

Excelsior District #1

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2012

CONTENTS

Page

MANAGEMENT’S DISCUSSION AND ANALYSIS i

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 2

FINANCIAL STATEMENTS

 STATEMENT OF NET ASSETS 4

 STATEMENT OF ACTIVITIES..... 5

 BALANCE SHEET - GOVERNMENTAL FUNDS 6

 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS..... 7

 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
 REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH
 THE DISTRICT-WIDE STATEMENT OF ACTIVITIES 8

 STATEMENT OF FIDUCIARY NET ASSETS..... 9

NOTES TO FINANCIAL STATEMENTS 10

REQUIRED SUPPLEMENTARY INFORMATION

 BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND..... 19

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 20

Management's Discussion and Analysis For the year ended June 30, 2012

Our discussion and analysis of Excelsior School District #1, Crawford School's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. Please read this analysis in conjunction with the District's financial statements, which immediately follow this section.

DESCRIPTION OF REPORTING ENTITY AND SERVICES PROVIDED

Excelsior School District #1 is one of the few remaining one-room school houses in Michigan. The District is located in the heart of Kalkaska County. Crawford School serves students in grades Kindergarten through 8th grade. The blended pupil count for the 2011-2012 school year was 50.5 pupils. Many of the students attended the District under the Schools of Choice Program. Students attending the District are afforded more individualized attention due to small class sizes. Educators in the District are committed to the philosophy that all children are capable of learning if they have the appropriately specified learning tasks and a suitable amount of time commensurate with their individual learning rates. Excelsior School District #1 offers a core academic curriculum that meets and or exceeds State guidelines at all levels.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three sections presented in the following order: Management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide comprehensive *short-term* and *long-term* financial information about the District as a whole.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about assets held by the District in a *trustee* or *agent* capacity.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data and supporting documentation. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged.

Figure A-1

District Financial Report Organization

Management’s Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Funds

Other Supplemental Information

DISTRICT-WIDE STATEMENTS

The district-wide statements provide comprehensive information about the entire District using the accrual basis of accounting which is similar to the method used by private-sector companies. The statement of net assets includes all of the District’s assets and liabilities and the difference between the two, which is net assets. The statement of activities accounts for all of the current year’s revenues and expenses regardless of when cash is received or paid.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District’s services, including instruction and supporting services. Unrestricted State Aid and property taxes finance most of these activities.

The two district-wide statements report the District’s *net assets* and how they have changed. Examining net assets is one way to measure the District’s financial health or *position*. Over time, increases or decreases in the District’s net assets are an indicator of whether its financial position is improving or declining. The relationship between revenues and expenses is the District’s operating results, or in other terms, whether the District had a profit or a loss at year end. However, the District’s mission is not simply to generate profits, as may be the case for a commercial entity.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District’s funds. Each major fund is presented in a separate column. Non-major funds are aggregated and displayed in a single column. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The District has two kinds of funds:

Governmental Funds:

All of the District's basic services are included in governmental funds. Governmental fund reporting generally focuses on how dollars flow in and out of the funds and the balances left at year-end. These balances are reported using the modified accrual basis of accounting. Revenues are recognized when they are measurable and available. Expenditures are recorded when the related fund liability is incurred. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are presented in a reconciliation displayed further in our documentation. The District's major governmental fund is the general fund.

Fiduciary Funds:

The District is the Trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations. The Student Activities Account is accounted for as fiduciary funds.

The District as a Whole

Recall that the statement of net assets provides the perspective of the District as a whole. Table 1 provides a summary of the District's net assets as of June 30, 2012:

TABLE 1

	Governmental Activities <u>2010-2011</u>	Governmental Activities <u>2011-2012</u>	% <u>Change</u>
Assets			
Current and other assets	\$474,111	\$535,035	12.85 %
Capital assets	<u>109,398</u>	<u>99,866</u>	(8.71%)
Total assets	<u>\$583,509</u>	<u>\$634,901</u>	8.81%
Liabilities			
Current liabilities	<u>\$ 60,671</u>	<u>\$ 64,377</u>	6.11%
Net Assets			
Invested in property and equipment - Net of related debt	109,398	99,866	(8.71%)
Unrestricted	<u>413,440</u>	<u>470,658</u>	13.84%
Total net assets	<u>\$522,838</u>	<u>\$570,524</u>	9.12%

The above analysis focuses on the net assets (see Table 1). The District's net assets were \$570,524 at June 30, 2012 as compared to \$522,838 at June 30, 2011. The increase in net assets is primarily the result of increased revenue generated from enrollment plus continued conservative spending practices. Capital assets, net of related debt totaling \$99,866, compares the original cost, less depreciation of the District's capital assets to long-term debt used to finance the acquisition of those assets. The District has no debt related to the acquisition of capital assets. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. The District has no restricted net assets. The remaining amount of net assets \$470,658 was unrestricted.

The \$470,658 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills today, including all of our non-capital liabilities, we would have \$470,658 remaining. The operating results of the District 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 District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2012 as compared to the previous year.

TABLE 2

	Governmental Activities <u>2010-2011</u>	Governmental Activities <u>2011-2012</u>	% Change
Revenue -			
Program revenue:			
Operating grants and contributions	\$ 83,648	\$ 60,753	(27.37%)
General revenue:			
Property taxes	86,351	85,705	(0.75%)
State School Aid- unrestricted	273,116	271,818	(0.48%)
Other	<u>5,083</u>	<u>5,792</u>	13.95%
Total revenues	<u>448,198</u>	<u>424,068</u>	(5.38%)
Functions/Program Expenses:			
Instruction	261,125	226,530	(13.25%)
Support services	107,248	121,992	13.75%
Other transactions	(40,096)	3,562	108.88%
Capital outlay	42,133	6,768	(83.94%)
Depreciation (unallocated)	<u>19,810</u>	<u>17,530</u>	(11.51%)
Total expenses	<u>390,220</u>	<u>376,382</u>	(3.54%)
Increase in Net Assets	<u>\$ 57,978</u>	<u>\$ 47,686</u>	(17.75%)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$376,382. Certain activities were partially funded from those who benefited by other grants and contributions \$60,753. We paid for the remaining “public benefit” portion of our governmental activities with \$85,705 in taxes, \$271,818 in State Aid, and with other revenues including interest and general entitlements.

The District experienced an increase in net assets of \$47,686. Key reasons for the change in net assets was the continuing conservative approach the District took on spending due to the continued poor economic condition of the State of Michigan.

As discussed above, the net cost shows the financial burden that was placed on the State and the 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 School Board and Administration must annually evaluate the needs of the District and balance those needs with State prescribed available unrestricted resources.

The District’s Funds

As noted earlier, the District uses fund accounting to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District’s overall financial health. The District’s budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. The General Fund is the main operating fund of the District. All other funds would be used to account for the proceeds from specific revenue sources that are legally restricted to certain types of expenditures.

As the District completed this year, the governmental funds reported a combined fund balance of \$470,658, which is an increase of \$57,218 from the prior year. The primary reason for the increase was due to continued fiscal restraint shown in the area of expenditures.

The District does not have any debt obligations; accordingly, no debt retirement fund balance exists at year end.

Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with numerous changes in expected revenues and expenditures. The Uniform Budget Act of the State of Michigan requires that the Board of Education adopt a budget for the upcoming school year prior to July 1, which is the start of the new fiscal year. The District revised its budget one time during the fiscal year. Under normal circumstances, the District adjusts its budget to reflect a wide variety of Federal and State programs, many of which are not finalized until well after the District’s original budget is required to be adopted. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations.

The District experienced a slight decrease in students over the 2010-2011 school year. The Board of Education was very conservative with its spending because of the uncertainty of the financial position in the State. The budget was adjusted during the year to reflect changes in grant funding and expenditures. The General Fund experienced an increase of \$57,218 in fund balance. This was a favorable variance of \$32,730 over the final budget estimate.

A schedule showing the District’s original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2012, the District had \$218,243 invested in a range of capital assets including buildings, land, furniture, equipment and a vehicle. This amount represents an increase of \$7,998 in net capital assets from June 30, 2011. The District upgraded their technology equipment.

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital Assets	\$210,245	\$ 7,998	\$ -	\$ 218,243
Less: Accumulated Depreciation	<u>(100,847)</u>	<u>(17,530)</u>	<u>-</u>	<u>(118,377)</u>
Total capital assets, net	<u>\$ 109,398</u>	<u>\$ (9,532)</u>	<u>\$ -</u>	<u>\$ 99,866</u>

Debt

At June 30, 2012 the District had no debt owing.

Economic Factors and Next Year’s Budgets and Rates

At the time these financial statements were prepared and audited, the District was aware of a number of circumstances that could significantly affect the financial health of Excelsior District #1.

- The current retirement rate is 24.46%. Recently enacted legislation will hold the rate steady for many years to come. P.A. 300 of 2012, effective September 4, 2012, overhauled the retirement system for current and newly hired personnel. This bill attempts to address the unfunded liability of the entire pension system and reduces projected immediate increases in the retirement for all districts.
- Pressures on health insurance premiums are a continuing problem. The School District implemented a 10% copayment on insurance premiums for all staff in the 2011-2012 fiscal year and implemented the cap on medical benefits on January 1, 2012.
- We are very concerned about the State School Aid Budget, as well as the current economic outlook of the State and national economy. The budget for the 2012-2013 school year is built and there was a slight increase in the Student Foundation Allowance Grant. Concerns about increases in future years continue to be of concern for the District.

Contacting the School District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Stephanie Murray, Director of Human Resources, Finance and Administrative Services at Traverse Bay Area Intermediate School District, 1101 Red Drive, P.O. Box 6020, Traverse City, MI 49696-6020, Fax (231) 922-6270, Telephone (231)922-6200.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Excelsior District #1

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of *Excelsior District #1* (the "School District") as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the School District's financial statements and, in our report dated October 7, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund and the aggregate remaining fund information.

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, the major fund and the aggregate remaining fund information of Excelsior District #1 as of June 30, 2012, 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 September 7, 2012, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through iv, and budgetary comparison information on page 19, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Dennis, Gartland & Niergarth

September 7, 2012

Excelsior District #1

STATEMENT OF NET ASSETS

June 30, 2012

(with comparative totals for June 30, 2011)

	Governmental Activities	
	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 443,540	\$ 394,298
Accounts receivable	3,554	-
Due from other governmental units	87,941	79,813
Total current assets	535,035	474,111
Non-current assets		
Capital assets, net of accumulated depreciation	99,866	109,398
Total assets	<u>\$ 634,901</u>	<u>\$ 583,509</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current liabilities		
Accounts payable	\$ 3,672	\$ 4,848
Salaries payable and related expenses	40,582	35,262
Deferred revenue	20,123	20,561
Total current liabilities	64,377	60,671
NET ASSETS		
Invested in capital assets, net of related debt	99,866	109,398
Unrestricted	470,658	413,440
Total net assets	570,524	522,838
Total liabilities and net assets	<u>\$ 634,901</u>	<u>\$ 583,509</u>

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

Excelsior District #1

STATEMENT OF ACTIVITIES

Year ended June 30, 2012

(with comparative totals for the year ended June 30, 2011)

Functions/Programs	Expenses	Program Revenues		Net Expense and Changes in Net Assets	2011
		Charges For Services	Operating Grants and Contributions	Governmental Activities	
Governmental activities					
Instruction	\$ 233,298	\$ -	\$ 56,879	\$ (176,419)	\$ (181,046)
Supporting Services	125,554	-	3,874	(121,680)	(105,716)
Depreciation-unallocated	17,530	-	-	(17,530)	(19,810)
Total governmental activities	<u>\$ 376,382</u>	<u>\$ -</u>	<u>\$ 60,753</u>	<u>(315,629)</u>	<u>(306,572)</u>
General purpose revenues					
Property taxes					
Levied for general purposes				85,705	86,351
State school aid - unrestricted				271,818	273,116
Grants and contributions not restricted to specific programs				5,147	4,367
Investment and other				645	716
Total general purpose revenues				<u>363,315</u>	<u>364,550</u>
Change in net assets				47,686	57,978
Net assets, beginning of year				<u>522,838</u>	<u>464,860</u>
Net assets, ending of year				<u>\$ 570,524</u>	<u>\$ 522,838</u>

Excelsior District #1

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2012

(with comparative totals for June 30, 2011)

	General Fund	
	2012	2011
ASSETS		
Cash and cash equivalents	\$ 443,540	\$ 394,298
Accounts receivable	3,554	-
Due from other governmental units	87,941	79,813
Total assets	\$ 535,035	\$ 474,111
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 3,672	\$ 4,848
Salaries payable and related expenses	40,582	35,262
Deferred revenue	20,123	20,561
Total liabilities	64,377	60,671
FUND BALANCE		
Committed for subsequent year's expenditures	30,209	33,112
Unassigned	440,449	380,328
Total fund balance	470,658	413,440
Reconciliation of Governmental Fund Balance to District-Wide Government Activities Net Assets		
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets was \$218,243 and the accumulated depreciation was \$118,377.	99,866	109,398
Total net assets - governmental activities	\$ 570,524	\$ 522,838

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

Excelsior District #1

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

Year ended June 30, 2012
(with comparative totals for year ended June 30, 2011)

	General Fund	
	2012	2011
Revenues		
Property taxes	\$ 85,705	\$ 86,351
Interest	645	716
State revenues	288,490	289,256
Federal revenues	43,671	67,438
Other	5,557	4,437
Total revenues	<u>424,068</u>	<u>448,198</u>
Expenditures		
Instruction	229,192	261,125
Supporting Services	122,892	109,285
Capital outlay	14,766	42,133
Total expenditures	<u>366,850</u>	<u>412,543</u>
EXCESS OF REVENUES OVER EXPENDITURES	57,218	35,655
Fund balance, beginning of year	<u>413,440</u>	<u>377,785</u>
Fund balance, end of year	<u><u>\$ 470,658</u></u>	<u><u>\$ 413,440</u></u>

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

Excelsior District #1

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

For the year ended June 30, 2012
(with comparative totals for year ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 57,218	\$ 35,655
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.</p>		
	Capital outlays \$ 7,998	
	Depreciation expense <u>(17,530)</u>	<u>(9,532)</u> <u>22,323</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 47,686</u>	<u>\$ 57,978</u>

Excelsior District #1

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

(with comparative totals for June 30, 2011)

	Agency Fund	
	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	<u>\$ 8,843</u>	<u>\$ 3,474</u>
LIABILITIES		
Due to other governmental units	\$ 2,062	\$ -
Due to student groups	<u>6,781</u>	<u>3,474</u>
Total liabilities	<u>\$ 8,843</u>	<u>\$ 3,474</u>

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

Excelsior District #1

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The accounting and reporting framework and the more significant accounting principles and practices of Excelsior District #1 (the "School District") are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2012.

The Financial Reporting Entity

Excelsior District #1 is a Michigan public school district consisting of an elementary school. The School District primarily serves the Excelsior Township community. The School District employs four professional staff and three support staff and has 45 students enrolled.

Excelsior District #1's Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal governmental sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncements, student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and School District general revenues.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Financial Statements

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

Fund Types and Major Funds

Activities in Major Funds

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

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations.

Cash and Equivalents

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

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 3 to 50 years. The School District generally capitalizes assets with costs of \$500 or more as purchase and construction outlays occur. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

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

Buildings	50 years
Improvements, other than buildings	20 to 25 years
Buses and vehicles	7 to 15 years
Furniture and equipment	3 to 20 years

Fund Equity

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Allocation of Expenses

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

The School District has elected to not allocate indirect expenses. However, depreciation expense directly related to a particular function is included in that function on the statement of activities.

Program Revenues

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

The School District's most significant program revenues are Title I and Small Rural Education Achievement Programs, which are reported as operating grants and contributions.

Use of Estimates in the Preparation of Financial Statements

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

Reclassification

Certain prior year amounts have been reclassified to conform with the current presentation.

NOTE B - BUDGETARY POLICY AND PRACTICE

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

1. As early as possible in the preceding fiscal year (generally in the spring), the Superintendent formulates preliminary budgets for the coming year, which he submits to the Board of Education for their review.
2. A public hearing is held prior to June 30 on the proposed budgets to obtain taxpayer comments.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE B - BUDGETARY POLICY AND PRACTICE - Continued

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

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2012, the School District was in compliance with the Act.

NOTE C - CASH AND EQUIVALENTS

At June 30, 2012, the School District's cash and equivalents include the following:

	<u>Cash and Equivalents</u>
Bank deposits	<u>\$452,383</u>

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2012, the carrying amount of the School District's deposits for both governmental activities and fiduciary funds was \$452,383 and the bank balance was \$462,918. As of June 30, 2012, \$1,440 of the bank balance was exposed to custodial risk because it was uninsured and uncollateralized.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

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

During the fiscal year, \$18.00 per \$1,000 of equalized non-principal residence property value of \$4,649,494 and \$6.00 per \$1,000 of equalized commercial personal property value of \$171,600 was levied for general operating purposes.

Intergovernmental Receivables and Deferred Revenue

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

Amounts due from other governments at June 30, 2012 are as follows:

Due from the State of Michigan	
State Aid	\$52,476
Due from Federal Grants	15,342
Other receivables	<u>20,123</u>
	<u>\$87,941</u>

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2012</u>
Buildings and improvements	\$105,753	\$ -	\$ -	\$105,753
Furniture and equipment	38,041	7,998	-	46,039
Buses and vehicles	<u>66,451</u>	<u>-</u>	<u>-</u>	<u>66,451</u>
Total depreciable assets	210,245	7,998	-	218,243
Less accumulated depreciation	<u>(100,847)</u>	<u>(17,530)</u>	<u>-</u>	<u>(118,377)</u>
Total capital assets, net	<u>\$ 109,398</u>	<u>\$ (9,532)</u>	<u>\$ -</u>	<u>\$ 99,866</u>

NOTE E - INVESTMENTS IN CAPITAL ASSETS - Continued

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

Unallocated	<u>\$17,530</u>
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NOTE F - RISK MANAGEMENT

The School District is exposed to various risk of loss related to torts; theft of, damage to; and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District participates in two distinct pools and educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for one policy year exceed normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. Each of the pools maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The School District has not been informed of any special assessments being required.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

NOTE G - PENSION PLAN

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

Funding Policy

Plan members who participate in MIP are required to contribute 3% to 4.3% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the Plan; and the School District is required to contribute at an actuarially determined rate using the entry age actuarial cost method. The rates were 20.66% and 19.16%, dependent on entrance date, for the period of July 1, 2011 to September 30, 2011 and 24.46% and 23.23%, dependent upon entrance date, for the period October 1, 2011 to June 30, 2012 of annual covered payroll. The contribution requirements of plan members and the School District are established and may be amended by the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2012, 2011 and 2010, were \$33,414, \$26,869, and \$27,720, respectively, which is equal to the required contribution for the year.

NOTE G - PENSION PLAN - Continued

Post Employment Benefits

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

NOTE H - COMMITMENTS AND CONTINGENCIES

Federal and State Grants

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

REQUIRED SUPPLEMENTARY INFORMATION

Excelsior District #1

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
	Revenues				
Local and intermediate sources	\$ 82,266	\$ 89,972	\$ 91,907	\$ 7,706	\$ 1,935
State program revenues	241,904	288,031	288,490	46,127	459
Federal program revenues	49,950	68,225	43,671	18,275	(24,554)
Total revenues	<u>374,120</u>	<u>446,228</u>	<u>424,068</u>	<u>72,108</u>	<u>(22,160)</u>
Expenditures					
Current					
Instruction	260,985	274,598	238,150	(13,613)	36,448
Supporting Services	146,247	147,142	128,700	(895)	18,442
Total expenditures	<u>407,232</u>	<u>421,740</u>	<u>366,850</u>	<u>(14,508)</u>	<u>54,890</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(33,112)	24,488	57,218	57,600	32,730
Fund balance, beginning of year	<u>413,440</u>	<u>413,440</u>	<u>413,440</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 380,328</u>	<u>\$ 437,928</u>	<u>\$ 470,658</u>	<u>\$ 57,600</u>	<u>\$ 32,730</u>



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

Board of Education
Excelsior District #1

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *Excelsior District #1* (the "School District") as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements and have issued our report thereon, dated September 7, 2012. 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

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

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

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

Compliance and Other Matters

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

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

Dennis, Gartland & Niergarth

September 7, 2012