DEBT**

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Amounts Due within One Year
2005 Refunding Bonds	\$ 16,560,000	\$ -	\$ 935,000	\$ 15,625,000	\$ 925,000
1998 Durant Resolution Bonds	46,880	-	14,906	31,974	15,615
2009 Installment Purchase Agreement	350,990	-	82,360	268,630	85,852
Michigan School Bond Loans					
Principal and interest	2,199,663	131,928	225,069	2,106,522	-
2010 Installment Purchase Agreement-Energy	-	900,000	75,000	825,000	75,000
2010 Installment Purchase Agreement-Technology	-	814,000	-	814,000	193,000
Capitalized bond items	671,352	-	37,297	634,055	37,297
Compensated absences	205,596	466,181	452,990	218,787	89,796
	20,034,481	2,312,109	1,822,622	20,523,968	1,421,560
Less: deferred amounts on refunding	(618,750)	-	(34,375)	(584,375)	(34,375)
	<u>\$ 19,415,731</u>	<u>\$ 2,312,109</u>	<u>\$ 1,788,247</u>	<u>\$ 19,939,593</u>	<u>\$ 1,387,185</u>

Central Montcalm Public School  
 NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE D: LONG-TERM DEBT - CONTINUED**

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bond

\$17,810,000 2005 Refunding Bonds dated March 30, 2005, due in annual installments ranging from \$805,000 to \$925,000 through May 1, 2029, with interest ranging from 3.00 to 5.00 percent, payable semi-annually.	<u>\$ 15,625,000</u>
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Resolution Bonds

\$244,052 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments ranging from \$15,615 to \$16,359 with interest of 4.761353 percent.	<u>\$ 31,974</u>
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Installment Purchase Agreements

\$430,000 Installment Purchase Agreement dated June 23, 2009, due in annual installments ranging from \$85,852 to \$93,286 through June 24, 2014, including interest of 4.24 percent.	\$ 268,630
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\$900,000 Energy Installment Purchase Agreement dated July 1, 2010, due in annual installments of \$75,000 through May 1, 2022, with interest of 3.48 percent, payable semi-annually.	\$ 825,000
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\$814,000 Technology Installment Purchase Agreement dated April 7, 2011, due in annual installments ranging from \$193,000 to \$214,000 through April 1, 2015, with interest of 3.40 percent, payable semi-annually.	<u>\$ 814,000</u>
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\$ 1,907,630

Michigan School Bond Loans

The School District has borrowed on various occasions from the Michigan School Bond Qualification and Loan Program. Repayment is due when the District has funds available as determined by the State of Michigan. Interest accrues on the unpaid balance. During the year the interest rate ranged from 5.00 to 5.375 percent.

The School District paid \$225,069 on the outstanding balance during this fiscal year. The District also borrowed an additional \$17,729, and had an additional \$114,199 of accrued interest added to the loan on the outstanding balance during the year. The balances at June 30, 2011, are as follows:

Loan Balance	\$ 2,091,830
Interest Balance	<u>14,692</u>
	<u>\$ 2,106,522</u>

Compensated absences - In accordance with District personnel policies and/or contracts negotiated with various employee groups of the District, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts:

Teachers will be paid for a maximum of 145 days unused sick days based on years of service at a range of \$40 - \$50 per unused sick day accumulated.

Central Montcalm Public School  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE D: LONG-TERM DEBT - CONTINUED**

Compensated absences - continued

All other non-union support staff will be paid \$30 per unused sick day accumulated with a maximum of 145 days.

The superintendent's, administrators', and other union exempt employees' maximum sick and vacation pay is based on individual agreements.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who currently are not vested are calculated taking total unused sick pay amounts at June 30, 2011, for all nonvested employees and multiplying it by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

A summary of the calculated amounts of compensated absences and related payroll taxes as of June 30, 2011, which have been recorded in the district-wide financial statements, is as follows:

	Vested Employees	Nonvested Employees	Total
Compensated absences	\$ 100,297	\$ 102,942	\$ 203,239
Payroll taxes	7,673	7,875	15,548
	\$ 107,970	\$ 110,817	\$ 218,787

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

Year Ending June 30,	Durand Resolution Bonds		General Obligation Bonds		Installment Purchase Agreements	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 15,615	\$ 1,522	\$ 925,000	\$ 753,700	\$ 353,852	\$ 67,315
2013	16,359	779	920,000	716,700	364,492	54,964
2014	-	-	910,000	679,900	375,286	41,759
2015	-	-	900,000	643,500	289,000	28,156
2016	-	-	895,000	598,500	75,000	18,270
2017-2021	-	-	4,390,000	2,326,500	375,000	52,200
2022-2026	-	-	4,240,000	1,244,000	75,000	2,610
2027-2029	-	-	2,445,000	243,500	-	-
	\$ 31,974	\$ 2,301	\$ 15,625,000	\$ 7,206,300	\$ 1,907,630	\$ 265,274

It is not possible to project a payment schedule for the Michigan School Bond Loans due to varying interest rates and timing of repayments. As a result, it is not included in the schedule above.

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation.

Central Montcalm Public School  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE D: LONG-TERM DEBT - CONTINUED**

Advanced Refunding - Prior

The District defeased a portion of the 1999 General Obligation Bonds which are due and payable May 1, 2010 through May 1, 2019. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest payments. The District issued 2005 Refunding Bonds in the amount of \$17,810,000 to fund escrow amounts and pay the cost of issuance of the refunding bonds, to pay a portion of the remaining balances of the 1999 School Building and Site Bonds. Accordingly, the trust account assets and liabilities for the defeased bond are not included in the District's financial statements. At June 30, 2011, bonds due and payable from May 1, 2012 through May 1, 2029 for the 1999 General Obligation Bonds in the amount of \$15,295,000 are considered defeased.

**NOTE E: INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables at June 30, 2011, are as follows:

Due to nonmajor governmental funds from:	
General Fund	\$ <u>1,192</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE F: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfer to nonmajor governmental funds from:	
General Fund	\$ <u>900,000</u>

The transfer from the General Fund to the nonmajor governmental (Capital Projects) fund was to transfer debt issuance proceeds which were issued for energy conservation projects that were accounted for in that Capital Projects Fund.

**NOTE G: EMPLOYEE RETIREMENT SYSTEM**

Pension Plan Description and Funding Process

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2010, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

Central Montcalm Public School  
 NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

Pension Plan Description and Funding Process - continued

The payroll for employees covered by the MPSERS for the year ended June 30, 2011, was \$8,358,851 of which \$8,106,424 was for members who have elected the MIP option; the District's total payroll was \$8,611,278.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990 through June 30, 2008 are required to contribute based on a graduated rate: 3% of the first \$5,000 (up to \$150); \$150 plus 3.6% of \$5,001 through \$15,000 (up to \$510 total); and \$510 plus 4.3% of all wages over \$15,000. Employees first hired on or after July 1, 2008 are required to contribute based on a graduated rate: 3% of the first \$5,000 (up to \$150); \$150 plus 3.6% of \$5,001 through \$15,000 (up to \$510 total); and \$510 plus 6.4% of all wages over \$15,000.

For the period of July 1, 2010 to September 30, 2010, the District was required by State statute to contribute 16.94% for employees who first worked before July 1, 2010 and, if the employee first worked on or after July 1, 2010, the contribution was 15.44% of covered compensation for all wages to the Plan. For the period of October 1, 2010 to October 31, 2010, the District was required by State statute to contribute 19.41% for employees who first worked before July 1, 2010 and, if the employee first worked on or after July 1, 2010, the contribution was 17.91% of covered compensation for all wages to the Plan. For the period of November 1, 2010 to June 30, 2011, the District was required by State statute to contribute 20.66%, for employees who first worked before July 1, 2010, and if the employee first worked on or after July 1, 2010, the contribution was 19.16% of covered compensation for all wages to the Plan. All employees are required to contribute 3% of gross pay towards retirement health care costs which is included in the MIP contributions below. The total amount contributed to the Plan for the year ended June 30, 2011, and the preceding two years, is as follows:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>	<u>Total Contributions</u>
2011	\$ 462,855	\$ 1,650,461	\$ 2,113,316
2010	249,350	1,409,973	1,659,323
2009	242,915	1,375,098	1,618,013

Central Montcalm Public School  
 NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

Pension Plan Description and Funding Process - continued

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

June 30,	MIP Contributions	District Contributions
2011	5.7%	19.2%
2010	4.0%	16.8%
2009	4.0%	16.6%

Other Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. A component of the employer contribution rate for the pension plan factors into amounts for other postemployment benefits and this amount is paid by the District. The employer contribution rate was 6.81% of covered payroll for the period from July 1, 2010 through September 30, 2010, 7.25% of covered payroll for the period from October 1, 2010 through October 31, 2010, and 8.5% for the period from November 1, 2010 through June 30, 2011. The District's required and actual contribution to the plan for retiree healthcare benefits are included in the contributions shown for pension benefits above.

**NOTE H: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the District-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2011:

Governmental activities	
Restricted for debt service	\$ 281,515
Restricted for capital projects	11,018
	\$ 292,533

**NOTE I: RISK MANAGEMENT**

The District is exposed to various risks of loss including losses related to the District's liability, auto, property, crime, inland marine, boiler and machinery, and storage tanks for which the District carries commercial insurance.

The District also participates in a pool, the SEG Self-Insurer Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

Central Montcalm Public School  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE J: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT**

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. Central Montcalm Public School, a nonplaintiff District, was awarded \$488,104 in the settlement. The funds are being paid as follows:

- a. One-half was paid over ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F (6). These funds are recorded within the General Fund as categorical State Aid. The year ended June 30, 2008 was the last year of payments of these funds.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

**NOTE K: SHORT-TERM NOTES**

On August 20, 2010, the School issued a short-term State School Aid Anticipation Note in the amount of \$3,200,000 for the purpose of funding operating expenditures until the 2010-2011 State Aid payments resumed. This short-term note, which had a net outstanding balance of \$3,214,131 (principal and accrued interest payable) at June 30, 2011, is reported in the General Fund under the caption short-term notes payable and the applicable accrued interest is included within accrued interest payable. There was \$786,600 of cash on deposit with the paying agent at June 30, 2011 to pay for a portion of the notes outstanding. The remaining funds to make the balance of the payment due will come from State Aid received in August 2011. The outstanding balance was paid August 19, 2011.

**NOTE L: SUBSEQUENT EVENT**

After the year ended June 30, 2011, the following subsequent event occurred:

On August 22, 2011, the District issued a State School Aid Anticipation Note in the amount of \$3,300,000 for the purpose of funding operating expenditures until the fiscal year 2012 State Aid payments begin. This short-term note will be paid off when the District accumulates sufficient State Aid revenues at the end of next fiscal year. Future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

**NOTE M: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS**

In February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated and unreserved have been replaced with five new classifications: nonspendable, restricted, committed, assigned and unassigned.

Central Montcalm Public School  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE M: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS - CONTINUED**

*Nonspendable* - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

*Restricted* - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation.

*Committed* - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

*Assigned* - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

*Unassigned* - all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative Fund Balances are always reported as Unassigned, no matter which fund the deficit occurs in.

**Fund Balance Classification Policies and Procedures**

For committed fund balance, Central Montcalm Public School's highest level of decision-making authority is the Board of Education.

For assigned fund balance, Central Montcalm Public School has not approved a policy indicating who is authorized to assign amounts to a specific purpose. As a result, this authority is retained by the Board of Education.

For the classification of fund balances, Central Montcalm Public School considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, Central Montcalm Public School considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**NOTE N: RESTATEMENT OF FUND BALANCE**

Beginning fund balance for the General Fund has been restated to reflect a change in accounting standards as a result of the implementation of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The General Fund's beginning fund balance was increased \$8,600 to account for this change in accounting standards while the Athletic Fund's fund balance was reduced \$8,600. The Athletic Fund did not meet the definition of a Special Revenue fund for external financial reporting purposes under GASB No. 54.

**REQUIRED SUPPLEMENTARY INFORMATION**

Central Montcalm Public School

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 1,702,419	\$ 1,679,908	\$ 1,736,013	\$ 56,105
State sources	12,495,899	11,864,553	11,829,155	(35,398)
Federal sources	1,084,623	1,960,510	1,577,778	(382,732)
<b>TOTAL REVENUES</b>	<b>15,282,941</b>	<b>15,504,971</b>	<b>15,142,946</b>	<b>(362,025)</b>
<b>EXPENDITURES</b>				
<b>INSTRUCTION</b>				
Basic programs	7,597,836	7,739,811	7,738,990	821
Added needs	2,287,090	2,550,894	2,243,332	307,562
<b>TOTAL INSTRUCTION</b>	<b>9,884,926</b>	<b>10,290,705</b>	<b>9,982,322</b>	<b>308,383</b>
<b>SUPPORTING SERVICES</b>				
Pupil	643,870	735,212	689,342	45,870
Instructional staff	495,939	453,497	396,943	56,554
General administration	450,301	422,191	394,082	28,109
School administration	1,166,214	1,104,466	1,053,245	51,221
Business and central services	3,420,883	166,690	156,731	9,959
Operations and maintenance	-	1,701,660	1,643,907	57,753
Transportation	-	843,953	813,071	30,882
Non-instructional training	-	14,129	10,880	3,249
Technology/data services	-	1,033,210	1,021,247	11,963
Athletics	-	189,809	199,258	(9,449)
Other	-	76,952	55,952	21,000
<b>TOTAL SUPPORTING SERVICES</b>	<b>6,177,207</b>	<b>6,741,769</b>	<b>6,434,658</b>	<b>307,111</b>
<b>COMMUNITY SERVICES</b>	<b>-</b>	<b>10,785</b>	<b>3,190</b>	<b>7,595</b>
<b>DEBT SERVICE</b>	<b>-</b>	<b>252,327</b>	<b>268,431</b>	<b>(16,104)</b>
<b>TOTAL EXPENDITURES</b>	<b>16,062,133</b>	<b>17,295,586</b>	<b>16,688,601</b>	<b>597,536</b>
<b>EXCESS OF REVENUES (UNDER) EXPENDITURES</b>	<b>(779,192)</b>	<b>(1,790,615)</b>	<b>(1,545,655)</b>	<b>235,511</b>

Central Montcalm Public School

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES (USES)				
Other transactions	\$ 158,700	\$ 217,000	\$ 137,395	\$ (79,605)
Proceeds from debt issuances	-	1,714,000	1,714,000	-0-
Transfers to other funds	(473,310)	(900,000)	(900,000)	-0-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(314,610)</u>	<u>1,031,000</u>	<u>951,395</u>	<u>(79,605)</u>
NET CHANGE IN FUND BALANCE	(1,093,802)	(759,615)	(594,260)	155,906
Fund balance, beginning of year	<u>1,207,527</u>	<u>1,207,527</u>	<u>1,207,527</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 113,725</u>	<u>\$ 447,912</u>	<u>\$ 613,267</u>	<u>\$ 155,906</u>

Central Montcalm Public School

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2011

**NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

The approved budgets of the District have been adopted at the functional level for the General Fund and the total expenditure level for the Special Revenue Funds.

During the year ended June 30, 2011, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Supporting Services			
Athletics	\$ 189,809	\$ 199,258	\$ 9,449
Debt service	252,327	268,431	16,104

**OTHER SUPPLEMENTARY INFORMATION**

Central Montcalm Public School  
 Nonmajor Governmental Funds  
 COMBINING BALANCE SHEET

June 30, 2011

	Special Revenue Funds		Capital Projects
	Food Service	Community Service	Capital Projects
<b>ASSETS</b>			
Cash	\$ 5,912	\$ -	\$ 165,761
Due from other funds	1,192	-	-
Due from other governmental units	22,410	-	-
Inventories	16,352	-	-
TOTAL ASSETS	\$ 45,866	\$ -0-	\$ 165,761
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 2,315	\$ -	\$ 154,743
<b>FUND BALANCES</b>			
Nonspendable			
Inventories	16,352	-	-
Restricted for:			
Capital projects	-	-	11,018
Assigned to:			
Food and nutrition	27,199	-	-
TOTAL FUND BALANCES	43,551	-0-	11,018
TOTAL LIABILITIES AND FUND BALANCES	\$ 45,866	\$ -0-	\$ 165,761

Debt Service  
Fund

<u>Durant</u>		<u>Total</u>	
\$	-	\$	171,673
	-		1,192
	-		22,410
	-		16,352
<hr/>		<hr/>	
\$	-0-	\$	211,627
<hr/>		<hr/>	
\$	-	\$	157,058
	-		16,352
	-		11,018
	-		27,199
<hr/>		<hr/>	
	-0-		54,569
<hr/>		<hr/>	
\$	-0-	\$	211,627
<hr/>		<hr/>	

Central Montcalm Public School

Nonmajor Governmental Funds

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

Year Ended June 30, 2011

	Special Revenue Funds		Capital Projects
	Food Service	Community Service	Capital Projects
<b>REVENUES</b>			
Local sources	\$ 262,337	\$ 28,971	\$ 805
State sources	32,476	-	-
Federal sources	638,327	-	-
<b>TOTAL REVENUES</b>	<b>933,140</b>	<b>28,971</b>	<b>805</b>
<b>EXPENDITURES</b>			
Current			
Food service	979,074	-	-
Community service	-	31,480	-
Capital outlay	-	-	889,787
Debt service	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>979,074</b>	<b>31,480</b>	<b>889,787</b>
<b>EXCESS OF REVENUES (UNDER) EXPENDITURES</b>	<b>(45,934)</b>	<b>(2,509)</b>	<b>(888,982)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	-	900,000
<b>NET CHANGE IN FUND BALANCES</b>	<b>(45,934)</b>	<b>(2,509)</b>	<b>11,018</b>
Fund balances, beginning of year	89,485	2,509	-
Fund balances, end of year	<u>\$ 43,551</u>	<u>\$ -0-</u>	<u>\$ 11,018</u>

Debt Service Fund	
Durant	Total
\$ -	\$ 292,113
17,138	49,614
-	638,327
17,138	980,054
-	979,074
-	31,480
-	889,787
17,138	17,138
17,138	1,917,479
-0-	(937,425)
-	900,000
-0-	(37,425)
-	91,994
<u>\$ -0-</u>	<u>\$ 54,569</u>

**Central Montcalm Public School  
Stanton, Michigan**

**SUPPLEMENTARY INFORMATION  
TO FINANCIAL STATEMENTS  
(FEDERAL AWARDS)**

**June 30, 2011**

Central Montcalm Public School

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**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**

To the Board of Education  
Central Montcalm Public School  
Stanton, Michigan

Compliance

We have audited Central Montcalm Public School's 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 its major Federal programs for the year ended June 30, 2011. Central Montcalm Public School's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Central Montcalm Public School's management. Our responsibility is to express an opinion on Central Montcalm Public School'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 Nonprofit 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 Central Montcalm Public School'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 Central Montcalm Public School's compliance with those requirements.

In our opinion, Central Montcalm Public School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ending June 30, 2011.

Internal Control Over Compliance

Management of Central Montcalm Public School 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 Central Montcalm Public School's internal control over compliance with requirements that could have a direct and material effect on the major Federal programs to determine the 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 Central Montcalm Public School'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 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.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Montcalm Public School as of and for the year ended June 30, 2011, and have issued our report thereon dated October 28, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Central Montcalm Public School's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and administration of Central Montcalm Public School, others within the District, the pass-through entities, and the Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 28, 2011

Central Montcalm Public School

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

Federal Grantor / Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed Through Michigan Department of Education			
Adult Education - State Admin	84.002		
2010-11		111190111107	\$ 18,000
2010-11		111130111107	45,000
2009-10		101130101107	64,000
2009-10		101190101107	23,200
			150,200
E.S.E.A. Title I	84.010 (e)(i)		
2010-11 Regular - Part A		1115301011	808,532
2009-10 Regular - Part A		1015300910	598,032
			1,406,564
ARRA - Title I Grants to LEA's	84.389 (e)(i)		
2010-11 Regular - Part A		1115351011	260,991
2009-10 Regular - Part A		1015350910	403,036
			664,027
Cluster Total			2,070,591
Technology Literacy Challenge Grants	84.318 (h)	1042900910	4,396
ARRA - Education Technology State Grants	84.386 (h)	1042950910	14,310
Cluster Total			18,706
Rural Education	84.358		
2009-10		1006600910	48,122
2010-11		1106601011	45,648
			93,770
Improving Teacher Quality	84.367		
2010-11		1105201011	122,888
2009-10		1005200910	176,157
			299,045
ARRA - Education Stabilization Fund	84.394		
2010-11		1125251011	216,410
Education Jobs Fund	84.410 (e)		
2010-11		1125451011	413,559

Restated (Memo Only) Prior Years' Expenditures	Restated Balance July 1, 2010 Accrued or (Deferred) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2011 Accrued or (Deferred) Revenue
\$ -	\$ -	\$ 9,248	\$ 9,625	\$ 377
-	-	45,000	45,000	-0-
63,878	34,726	33,057	(1,669)	-0-
<u>23,200</u>	<u>11,355</u>	<u>11,355</u>	<u>-</u>	<u>-0-</u>
87,078	46,081	98,660	52,956	377
-	-	454,834	532,263	77,429
<u>534,387</u>	<u>306,649</u>	<u>281,968</u>	<u>(24,681)</u>	<u>-0-</u>
534,387	306,649	736,802	507,582	77,429
-	-	212,202	222,615	10,413
<u>142,045</u>	<u>142,045</u>	<u>142,045</u>	<u>-</u>	<u>-0-</u>
142,045	142,045	354,247	222,615	10,413
676,432	448,694	1,091,049	730,197	87,842
4,396	4,396	4,396	-	-0-
<u>8,204</u>	<u>8,204</u>	<u>14,310</u>	<u>6,106</u>	<u>-0-</u>
12,600	12,600	18,706	6,106	-0-
48,122	48,122	38,136	(9,986)	-0-
<u>-</u>	<u>-</u>	<u>45,648</u>	<u>45,648</u>	<u>-0-</u>
48,122	48,122	83,784	35,662	-0-
-	-	114,580	122,888	8,308
<u>176,157</u>	<u>140,323</u>	<u>140,323</u>	<u>-</u>	<u>-0-</u>
176,157	140,323	254,903	122,888	8,308
-	-	173,799	216,410	42,611
-	-	337,453	413,559	76,106

Central Montcalm Public School

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2011

Federal Grantor / Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF EDUCATION - continued			
Passed Through Michigan Department of Education and Kent Intermediate School District Drug-Free Program 2009-10	84.186	1028600910	\$ 11,680
Passed Through Michigan Department of Education and Montcalm Area Intermediate School District ARRA - SE Grants to States - IDEA	84.391	1004550910	<u>227,971</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			3,501,932
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Michigan Department of Education School Breakfast Program 2010-11 Cash assistance 2009-10 Cash assistance	10.553 (e)(f)	111970 101970	121,016 <u>127,386</u>
			248,402
National School Lunch Program 2010-11 Cash assistance 2009-10 Cash assistance 2010-11 Noncash assistance (a)(c)	10.555 (e)(f)	111950,111960,111980 101950,101960,101980 57020	370,133 413,575 <u>53,570</u>
			837,278
Summer Food Service Program 2010-11 Cash assistance	10.559 (e)(f)	100900,101900	<u>46,582</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>1,132,262</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 4,634,194</u></u>

(Memo Only) Prior Years' Expenditures	Restated Balance July 1, 2010 Accrued or (Deferred) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2011 Accrued or (Deferred) Revenue
\$ 1,500	\$ 1,500	\$ 1,500	\$ -	\$ -0-
<u>197,597</u>	<u>56,645</u>	<u>56,645</u>	<u>-</u>	<u>-0-</u>
1,199,486	753,965	2,116,499	1,577,778	215,244
-	-	121,016	121,016	-0-
<u>114,542</u>	<u>-</u>	<u>12,844</u>	<u>12,844</u>	<u>-0-</u>
114,542	-0-	133,860	133,860	-0-
-	-	370,133	370,133	-0-
366,987	-	46,588	46,588	-0-
<u>-</u>	<u>-</u>	<u>53,570</u>	<u>53,570</u>	<u>-0-</u>
366,987	-0-	470,291	470,291	-0-
<u>12,407</u>	<u>7,705</u>	<u>25,414</u>	<u>34,176</u>	<u>16,467</u>
<u>493,936</u>	<u>7,705</u>	<u>629,565</u>	<u>638,327</u>	<u>16,467</u>
<u>\$ 1,693,422</u>	<u>\$ 761,670</u>	<u>\$ 2,746,064</u>	<u>\$ 2,216,105</u> <sup>(b)</sup>	<u>\$ 231,711</u>
		(d)	(g)	

Central Montcalm Public School

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2011

**NOTE A: BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Central Montcalm Public School and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

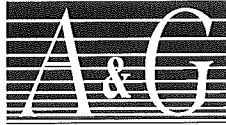
**NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE**

The following descriptions identified below as (a) through (i) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The current year expenditures for the Food Donation Program are determined based on the 2002/03 guidance provided in the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Reports which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the "paid during date range" amounts on the Grant Auditor Report.
- (e) Denotes programs tested as "major programs".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.
- (g) Agrees to total revenues from Federal sources per financial statements.
- (h) Denotes programs required to be clustered by the United States Department of Education.
- (i) Denotes programs required to be clustered by the United States Department of Education.

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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**

To the Board of Education  
Central Montcalm Public School  
Stanton, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Montcalm Public School (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 28, 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 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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, can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as described in the accompanying schedule of findings, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 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 as 2011-3 to be a material weakness.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as 2011-1 and 2011-4 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 an instance of noncompliance that is required to be reported under *Governmental Auditing Standards* which is described in the accompanying schedule of findings as 2011-2.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education and administration of Central Montcalm Public School, others within the District, the pass-through entities, and the Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 28, 2011

Central Montcalm Public School

SCHEDULE OF FINDINGS

Year Ended June 30, 2011

**Section I - Summary of Auditor's Results**

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**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  X  Yes   No

Significant deficiency(ies) identified that are not considered to be material weakness(es)?  X  Yes   None reported

Noncompliance material to financial statements noted?   Yes  X  No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?   Yes  X  No

Significant deficiency(ies) identified that are not considered to be material weakness(es)?   Yes  X  None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?   Yes  X  No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010, 84.389	Title I Cluster
10.553, 10.555, 10.559	Child Nutrition Cluster
84.410	Education Jobs Fund

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

Auditee qualified as low-risk auditee?   Yes  X  No

**Section II - Financial Statement Findings**

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2011-1 ATHLETIC DEPOSITS

Condition: During the course of our audit, it was noted that on one (1) occasion out of the five (5) deposits that were tested from the Athletic Department there were differences between the amount that was reported as collected and the amount deposited. The amounts deposited at the bank were greater than the calculated amounts based on the number of tickets sold and the price of each ticket. Similar issues were noted and reported in our audit comments last year.

Criteria: The number of tickets sold multiplied by the price of each ticket should equal the deposit to the bank.

Cause: A reconciliation of the deposit in question was not completed.

Central Montcalm Public School  
SCHEDULE OF FINDINGS - CONTINUED  
Year Ended June 30, 2011

**Section II - Financial Statement Findings - Continued**

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**2011-1 ATHLETIC DEPOSITS - CONTINUED**

Effect: The District's reconciliation process was not working appropriately on all transactions.

Recommendation: We recommend that the District continue to perform reconciliations of the tickets sold to the bank deposit. Also, we recommend that any variances continue to be investigated and documented.

Corrective Action Response: The District will continue to work with and monitor individuals responsible for athletic gate receipts. We will ensure that procedures are being followed and that tickets sold are reconciling with bank deposits.

**2011-2 UNFAVORABLE BUDGET VARIANCES**

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated in certain areas within the General Fund.

Criteria: The Uniform Budgeting and Accounting Act requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Cause: The District did not amend the budget when it became apparent spending was going to exceed the amounts appropriated in the over budget areas.

Effect: The District has not maintained adequate control over budgetary compliance in accordance with State law in the certain areas where the overages occurred.

Recommendation: We recommend the District continue to monitor budgeted expenditures against actual expenditures to alleviate future unfavorable budget variances and make appropriate budget amendments as needed.

Corrective Action Response: Management of the District is currently reviewing procedures related to budgetary compliance in accordance with State law.

**2011-3 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS**

Condition: Material journal entries for the proper recognition of cash, short-term note payable, accounts payable, and capital outlay were proposed by the auditors. These misstatements were not detected by the District's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the District's general ledger. Similar issues were noted and reported in our audit comments last year.

Criteria: Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (where applicable), including the recording of all appropriate journal entries so that the trial balances reflect amounts that are in conformity with U.S. generally accepted accounting principles.

Cause: These misstatements were not identified as part of the District's internal control procedures.

Central Montcalm Public School  
SCHEDULE OF FINDINGS - CONTINUED  
Year Ended June 30, 2011

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**Section II - Financial Statement Findings - Continued**

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2011-3 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS - CONTINUED

Effect: Without the recording of these journal entries the financial statements would have been materially misstated.

Recommendation: We recommend that the District take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: The District will work toward having all material journal entries completed before auditing fieldwork commences in the future.

2011-4 PAYROLL PROCESS

Condition: During our review of controls over the payroll disbursement process, it was noted that 24 of 45 payroll transactions selected were not reviewed for accuracy by the appropriate supervisory-level employee prior to payment.

Criteria: Strong internal controls over payroll transactions include proper review and approval of the underlying data prior to distribution in order to reduce the risk of inappropriate transactions, errors, etc.

Cause: The District did not follow its established procedure of having the business manager review payroll prior to the payroll being distributed.

Effect: The District is at greater risk for fraud or error without proper review procedures.

Recommendation: We recommend the District follow its established procedures related to the payroll process in order to reduce the risk of error or fraud.

Corrective Action Response: This was a unique year with the transition to a new business manager and while the position was vacant this procedure did not get done. The District will ensure this control is being conducted in the future.

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**Section III - Federal Award Findings and Questioned Costs**

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None noted.

Central Montcalm Public School

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2011

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

2010-1 ATHLETIC DEPOSITS

Condition: During the course of our audit, we noted that on two (2) occasions, the actual deposit made at the bank from the Athletic Department was different from the amount reported. The amounts collected and deposited at the bank was greater than the calculated amounts based on the number of tickets sold and the price of each ticket. There were similar issues noted for the last three (3) years.

Resolution: A similar issue was again noted this year and is reported under finding 2011-1 since this type of issue is tested and reevaluated each year.

2010-2 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated in certain areas in the General Fund.

Resolution: A similar issue was again noted this year and is reported under finding 2011-2 since this type of issue is tested and reevaluated each year.

2010-3 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the proper recognition of various accounts were proposed by the auditors in the prior year. These misstatements were not detected by the District's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the District's general ledger.

Resolution: Similar issues were noted during the current audit and reported under finding 2011-3 since this type of issue is tested and reevaluated each year.