

**Frankfort - Elberta Area Schools**

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2012

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## **Management’s Discussion and Analysis For the year ended June 30, 2012**

Our discussion and analysis of the Frankfort-Elberta Area Schools’ (the “School District”) financial performance provides an overview of the School District’s financial activities for the fiscal year ended June 30, 2012. Please read this analysis in conjunction with the School District’s financial statements, which immediately follow this section.

### **Description of Reporting Entity and Services Provided**

Frankfort-Elberta Area Schools, located in Frankfort, Michigan in Benzie County, is nestled on the shores of Lake Michigan, 45 miles west of Traverse City. The school population for the 2011-2012 school year is approximately 525 students who are eager to learn. Twenty percent of the students in the School District are “Schools of Choice” coming from Benzie Central, Bear Lake, and Traverse City Area Public Schools. Because of small class sizes, students are given more individual attention in the classroom. Educators are dedicated and caring and always look out for the student’s best interest. MEAP and standardized test scores are consistently above average. The community has been extremely supportive over the years and parents are very involved in the schools in a positive way whether it is fund raising, volunteering in the classrooms, or attending the many events at the school. Frankfort-Elberta Area Schools boasts outstanding athletic, drama and music programs that allow students to learn outside of the classroom.

### **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 School District:

- The first two statements are *district-wide financial statements* that provide comprehensive *short-term* and *long-term* financial information about the School District as a whole.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School District, reporting the School 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 School 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 School 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**

Budgetary Information for Funds  
(Required Supplemental Information)

Other Supplemental Information

**District-Wide Statements**

The district-wide statements provide comprehensive information about the entire School 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 School 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 School District's *net assets* and how they have changed. Examining net assets is one way to measure the School District's financial health or *position*. Over time, increases or decreases in the School District's net assets are an indicator of whether its financial position is improving or declining. The relationship between revenues and expenses is the School District's operating results, or in other terms, whether the School District had a profit or a loss at year-end. However, the School 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 School 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 School 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 School District has two kinds of funds:

### Governmental Funds:

All of the School 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 School 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 School 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 School District's major governmental funds are the General, 2002 Debt Service and Food Service funds.

### Fiduciary Funds:

The School District is the Trustee, or fiduciary, for assets that belong to others. The School 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 School District-wide financial statements because the School District cannot use these assets to finance its operations. The Student Activities Accounts are accounted for as fiduciary funds.

## 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, 2012:

**TABLE 1**

	Governmental Activities 2010-2011	Governmental Activities 2011-2012
<b>Assets</b>		
Current and other assets	\$1,824,054	\$1,524,882
Capital assets	8,971,534	8,655,795
Total assets	\$10,795,588	\$10,180,677
<b>Liabilities</b>		
Current liabilities	\$1,308,822	\$1,286,898
Long-term liabilities	4,989,834	4,271,799
Total liabilities	6,298,656	5,558,697
<b>Net Assets</b>		
Invested in property and equipment - net of related debt	3,331,313	3,646,329
Restricted	137,863	195,057
Unrestricted	1,027,756	780,594
Total net assets	\$4,496,932	\$4,621,980

The above analysis focuses on the net assets (see Table 1). The School District's net assets were \$4,621,980 at June 30, 2012. 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. The School District has \$195,057 restricted net assets. The remaining amount of net assets, \$780,594, was unrestricted.

The \$780,594 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 \$780,594 remaining. The operating results of the School 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 School 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.

**TABLE 2**

	Governmental Activities 2010-2011	Governmental Activities 2011-2012	% Change
<b>Revenue</b>			
<b>Program Revenue</b>			
Charges for services	\$166,386	\$178,614	7.3
Operating grants and contributions	692,193	785,636	13.5
<b>General Revenue</b>			
Property taxes	5,211,852	5,307,222	1.8
State School Aid-unrestricted	251,744	117,065	(53.5)
Other	209,912	80,002	(61.9)
<b>Total revenues</b>	<u>6,532,087</u>	<u>6,468,539</u>	<u>(.9)</u>
<b>Functions/Program Expenses</b>			
Instruction	3,338,957	3,514,222	5.2
Support services	1,622,941	1,704,494	5.0
Food services	527,245	553,452	5.0
Interest expense	247,988	254,112	2.5
Other transactions	30,989	1,472	(95.2)
Depreciation (unallocated)	322,659	315,739	(2.1)
<b>Total expenses</b>	<u>6,090,779</u>	<u>6,343,491</u>	<u>4.1</u>
<b>Change in net assets</b>	<u>\$441,308</u>	<u>\$125,048</u>	

As reported in the statement of activities, the cost of all of our governmental activities this year was \$6,343,491. Certain activities were partially funded from those who benefited from the programs, \$178,614, or by other grants and contributions of \$785,636. We paid for the remaining "public benefit" portion of our governmental activities with \$5,307,222 in taxes, \$117,065 in State Aid, and with our other revenues of \$80,002, which includes interest and general entitlements.

The School District experienced an increase in net assets of \$125,048 for the year. The prior year increase in net assets was \$441,308. The key reason for the change in net assets as compared to the prior year was the School District's decrease in revenues and increases in salary and benefits expenses.

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 School District operating revenue sources, the School Board 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 noted earlier, the School District uses fund accounting 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. The School 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 School 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 School District completed this year, the governmental funds reported a combined fund balance of \$1,008,816, which is a decrease of \$198,464 from the prior year.

## **Fund Budgetary Highlights**

Over the course of the year, the School 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 School District revised its budget three times during the fiscal year. Under normal circumstances, the School District adjusts its budget to reflect a wide variety of Federal and State programs, many of which are not finalized until well after the School District's original budget is required to be adopted.

A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. Changes to the general fund budget were as follows:

- Final budgeted revenues were increased by \$110,638 over the original budget due to Best Practices Incentive and MPSERs State Revenue.
- Final budgeted expenditures increased by \$61,674 from the original budget due to continued expenditure line adjustments. The School District added programs back into the budget after initial reductions due to student needs as well as increased grant funding.



## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2012, the School District had \$8,655,795 invested in a range of capital assets including buildings, land, furniture, equipment and vehicles summarized as follows:

	June 30, 2011	June 30, 2012
Building and improvements	\$10,578,925	\$10,578,925
Office equipment	40,392	40,392
Equipment	30,599	30,599
Classroom equipment	262,675	262,675
Buses	394,422	394,422
Vehicles	95,887	95,887
Land	381,996	381,996
Total capital assets	11,784,896	11,784,896
Less: accumulated depreciation	(2,813,362)	(3,129,101)
Total capital assets, net	\$8,971,534	\$8,655,795

### Long-term Debt

At June 30, 2012, the long-term debt ending balance was \$5,012,166. This was composed of \$1,405,000 in 2005 School Improvement Bonds; \$455,000 in 2009 School Improvement Bonds; \$3,220,000 in 2012 School Improvement Bonds; \$(70,534) in unamortized financing costs; and \$2,700 in accumulated leave liabilities. A summary of the change in long-term debt is as follows:

Beginning Balance	New Debt	Payments/ Defeasance	Ending Balance
\$5,643,821	\$3,157,367	\$(3,789,022)	\$5,012,166

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

At the time these financial statements were prepared and audited, the School District was aware of a number of circumstances that could significantly affect the financial health of Frankfort-Elberta Area Schools.

- The retirement rate is 25.36% effective October 1, 2012. Recent enacted legislation caps the retirement rate at 24.46 % for future years; however ongoing litigation has made 25.36% the current rate. State Aid dollars will be used to maintain this rate cap. Containment of costs within the retirement system continues to be a concern for all Michigan school districts.
- This is the fourth year the District is out-of-formula for per pupil funding based on their local property tax collection. We are concerned about the ongoing erosion of our tax base with the potential elimination of the personal property tax. As a result, we will continue our conservative spending practices.
- The exhaustion of Federal Education Jobs funds will mean further reductions in funding for school budgets. The Federal deficit and economic outlook could also hamper the impact for State and Title grant dollars in upcoming fiscal year.

## **Contacting the School District's Financial Management**

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Thomas Stobie, Superintendent, 534 11<sup>th</sup> St., Frankfort, MI 49635-9351. We can be reached by telephone at (231) 352-4641.



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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education  
Frankfort-Elberta Area Schools

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Frankfort-Elberta Area Schools* (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 November 2, 2011, we expressed an unqualified opinion on the respective financial statements of the governmental activities.

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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Frankfort-Elberta Area Schools 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 November 2, 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 important for assessing the results of our audit.

Accounting standards generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information on pages i through viii, 25 and 26, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's financial statements as a whole. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management, and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Dennis, Gartland & Niergarth*

November 2, 2012

# Frankfort - Elberta Area Schools

## STATEMENT OF NET ASSETS

June 30, 2012

(With comparative totals for June 30, 2011)

	Governmental Activities	
	2012	2011
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,107,809	\$ 226,016
Investments	228,828	1,329,124
Due from other governments	157,647	252,669
Inventory	30,598	16,245
Total current assets	1,524,882	1,824,054
Non-current assets		
Capital assets, net of accumulated depreciation	8,655,795	8,971,534
Total assets	\$ 10,180,677	\$ 10,795,588
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 72,497	\$ 57,973
Salaries payable and related expenses	439,757	571,411
Due to other governments	24,000	-
Deferred revenue	10,277	25,451
Current portion of long-term debt	740,367	653,987
Total current liabilities	1,286,898	1,308,822
Non-current portion of long-term obligations	4,271,799	4,989,834
Total liabilities	5,558,697	6,298,656
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	3,646,329	3,331,313
Restricted		
Capital projects	101,679	101,602
Debt service	93,378	36,261
Unrestricted	780,594	1,027,756
Total net assets	4,621,980	4,496,932
Total liabilities and net assets	\$ 10,180,677	\$ 10,795,588

The accompanying notes are an integral part of these statements.

# Frankfort - Elberta Area Schools

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

(With comparative totals for June 30, 2011)

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets Governmental Activities	
		Charges for Services	Operating Grants and Contributions	2012	2011
Governmental activities					
Instruction	\$ 3,514,222	\$ 7,540	\$ 426,515	\$ (3,080,167)	\$ (3,012,542)
Supporting services	1,704,494	37,543	-	(1,666,951)	(1,590,472)
Food service	553,452	133,531	359,121	(60,800)	(27,550)
Other transactions	1,472	-	-	(1,472)	(30,989)
Interest on long-term debt	254,112	-	-	(254,112)	(247,988)
Depreciation - unallocated	315,739	-	-	(315,739)	(322,659)
Total governmental activities	\$ 6,343,491	\$ 178,614	\$ 785,636	(5,379,241)	(5,232,200)
General purpose revenues					
Property taxes					
Levied for general purposes				4,367,247	4,416,940
Levied for Debt Service				939,975	794,912
State school aid - unrestricted				117,065	251,744
Grants and contributions not restricted to specific programs				11,610	102,202
Investments and other				68,392	107,710
Total general purpose revenues				5,504,289	5,673,508
Change in net assets				125,048	441,308
Net assets - beginning of year				4,496,932	4,055,624
Net assets - end of year				\$ 4,621,980	\$ 4,496,932

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

## Frankfort - Elberta Area Schools

### BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2012

(With comparative totals for June 30, 2011)

	General	2002 Debt	Food	Non-Major	Total Governmental	
	Fund	Service	Service	Governmental	Funds	Funds
					2012	2011
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,062,259	\$ -	\$ 105	\$ 45,445	\$ 1,107,809	\$ 226,016
Investments	46,795	80,354	-	101,679	228,828	1,329,124
Due from other governments and other receivables	102,626	-	55,021	-	157,647	252,669
Due from other funds	73,897	-	25,210	-	99,107	41,577
Inventories - supplies and materials	-	-	30,598	-	30,598	16,245
<b>Total assets</b>	<b>\$ 1,285,577</b>	<b>\$ 80,354</b>	<b>\$ 110,934</b>	<b>\$ 147,124</b>	<b>\$ 1,623,989</b>	<b>\$ 1,865,631</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	\$ 27,039	\$ -	\$ 14,993	\$ -	\$ 42,032	\$ 19,911
Accrued expenses	439,757	-	-	-	439,757	571,412
Due to other funds	25,210	-	71,941	1,956	99,107	41,577
Due to other governments	-	-	24,000	-	24,000	-
Deferred revenue	10,277	-	-	-	10,277	25,451
<b>Total liabilities</b>	<b>502,283</b>	<b>-</b>	<b>110,934</b>	<b>1,956</b>	<b>615,173</b>	<b>658,351</b>
<b>FUND BALANCES</b>						
Nonspendable	-	-	30,598	-	30,598	16,245
Restricted						
Capital projects	-	-	-	101,679	101,679	101,602
Debt service	-	80,354	-	43,489	123,843	74,322
Committed for subsequent year expenditures	-	-	-	-	-	337,509
Unassigned	783,294	-	(30,598)	-	752,696	677,602
<b>Total fund balances</b>	<b>783,294</b>	<b>80,354</b>	<b>-</b>	<b>145,168</b>	<b>1,008,816</b>	<b>1,207,280</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,285,577</b>	<b>\$ 80,354</b>	<b>\$ 110,934</b>	<b>\$ 147,124</b>		

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

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$11,784,896 and the accumulated depreciation is \$3,129,101.

8,655,795      8,971,534

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

Bonds payable	(5,080,000)	(5,700,000)
Unamortized financing costs	70,534	59,779
Accrued interest on bonds	(30,465)	(38,061)
Accumulated leave liability	(2,700)	(3,600)

Total net assets - governmental activities

\$ 4,621,980      \$ 4,496,932

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

**Frankfort - Elberta Area Schools**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**

Year Ended June 30, 2012

(With comparative totals for June 30, 2011)

	General Fund	2002 Debt Service Fund	Food Service Fund	Non-Major Governmental Funds	Total Governmental Funds	
					2012	2011
<b>Revenues</b>						
Property taxes	\$ 4,367,247	\$ 740,384	\$ -	\$ 199,591	\$ 5,307,222	\$ 5,211,852
Interest	10,477	844	-	299	11,620	11,007
State revenues	342,766	-	19,879	-	362,645	394,907
Federal revenues	168,999	-	342,661	-	511,660	594,172
Other	142,763	-	130,111	2,518	275,392	320,149
<b>Total revenues</b>	<b>5,032,252</b>	<b>741,228</b>	<b>492,651</b>	<b>202,408</b>	<b>6,468,539</b>	<b>6,532,087</b>
<b>Expenditures</b>						
Instruction	3,509,646	-	-	-	3,509,646	3,353,704
Supporting services	1,704,007	-	-	-	1,704,007	1,635,843
Other transactions	797	675	-	-	1,472	32,382
Food service	-	-	553,452	-	553,452	529,795
Debt service						
Principal	-	555,000	-	110,000	665,000	635,000
Interest	-	89,009	-	72,268	161,277	251,913
Capital outlay	5,063	-	-	-	5,063	16,671
<b>Total expenditures</b>	<b>5,219,513</b>	<b>644,684</b>	<b>553,452</b>	<b>182,268</b>	<b>6,599,917</b>	<b>6,455,308</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(187,261)</b>	<b>96,544</b>	<b>(60,801)</b>	<b>20,140</b>	<b>(131,378)</b>	<b>76,779</b>
<b>Other financing sources (uses)</b>						
Operating transfers in	-	-	60,801	-	60,801	30,100
Operating transfers out	(60,801)	-	-	-	(60,801)	(30,100)
Proceeds from bond issue	-	3,220,000	-	-	3,220,000	-
Payments to escrow agent	-	(3,241,781)	-	-	(3,241,781)	-
Bond issuance costs	-	(45,305)	-	-	(45,305)	-
<b>Total other financing sources (uses)</b>	<b>(60,801)</b>	<b>(67,086)</b>	<b>60,801</b>	<b>-</b>	<b>(67,086)</b>	<b>-</b>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<b>(248,062)</b>	<b>29,458</b>	<b>-</b>	<b>20,140</b>	<b>(198,464)</b>	<b>76,779</b>
Fund balance, beginning of year	1,031,356	50,896	-	125,028	1,207,280	1,130,501
Fund balance, end of year	\$ 783,294	\$ 80,354	\$ -	\$ 145,168	\$ 1,008,816	\$ 1,207,280

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



## Frankfort - Elberta Area Schools

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

Year Ended June 30, 2012

(With comparative totals for June 30, 2011)

	2012	2011
<b>Total net change in fund balances - governmental funds</b>	\$ (198,464)	\$ 76,779
<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, for governmental activities, those costs are allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.</p>		
Depreciation expense	(315,739)	(313,243)
<p>In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year \$3,600 compensated absences were paid out and \$2,700 were earned.</p>		
	900	(1,800)
<p>In the statement of activities, certain operating expenses - early retirement incentives - are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, early retirement incentive benefits paid out were \$4,500.</p>		
	-	56,900
<p>Repayment of bond principal (including refunding) is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.</p>		
	3,840,000	635,000
<p>The amount financed by the bond proceeds, net of issue costs, is reported in the governmental funds as a source of financing. On the other hand, the bond proceeds are not revenues in the statement of activities but rather constitute long-term liabilities in the statement of net assets.</p>		
	(3,174,695)	-
<p>The difference between the reacquisition price and the net carrying amount of defeased debt.</p>		
	24,528	-
<p>Amortization of deferred financing costs.</p>		
	(59,078)	(16,253)
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities; however, interest expense is recognized as the interest accrues, regardless of when it is due. The reduced amount of interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds payable.</p>		
	7,596	3,925
<b>Change in net assets of governmental activities</b>	<b>\$ 125,048</b>	<b>\$ 441,308</b>

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

# Frankfort - Elberta Area Schools

## STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

(With comparative totals for June 30, 2011)

	Agency Funds	
	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and cash equivalents	<u>\$ 57,611</u>	<u>\$ 49,785</u>
<b>LIABILITIES</b>		
Due to student groups	<u>\$ 57,611</u>	<u>\$ 49,785</u>

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

# Frankfort - Elberta Area Schools

## NOTES TO FINANCIAL STATEMENTS

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Introduction*

Frankfort-Elberta Area Schools (the "School District") is a Michigan public school district consisting of one elementary school and a junior and senior high school. The School District primarily serves the Benzie County area. As of June 30, 2012, the School District employed 39 professional staff and 25 non-professional staff, and has approximately 525 students enrolled within its School District.

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

The accounting and reporting framework and the more significant accounting principles and practices of Frankfort-Elberta Area Schools are discussed in subsequent sections of this note. The remainder of the notes is 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*

Frankfort-Elberta Area School'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 Governmental Accounting Standards Board ("GASB") Statement No. 14, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncements, student, parent and teacher organizations are not included, except to the extent that the schools hold 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.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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.

*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 resources 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. 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.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

***Fund Types and Major Funds***

*Activities in Major Funds*

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

The *2002 Debt Service Fund* is used to account for the accumulation of resources for and the payment of, bond principal, interest and related costs.

The *Food Service Fund* is a special revenue fund that is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for special purposes.

*Other Governmental Funds*

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The *2005, 2009 and 2012 Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

***Fiduciary Fund Types***

*Agency Fund*

The Agency Fund accounts for assets held by the School District as an agent for individuals, private organizations, other governments or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The Student Activity Fund is an Agency Fund.

***Cash and Investments***

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.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***Inventories***

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

***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 cost of \$5,000 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	25-50
Improvements, other than buildings	15-20
Vehicles	7-10
Furniture, machinery and equipment	3-20

***Long-Term Debt, Deferred Debt Expense and Bond Discounts/Premiums***

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

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

***Encumbrance Accounting***

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

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***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 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.

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.

***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.

***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.

***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, At-Risk and School Lunch Programs, which are reported as operating grants and contributions.

***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.
3. The Board of Education reviews the proposed budget and then in June adopts a formal resolution approving the needed appropriations for the coming operating year.
4. All transfers of budget amounts and any amendments to the formal Appropriation Act are approved by the Board of Education.
5. It is the Superintendent's responsibility to supervise and monitor the budget hearing. 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 budget presented in these financial statements is 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 out of compliance with the Act as follows:

	Budget	Actual	Variance
General Fund			
Transfers out	\$ 36,658	\$ 60,801	\$ 24,143
Food Service Fund			
Food service	546,801	553,452	6,651



NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE C - CASH AND INVESTMENTS**

At June 30, 2012, the School District's cash and investments included the following:

	Balance Sheet Classification		
	Equivalents	Investments	Total
Bank deposits and cash on hand	\$ 528,994	\$ -	\$ 528,994
Money markets accounts	636,426	-	636,426
Investment pool	-	228,828	228,828
	<u>\$ 1,165,420</u>	<u>\$ 228,828</u>	<u>\$1,394,248</u>

*Custodial Credit Risk - Deposits*

In the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2012, \$832,164 of the School District's cash and investments was insured. The remaining bank balance of \$626,139 was exposed to custodial credit risk because it was uninsured and uncollateralized.

***Investments***

Michigan law permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.

	Current Maturities (in years)				
	Fair Value	Current	1-5	6-10	More than 10
Investment pool	<u>\$228,828</u>	<u>\$228,828</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*Interest Rate Risk*

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

**NOTE C - CASH AND INVESTMENTS - Continued**

*Credit Risk*

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District has no investment policy that would further limit its investment choices. The School District's investments in the MILAF investment pool were rated AAAM by Standard & Poor's.

**NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE**

*Property Taxes Receivable, Deferred Revenue and Property Tax Calendar*

Property taxes are levied, billed and attached as enforceable liens on July 1 of the School District's fiscal year. Townships within the School District collect and remit taxes until September 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred revenue. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$18 per \$1,000 of equalized non-principal residence property value in the School District of \$243.9 million was levied and \$6 per \$1,000 of commercial personal property values in the School District of \$13.2 million was levied for general operating purposes. For Debt Service purposes, \$2.35 per \$1,000 of equalized principal, non-principal residence and commercial personal property values in the School District of \$389.5 million was levied.

*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.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE -**  
Continued

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

	<u>2012</u>	<u>2011</u>
Due from State of Michigan - State Aid	\$ 55,511	\$ 73,574
Due from Federal grants	81,368	103,132
Due from townships - Property taxes	430	23,283
Other receivables	21,548	52,680
	<u>\$ 158,857</u>	<u>\$ 252,669</u>

**NOTE E - INVESTMENTS IN CAPITAL ASSETS**

Investments in capital assets consisted of the following:

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2012</u>
Buildings and improvements	\$10,578,925	\$ -	\$ -	\$10,578,925
Office equipment	40,392	-	-	40,392
Equipment	30,599	-	-	30,599
Classroom equipment	262,675	-	-	262,675
Buses	394,422	-	-	394,422
Vehicles	95,887	-	-	95,887
	<u>11,402,900</u>	<u>-</u>	<u>-</u>	<u>11,402,900</u>
Total	11,402,900	-	-	11,402,900
Less accumulated depreciation	(2,813,362)	(315,739)	-	(3,129,101)
Land	381,996	-	-	381,996
	<u>381,996</u>	<u>-</u>	<u>-</u>	<u>381,996</u>
Total capital assets, net	<u>\$ 8,971,534</u>	<u>\$ (315,739)</u>	<u>\$ -</u>	<u>\$ 8,655,795</u>

Depreciation expense of \$315,739 was unallocated.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE F - LONG-TERM LIABILITIES**

Changes in long-term debt during the year ended June 30, 2012 were as follows:

	Beginning Balance	New Debt	Payments	In-Substance Defeasance	Ending Balance	Current Portion
General						
obligation bonds	\$ 5,700,000	\$ 3,220,000	\$ (665,000)	\$ (3,175,000)	\$ 5,080,000	\$ 760,000
Amortized						
financing costs	(59,779)	(69,833)	59,078	-	(70,534)	(22,333)
Early retirement						
incentive	-	4,500	(4,500)	-	-	-
Compensated						
absences	3,600	2,700	(3,600)	-	2,700	2,700
	<u>\$ 5,643,821</u>	<u>\$ 3,157,367</u>	<u>\$ (614,022)</u>	<u>\$ (3,175,000)</u>	<u>\$ 5,012,166</u>	<u>\$ 740,367</u>

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

At June 30, 2012, the School District's long-term debt consisted of the following:

2005 School Improvement Bonds. Remaining installments due annually of \$70,000 to \$160,000 through May 1, 2024; average remaining interest rate of 4.45%.	\$1,405,000
2009 School Improvement Bonds. Remaining installments due annually of \$40,000 to \$165,000 through May 1, 2015; average remaining interest rate of 2.35%.	455,000
2012 School Improvement Bonds. Remaining installments due annually of \$635,000 to \$680,000 through May 1, 2017; average remaining interest rate of 1.70%.	<u>3,220,000</u>
Total general obligation bonds	5,080,000
Unamortized financing costs	(70,534)
Accumulated leave liability	<u>2,700</u>
Total long-term debt	<u><u>\$5,012,166</u></u>

**NOTE F - LONG-TERM LIABILITIES** - Continued

Total annual requirements to amortize bonds as of June 30, 2012 were as follows:

Years Ending June 30,	Principal	Interest
2013	\$ 760,000	\$ 134,337
2014	810,000	111,549
2015	850,000	96,689
2016	870,000	79,197
2017	765,000	59,976
2018-2022	705,000	160,102
2023-2024	320,000	20,560
	<u>\$ 5,080,000</u>	<u>\$ 662,410</u>

Interest expense for the year ended June 30, 2012 was \$254,112 and interest paid for the year ended June 30, 2012 was \$161,277.

***In-Substance Defeasance***

On February 22, 2012, the School District issued \$3,220,000 in general obligation refunding bonds with interest rates ranging from 1.35% to 2.00% to extinguish \$3,175,000 of outstanding 2002 general obligation bonds with an average remaining interest rate of 4.18%. The refunding was undertaken to lower interest costs and reduce the School District's annual debt service requirements.

Bonds totaling \$555,000 were not part of the refunding and were funded by the School District on the scheduled payment date of May 1, 2012.

The net proceeds of \$3,174,695 (after payment of expenses of \$45,305 for underwriter's discount, issuance costs and miscellaneous fees) plus \$67,086 from Debt Service Funds were deposited with an escrow agent to provide for the redemption of the \$3,175,000 outstanding 2002 general obligation bonds and payment of \$89,009 of interest on the outstanding bonds. The 2002 general obligation bonds were redeemed by the escrow agent on the optional redemption date of May 1, 2012.

The bond refunding decreases the School District's total debt service payments by \$188,734 over six years and yields an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$178,489.

**NOTE G - RISK MANAGEMENT**

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

The School District pays unemployment claims on a reimbursement basis.

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

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

**NOTE H - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY**

*Receivables and Payables*

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

Interfund receivables and payables as reported in the governmental fund financial statements at June 30, 2012 were as follows:

Fund	Interfund Receivable	Interfund Payable
Major Funds		
General Fund	\$ 73,897	\$ 25,210
Food Service Fund	25,210	71,941
Other Governmental Funds		
2009 Debt Service Fund	-	1,956
	<u>\$ 99,107</u>	<u>\$ 99,107</u>

**NOTE H - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY -**  
Continued

***Transfers and Payments***

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

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

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

Fund	Transfers In	Transfers Out
Major Funds		
General Fund	\$ -	\$ 60,801
Food Service Fund	60,801	-
	<u>\$ 60,801</u>	<u>\$ 60,801</u>

**NOTE I - PENSION PLAN**

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

**NOTE I - PENSION PLAN - Continued**

***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. Members are also required to contribute 3% for retirement health care benefits. The rate was 20.66% and 19.16%, dependent on entrance date, for the period July 1, 2011 to September 30, 2011, and 24.46% and 23.23%, dependent on 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 MPSERS for the years ended June 30, 2012, 2011 and 2010, were \$633,703, \$516,930 and \$465,972, respectively, which is equal to the required contribution for the year.

***Post-Employment Benefits***

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

**NOTE J - 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**

## Frankfort - Elberta Area Schools

### BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2012

(With comparative totals for June 30, 2011)

	Budgeted Amounts		Actual	Variances - Positive (Negative)		Actual
	Original	Final	(GAAP Basis)	Original to	Final to Actual	(GAAP Basis)
			2012	Final	Total	2011
<b>Revenues</b>						
Local and intermediate sources	\$ 4,523,838	\$ 4,429,180	\$ 4,377,724	\$ (94,658)	\$ (51,456)	\$ 4,500,099
State revenues	214,771	344,280	342,766	129,509	(1,514)	374,690
Federal revenues	140,640	179,222	168,999	38,582	(10,223)	287,371
Incoming transfers and other transactions	33,605	70,810	142,763	37,205	71,953	74,187
Total revenues	<u>4,912,854</u>	<u>5,023,492</u>	<u>5,032,252</u>	<u>110,638</u>	<u>8,760</u>	<u>5,236,347</u>
<b>Expenditures</b>						
Instruction	3,515,933	3,539,178	3,514,222	(23,245)	24,956	3,362,721
Supporting services	1,695,924	1,734,353	1,704,494	(38,429)	29,859	1,659,478
Payments to other governmental agencies	2,500	2,500	797	-	1,703	600
Total expenditures	<u>5,214,357</u>	<u>5,276,031</u>	<u>5,219,513</u>	<u>(61,674)</u>	<u>56,518</u>	<u>5,022,799</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(301,503)	(252,539)	(187,261)	48,964	65,278	213,548
<b>Other financing uses</b>						
Operating transfers out	(36,006)	(36,658)	(60,801)	(652)	(24,143)	(30,100)
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	(337,509)	(289,197)	(248,062)	48,312	41,135	183,448
Fund balance, beginning of year	<u>1,031,356</u>	<u>1,031,356</u>	<u>1,031,356</u>	<u>-</u>	<u>-</u>	<u>847,908</u>
Fund balance, end of year	<u>\$ 693,847</u>	<u>\$ 742,159</u>	<u>\$ 783,294</u>	<u>\$ 48,312</u>	<u>\$ 41,135</u>	<u>\$ 1,031,356</u>

## Frankfort - Elberta Area Schools

### BUDGETARY COMPARISON SCHEDULE FOR THE FOOD SERVICE FUND

For the Year Ended June 30, 2012

(With comparative totals for June 30, 2011)

	Budgeted Amounts		Actual	Variances - Positive (Negative)		Actual
	Original	Final	(GAAP Basis)	Original to	Final to Actual	(GAAP Basis)
			2012	Final	Total	2011
Revenues						
Local sources	\$ 122,700	\$ 142,151	\$ 116,891	\$ 19,451	\$ (25,260)	\$ 162,677
State revenues	15,596	19,547	19,879	3,951	332	20,217
Federal revenues	330,967	335,224	342,661	4,257	7,437	306,801
Incoming transfers and other transactions	10,000	13,221	13,220	3,221	(1)	10,000
Total revenues	<u>479,263</u>	<u>510,143</u>	<u>492,651</u>	<u>30,880</u>	<u>(17,492)</u>	<u>499,695</u>
Expenditures						
Food service	<u>515,269</u>	<u>546,801</u>	<u>553,452</u>	<u>(31,532)</u>	<u>(6,651)</u>	<u>529,795</u>
<b>REVENUES UNDER EXPENDITURES</b>	(36,006)	(36,658)	(60,801)	(652)	(24,143)	(30,100)
Other financing sources						
Operating transfers in	<u>36,006</u>	<u>36,658</u>	<u>60,801</u>	<u>652</u>	<u>24,143</u>	<u>30,100</u>
<b>REVENUES UNDER EXPENDITURES AND OTHER FINANCING SOURCES</b>	-	-	-	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

## Frankfort - Elberta Area Schools

### COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2012

(With comparative totals for June 30, 2011)

	Capital Projects Fund	Debt Service Funds			Total Non-Major Governmental Funds	
	Public Improvement	2005	2009	2012	2012	2011
<b>ASSETS</b>						
Cash and cash equivalents	\$ -	\$ 23,336	\$ 19,591	\$ 2,518	\$ 45,445	\$ 3,185
Investments	101,679	-	-	-	101,679	125,028
Due from other governments and other receivables	-	-	-	-	-	4,448
<b>Total assets</b>	<b>\$ 101,679</b>	<b>\$ 23,336</b>	<b>\$ 19,591</b>	<b>\$ 2,518</b>	<b>\$ 147,124</b>	<b>\$ 132,661</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Due to other funds	\$ -	\$ -	\$ 1,956	\$ -	\$ 1,956	\$ 3,185
Deferred revenue	-	-	-	-	-	4,448
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>1,956</b>	<b>-</b>	<b>1,956</b>	<b>7,633</b>
<b>FUND BALANCES</b>						
Restricted						
Capital projects	101,679	-	-	-	101,679	101,602
Debt Service	-	23,336	17,635	2,518	43,489	23,426
<b>Total fund balances</b>	<b>101,679</b>	<b>23,336</b>	<b>17,635</b>	<b>2,518</b>	<b>145,168</b>	<b>125,028</b>
<b>Total liabilities and fund balances</b>	<b>\$ 101,679</b>	<b>\$ 23,336</b>	<b>\$ 19,591</b>	<b>\$ 2,518</b>	<b>\$ 147,124</b>	<b>\$ 132,661</b>

## Frankfort - Elberta Area Schools

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

Year Ended June 30, 2012

(With comparative totals for June 30, 2011)

	Capital Projects Fund	Debt Service Funds			Total Non-Major Governmental Funds	
	Public Improvement	2005	2009	2012	2012	2011
	Revenues					
Property taxes	\$ -	\$ 139,716	\$ 59,875	\$ -	\$ 199,591	\$ 157,433
Interest	77	150	72	-	299	336
Other	-	-	-	2,518	2,518	-
Total revenues	<u>77</u>	<u>139,866</u>	<u>59,947</u>	<u>2,518</u>	<u>202,408</u>	<u>157,769</u>
Expenditures						
Debt service						
Principal	-	70,000	40,000	-	110,000	100,000
Interest	-	59,975	12,293	-	72,268	75,220
Capital outlay	-	-	-	-	-	14,408
Total expenditures	<u>-</u>	<u>129,975</u>	<u>52,293</u>	<u>-</u>	<u>182,268</u>	<u>189,628</u>
<b>REVENUES (UNDER) OVER EXPENDITURES</b>	77	9,891	7,654	2,518	20,140	(31,859)
Fund balance, beginning of year	<u>101,602</u>	<u>13,445</u>	<u>9,981</u>	<u>-</u>	<u>125,028</u>	<u>156,887</u>
Fund balance, end of year	<u>\$ 101,679</u>	<u>\$ 23,336</u>	<u>\$ 17,635</u>	<u>\$ 2,518</u>	<u>\$ 145,168</u>	<u>\$ 125,028</u>

**FEDERAL PROGRAMS**

# Frankfort-Elberta Area Schools

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2011	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2012
<b>United States Department of Agriculture</b>							
Passed through Michigan Department of Education							
Child Nutrition Cluster							
School Breakfast Program	10.553						
1970 Breakfast		\$ 39,771	\$ -	\$ -	\$ 39,771	\$ 39,771	\$ -
National School Lunch Program	10.555						
1950 All Lunches		18,185	-	-	18,185	18,185	-
1960 Free and Reduced		123,913	-	-	123,913	123,913	-
Total National School Lunch Program		142,098	-	-	142,098	142,098	-
USDA Commodities	10.555						
Bonus		15,993	-	-	15,993	15,993	-
Entitlement		230	-	-	230	230	-
Total USDA Commodities		16,223	-	-	16,223	16,223	-
Summer Food Service Program for Children	10.559						
1900 Summer		178,143	33,574	33,574	140,854	144,569	37,289
<b>Total Child Nutrition Cluster passed through United States         Department of Agriculture</b>		<b>376,235</b>	<b>33,574</b>	<b>33,574</b>	<b>338,946</b>	<b>342,661</b>	<b>37,289</b>
<b>United States Department of Education</b>							
Passed through Michigan Department of Education							
Title I, Part A Cluster							
Title I, Part A - Grants to Local Educational Agencies	84.010						
111530-1011		84,311	20,210	84,311	20,210	-	-
121530-1112		114,503	-	-	76,119	101,382	25,263
Total Title I, Part A Cluster		198,814	20,210	84,311	96,329	101,382	25,263



# Frankfort-Elberta Area Schools

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2011	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2012
Safe and Drug Free Schools and Communities 112861-1011B	84.186	\$ 5,000	\$ 462	\$ 462	\$ 462	\$ -	\$ -
Title II, Part A - Improving Teacher Quality State Grants 110520-1011 120520-1112	84.367	27,997 24,225	6,934 -	27,997 -	6,934 18,711	- 24,225	- 5,514
Total Title II, Part A - Improving Teacher Quality State Grants		<u>52,222</u>	<u>6,934</u>	<u>27,997</u>	<u>25,645</u>	<u>24,225</u>	<u>5,514</u>
Education Stabilization Funds 112525-1011	84.394	3,506	3,506	3,506	3,506	-	-
Education Jobs 112545-1011 112545-1112	84.410A	92,226 6,967	29,856 -	92,226 -	29,856 6,967	- 6,967	- -
Total Education Jobs		<u>99,193</u>	<u>29,856</u>	<u>92,226</u>	<u>36,823</u>	<u>6,967</u>	<u>-</u>
Total United States Department of Education passed through Michigan Department of Education		<u>358,735</u>	<u>60,968</u>	<u>208,502</u>	<u>162,765</u>	<u>132,574</u>	<u>30,777</u>
Rural Education Grant 821-2011 821-2012	84.358	30,168 39,149	7,823 -	29,187 -	7,823 20,757	- 34,059	- 13,302
Total Rural Education Grant		<u>69,317</u>	<u>7,823</u>	<u>29,187</u>	<u>28,580</u>	<u>34,059</u>	<u>13,302</u>
Passed through Traverse Bay Area Intermediate School District Special Education I.D.E.A. Cluster Special Education I.D.E.A. Flowthrough ARRA 100455-1011 110455-1112	84.391	27,721 908	767 -	20,428 -	767 908	- 908	- -
Total Special Education I.D.E.A Cluster		<u>28,629</u>	<u>767</u>	<u>20,428</u>	<u>1,675</u>	<u>908</u>	<u>-</u>

# Frankfort-Elberta Area Schools

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2011	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2012
Medicaid Outreach 818	93.778	\$ 1,458	\$ -	\$ -	\$ 1,458	\$ 1,458	\$ -
Total passed through Traverse Bay Area Intermediate School District		<u>30,087</u>	<u>767</u>	<u>20,428</u>	<u>3,133</u>	<u>2,366</u>	<u>-</u>
<b>Total passed through United States Department of Education</b>		<b><u>458,139</u></b>	<b><u>69,558</u></b>	<b><u>258,117</u></b>	<b><u>194,478</u></b>	<b><u>168,999</u></b>	<b><u>44,079</u></b>
<b>Total Federal financial assistance</b>		<b><u>\$ 834,374</u></b>	<b><u>\$ 103,132</u></b>	<b><u>\$ 291,691</u></b>	<b><u>\$ 533,424</u></b>	<b><u>\$ 511,660</u></b>	<b><u>\$ 81,368</u></b>

## Frankfort-Elberta Area Schools

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2012

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



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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  
Frankfort-Elberta Area Schools

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Frankfort-Elberta Area Schools* (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 November 2, 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 of the School District 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 correct 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 would not necessarily 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 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1 and 2012-2.

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

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

*Dennis, Gartland & Niergarth*

November 2, 2012



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

Board of Education  
Frankfort-Elberta Area Schools

We have audited *Frankfort-Elberta Area School's* (the "School District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School District's major Federal programs for the year ended June 30, 2012. The School District's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District 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 ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1 and 2012-2.

***Internal Control Over Compliance***

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program 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 the School District's internal control over compliance.

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

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

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

This report is intended solely for the information and use of management, the Board of Education, others within the entity, 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*

November 2, 2012

**Frankfort-Elberta Area Schools**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2012

**CURRENT YEAR**

***Section 1 - Summary of Auditors' Results***

1. The auditor's report expresses an unqualified opinion on the financial statements of Frankfort-Elberta Area Schools (the "School District").
2. There were no significant deficiencies in internal control reported as a result of the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the School District were disclosed during the audit.
4. The auditor's report does not disclose any significant deficiencies in internal control over major programs.
5. The auditor's report on compliance for the major Federal award programs for the School District expresses an unqualified opinion on all major Federal programs.
6. There were no findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The following programs are considered major programs:

Child Nutrition Cluster:

School Breakfast Program	CFDA# 10.553
National School Lunch Program	CFDA# 10.555
Summer Food Service Program for Children	CFDA# 10.559

8. The threshold used for distinguishing between Type A and Type B programs was \$300,000.
9. Frankfort-Elberta Area Schools did not qualify as a low-risk auditee.

***Section 2 - Findings in Accordance with Governmental Auditing Standards***

No findings.



**Frankfort-Elberta Area Schools**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

June 30, 2012

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

**Finding 2012-1 (Child Nutrition Cluster: School Breakfast Program CFDA# 10.553; National School Lunch Program CFDA# 10.555; Summer Food Service Program for Children CFDA# 10.559; USDA Commodities CFDA #10.555) Eligibility**

**Criteria:** All students who participate in the Federally funded food service program are required to complete an application to determine if they are eligible to receive a meal free of charge or at a reduced price. This application must be reviewed and approved by the appropriate food service personnel.

**Condition:** The Food Service Director effectively approved applications for ineligible students. Therefore, students were receiving benefits who were not eligible for them.

**Questioned Costs:** \$21,647. This is a conservative estimate of the total non-compliance based on a 100% review of applications. Further investigation of questionable items may reduce this amount.

**Cause:** The Food Service Director failed to properly review and validate the benefits to be received, if any, by each student participating in the program and controls were not in place to assure only eligible students were approved.

**Effect:** Some students improperly received the benefit of a free or reduced-price meal and the School District received reimbursement it was not entitled to receive.

**Management's Response:** The School District terminated the Food Service Director and began the process of determining the amount of reimbursements that were incorrectly claimed. 100% of applications were preliminarily-reviewed with a follow-up investigation planned. Further, work has begun on developing internal controls to prevent future non-compliance.

## Frankfort-Elberta Area Schools

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

June 30, 2012

#### **Finding 2012-2 (Child Nutrition Cluster: School Breakfast Program CFDA# 10.553; National School Lunch Program CFDA# 10.555; Summer Food Service Program for Children CFDA# 10.559; USDA Commodities CFDA #10.555) Allowability**

**Criteria:** Only meals served to a qualifying student should be claimed as a reimbursable expenditure under the Federal food service program.

**Condition:** Reimbursements were claimed for students who were not in attendance and could not have received a qualifying meal.

**Questioned Costs:** Known questioned costs based on a 100% test are less than \$10,000.

**Cause:** Proper controls were not in place to effectively monitor the number of meals that should have been claimed for reimbursement under the Federal food service program.

**Effect:** Reimbursement was claimed for meals which were not served.

**Management's Response:** The School District terminated the Food Service Director and began the process of determining the amount of reimbursements that were incorrectly claimed. A 100% comparison of claims and attendance records was made. Further, work has begun on developing internal controls to prevent future non-compliance.

#### **PRIOR YEAR**

#### **Finding 2011-1 (Child Nutrition Cluster: School Breakfast Program CFDA# 10.553; National School Lunch Program CFDA# 10.555; Summer Food Service Program for Children CFDA# 10.559; USDA Commodities CFDA #10.555) Reporting**

**Criteria:** All Michigan school districts providing a Federally funded food service program are required to submit monthly meal reimbursement claim forms within 10 days of the month following the claim month to the Michigan Department of Education.

**Condition:** The School District has not consistently filed timely monthly meal reimbursement claim reports with the Michigan Department of Education.

**Cause:** The School District has failed to submit all meal reimbursement claim reports within the 10 day timeframe as required by the Michigan Department of Education.

**Effect:** As a result of this, the School District receives delayed reimbursement for meal claims. The School District is also unable to properly budget for related revenues and expenditures without current and up-to-date information.

**Management's Response:** Management has met with the appropriate staff and expectation is that reports will be filed in a more timely fashion.

## Frankfort-Elberta Area Schools

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

June 30, 2012

#### **Finding 2011-2 (Child Nutrition Cluster: School Breakfast Program CFDA# 10.553; National School Lunch Program CFDA# 10.555; Summer Food Service Program for Children CFDA# 10.559; USDA Commodities CFDA #10.555) Special Tests and Provisions – Coordinated Review Effort**

**Criteria:** All Michigan school districts serving the National School Lunch Program must conduct an annual on-site review in each building each year prior to February 1. Also, all Michigan school districts serving the After School Snack Program must conduct two on-site reviews in each building each year. The first review must take place within the first four weeks of snack operation, and the second review must be completed after January 1. All review forms must be completed and retained by the School District.

**Condition:** The School District does not retain documentation supporting the required on-site reviews for the National School Lunch Program or the After School Snack Program.

**Cause:** The School District does not retain documentation supporting the required on-site reviews for the National School Lunch Program or the After School Snack Program.

**Effect:** The School District is unable to provide proof of the required on-site reviews and therefore, is unable to ensure compliance with internal requirements for the National School Lunch Program and the After School Snack Program.

**Management's Response:** Management has met with staff and provided the on-site review paperwork. It was stressed to staff the importance of completing the paperwork to meet this requirement.