

Bellaire Public 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 Bellaire Public 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

Bellaire Public Schools, located in Bellaire, Michigan in Antrim County, is located in between pristine lakes and watersheds. The school population for the 2011-2012 school year is 459 students who are eager to learn. Thirteen percent of the students in the School District are "Schools of Choice" coming from Central Lake, Mancelona, Kalkaska, and Traverse City. 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 fundraising, volunteering in the classrooms, or attending the many events at the school. Bellaire boasts outstanding athletic, drama and music programs that allow students to learn outside of the classroom.

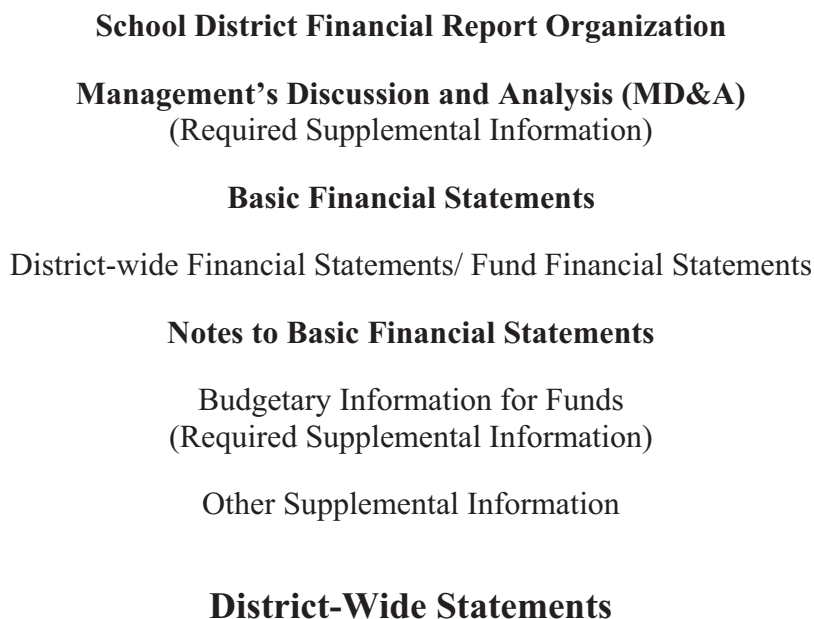
Overview of the Financial Statements

This annual report consists of four sections presented in the following order: Management's discussion and analysis, the basic financial statements, required supplementary information and combining financial statements of non-major governmental funds. 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



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 and the 2006 School Building & Site Bond.

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 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

	<u>Governmental Activities 2010-2011</u>	<u>Governmental Activities 2011-2012</u>
Assets		
Current and other assets	\$ 768,234	\$ 595,982
Capital assets	<u>16,426,828</u>	<u>15,915,539</u>
Total assets	<u>\$17,195,062</u>	<u>\$ 16,511,521</u>
Liabilities		
Current liabilities	\$ 991,525	\$ 968,540
Long-term liabilities	<u>14,453,271</u>	<u>14,156,130</u>
Total liabilities	<u>\$15,444,796</u>	<u>\$ 15,124,670</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 1,772,399	\$ 1,546,045
Restricted for Capital Projects	451	451
School-based activities	3,150	0
Unrestricted	<u>(25,734)</u>	<u>(159,645)</u>
Total net assets	<u>\$ 1,750,266</u>	<u>\$ 1,386,851</u>

The above analysis focuses on the net assets (see Table 1). The School District's net assets were \$1,386,851 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 \$451 restricted net assets. The remaining amount of net assets \$(159,645) was unrestricted.

The \$(159,645) 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 a shortfall of \$(159,645). 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 <u>2010-2011</u>	Governmental Activities <u>2011-2012</u>
Revenue		
Program revenue:		
Charges for services	\$ 45,979	\$ 39,052
Operating grants and contributions	614,543	506,961
General revenue:		
Property taxes	4,499,735	4,260,128
State School Aid-unrestricted	139,272	45,915
Other	<u>177,360</u>	<u>229,693</u>
Total revenues	<u>\$5,476,889</u>	<u>\$5,081,749</u>
Functions/Program Expenses:		
Instruction	\$2,811,441	\$2,551,171
Support services	1,639,620	1,536,282
Food Services	167,492	155,270
Cost on long-term debt	699,085	678,174
Depreciation (unallocated)	517,535	511,289
Other transactions	<u>13,226</u>	<u>12,978</u>
Total expenses	<u>\$5,848,399</u>	<u>\$5,445,164</u>
Decrease in Net Assets	<u>\$ (371,510)</u>	<u>\$ (363,415)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$ 5,445,164. Certain activities were partially funded from those who benefited from the programs, \$39,052, or by other grants and contributions, \$506,961. We paid for the remaining "public benefit" portion of our governmental activities with \$4,260,128 in taxes, \$45,915 in State Aid, and with our other revenues including interest income, ISD transfers and general entitlements.

The School District experienced a decrease in net assets of \$363,415. Key reasons for the change in net assets were lower student numbers and increased costs in staffing expenditures.

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 \$7,366, which is a decrease of \$106,678 from the prior year. The primary reason for the decrease was lower revenue in the General Fund due to lower student counts.

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 required supplemental information of these financial statements. Changes to the General Fund budget were as follows:

- Final budgeted revenues decreased by \$45,175 from the original budget mainly due to the reduction in student count.
- Final budgeted expenditures decreased \$134,739 from the original budget due to reductions in supporting services and instructional staff.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2012, the School District had \$15,915,539 invested in a range of capital assets including buildings, land, furniture, equipment and vehicles summarized as follows:

	Balance <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2012</u>
Land Improvements	\$ 683,307	\$ -	\$ -	\$ 683,307
Buildings & Improvements	17,288,431	-	-	17,288,431
Furniture & Equipment	1,659,151	-	-	1,659,151
Buses & Vehicles	<u>454,878</u>	<u>-</u>	<u>(123,767)</u>	<u>331,111</u>
Total Capital Assets	20,085,767	-	(123,767)	19,962,000
Less: Accumulated Depreciation	(3,659,851)	(511,289)	123,767	(4,047,373)
Land	<u>912</u>	<u>-</u>	<u>-</u>	<u>912</u>
Total capital assets, net	<u>\$16,426,828</u>	<u>\$(511,289)</u>	<u>\$ -</u>	<u>\$15,915,539</u>

Depreciation expense of \$511,289 was unallocated.

Long-Term Debt

The School District had a long-term debt beginning balance of \$14,743,390. At June 30, 2012, the long-term debt ending balance was \$14,486,249 which is mostly composed of \$14,445,119 in 2006 School Improvement Bonds and \$58,099 in accumulated leave liability.

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 Bellaire Public Schools.

- The current retirement rate is 24.46%. The retirement rate will increase to 27.37% in 2012-2013, and is set to increase further to 31.21% in the 2013-2014 fiscal year. Containment of costs within the retirement system continues to be a concern for all Michigan school 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 2012-2013 fiscal year. The cap on medical benefits will be implemented on September 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 no increase in the Student Foundation Allowance Grant of \$7,482 per pupil for Bellaire.
- The School District has experienced eight straight years of declining enrollment. This year ended with a decrease of 22 students. This is an alarming trend that continues to put the School District in financial distress.
- Lack of fund balance for Bellaire is a concern, as cashflow may become a difficulty. It may become necessary for Bellaire to borrow funds in order to meet their obligations.
- The continuation of the eroding fund balance is a major concern on the stability of the School District.

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 James R. Emery, Superintendent, Bellaire Public Schools, 204 W. Forest Home Ave., Bellaire, MI 49615. We can be reached by telephone at (231)533-8141.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Bellaire Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **Bellaire Public 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.

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 opinion.

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 Bellaire Public Schools as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, 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 4, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements as a whole. The combining financial statements on pages 29 - 30 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements are the responsibility of management, and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Dennis, Gartland & Niergarth

September 4, 2012

Bellaire Public Schools

STATEMENT OF NET ASSETS

June 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 494,243
Due from other governments	92,430
Accounts receivable	2,383
Taxes receivable	4,777
Inventory	<u>2,149</u>
Total current assets	595,982
Capital assets, net of accumulated depreciation	<u>15,915,539</u>
Total assets	<u><u>\$ 16,511,521</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	\$ 314,697
Salaries payable and related expenses	285,850
Deferred revenue	12,874
Current portion of long-term liabilities	330,119
Due to other governments	<u>25,000</u>
Total current liabilities	968,540
Non-current portion of long-term liabilities	<u>14,156,130</u>
Total liabilities	<u>15,124,670</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,546,045
Restricted for	
Capital projects	451
Unrestricted	<u>(159,645)</u>
Total net assets	<u>1,386,851</u>
Total liabilities and net assets	<u><u>\$ 16,511,521</u></u>

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

Bellaire Public Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Functions/Program	Expenses	Program Revenues			Net (Expense)/ Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Instruction	\$ 2,551,171	\$ -	\$ 403,493	\$ -	\$ (2,147,678)
Supporting Services	1,536,282	-	-	-	(1,536,282)
Food Service	155,270	39,052	103,468	-	(12,750)
Other	12,978	-	-	-	(12,978)
Interest on long-term debt	678,174	-	-	-	(678,174)
Depreciation - unallocated	511,289	-	-	-	(511,289)
Total governmental activities	\$ 5,445,164	\$ 39,052	\$ 506,961	\$ -	(4,899,151)
General purpose revenues					
Property taxes					
Levied for general purposes					3,369,491
Levied for Debt Service					890,637
State school aid - unrestricted					45,915
Investment and other					229,693
Total general purpose revenues					4,535,736
Change in net assets					(363,415)
Net assets, beginning of year					1,750,266
Net assets, end of year					\$ 1,386,851

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

Bellaire Public Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2012

	General Fund	2006 School Bldg & Site Bond Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 393,863	\$ 37,001	\$ 6,391	\$ 437,255
Due from other governments	92,430	-	-	92,430
Accounts receivable	2,383	-	-	2,383
Taxes receivable	2,539	2,238	-	4,777
Due from other funds	3,771	9,190	1,406	14,367
Inventory	-	-	2,149	2,149
	<u>\$ 494,986</u>	<u>\$ 48,429</u>	<u>\$ 9,946</u>	<u>\$ 553,361</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	\$ 200,956	\$ -	\$ 2,171	\$ 203,127
Salaries payable and related expenses	285,850	-	-	285,850
Deferred revenue	13,703	2,238	1,710	17,651
Due to other funds	10,596	-	3,771	14,367
Due to other governments	25,000	-	-	25,000
	<u>536,105</u>	<u>2,238</u>	<u>7,652</u>	<u>545,995</u>
FUND BALANCES				
Nonspendable	-	-	2,149	2,149
Restricted	-	46,191	2,294	48,485
Unassigned	(41,119)	-	(2,149)	(43,268)
	<u>(41,119)</u>	<u>46,191</u>	<u>2,294</u>	<u>7,366</u>
Total liabilities and fund balances	<u>\$ 494,986</u>	<u>\$ 48,429</u>	<u>\$ 9,946</u>	

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

Amounts reported for governmental activities in the statement of net assets are different because capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$19,962,912 and the accumulated depreciation is \$(4,047,373).

15,915,539

Property taxes not received within 60 days after fiscal year-end are reported as deferred revenue in the funds.

4,777

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	\$ (14,445,119)	
	Accrued interest on bonds	(111,570)	
	Unamortized bond issuance costs	73,782	
	Accumulated leave liability	(58,099)	(14,541,006)

An Internal Service Fund is used by the School District to charge the severance costs to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities.

175

Total net assets - governmental activities

\$ 1,386,851

Bellaire Public Schools

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

Year Ended June 30, 2012

	General Fund	2006 School Bldg & Site Bond Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 3,401,768	\$ 900,762	\$ -	\$ 4,302,530
Interest	48,876	9,197	8	58,081
State revenues	288,868	5,885	4,515	299,268
Federal revenues	144,970	-	98,948	243,918
Other	168,936	-	41,656	210,592
Total revenues	4,053,418	915,844	145,127	5,114,389
Expenditures				
Instruction	2,551,171	-	-	2,551,171
Supporting Services	1,532,845	-	-	1,532,845
Food Service	-	-	155,270	155,270
Other	6,621	-	-	6,621
Debt Service				
Principal	-	290,362	-	290,362
Interest	-	680,448	-	680,448
Other	-	913	-	913
Capital outlay	847	-	2,590	3,437
Total expenditures	4,091,484	971,723	157,860	5,221,067
REVENUES UNDER EXPENDITURES	(38,066)	(55,879)	(12,733)	(106,678)
Other financing sources (uses)				
Operating transfers in	-	-	9,600	9,600
Operating transfers out	(9,600)	-	-	(9,600)
Total other financing sources (uses)	(9,600)	-	9,600	-
REVENUES UNDER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(47,666)	(55,879)	(3,133)	(106,678)
Fund balance, beginning of year	6,547	102,070	5,427	114,044
Fund balance, end of year	\$ (41,119)	\$ 46,191	\$ 2,294	\$ 7,366

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

Bellaire Public 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

Total Net Change in Fund Balances - Governmental Funds \$ (106,678)

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

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Depreciation expense (511,289)

Property tax revenue not received within 60 days as of the fiscal year-end are not reported as revenues in the governmental funds. (42,402)

In the statement of activities, certain operating expenses - compensated absences (vacations and sick leave) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time earned was more than the amounts paid by \$(9,685). 9,685

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 290,362

Issuance costs are a reduction of bond proceeds in the governmental funds, but are amortized over the life of the bonds in the district-wide statements. (5,444)

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 interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds payable. 2,274

An Internal Service Fund is used by the School District to charge the severance costs to the individual funds. The net revenue of these activities is reported with governmental activities. 77

Changes in Net Assets of Governmental Activities \$ (363,415)

Bellaire Public Schools

STATEMENT OF NET ASSETS - INTERNAL SERVICE FUND

Year Ended June 30, 2012

ASSETS	
Cash and cash equivalents	<u>\$ 56,988</u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Early retirement incentive payable	\$ 56,813
NET ASSETS	
Unreserved, undesignated	<u>175</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 56,988</u>

Bellaire Public Schools

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - INTERNAL SERVICE FUND

Year Ended June 30, 2012

NON-OPERATING REVENUES

Interest income

\$ 77

NET ASSETS, beginning of year

98

NET ASSETS, end of year

\$ 175

Bellaire Public Schools

STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUND

Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Charges to other funds \$ 37,462

CASH FLOWS FROM INVESTING ACTIVITIES

Interest earned 77

CASH AND CASH EQUIVALENTS, beginning of year 19,449

CASH AND CASH EQUIVALENTS, end of year \$ 56,988

Bellaire Public Schools

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>54,045</u>
LIABILITIES AND NET ASSETS	
Accounts payable	\$ 2,383
Due to pupil activities	1,266
Due to student groups	<u>50,396</u>
Total liabilities and net assets	<u>\$ 54,045</u>

Bellaire Public Schools

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Bellaire Public Schools (the "School District") is a Michigan public school district consisting of an elementary school, a middle school and a high school. The School District primarily serves the Bellaire community. As of June 30, 2012, the School District employs 30 professional staff and 14 non-professional staff and has 459 students enrolled within its School District.

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

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

The Financial Reporting Entity

Bellaire Public Schools' Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to public school education. The Board receives funding from local, State and Federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity," as defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncement, student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed.

NOTES TO FINANCIAL STATEMENTS - 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 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.

NOTES TO FINANCIAL STATEMENTS - 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 2006 School Building & Site Bond Fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

Other Governmental Funds

The School Service Fund is a Special Revenue Fund that segregates, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of this fund. The Special Revenue Fund maintained by the School District is the Food Service Fund.

The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Internal Service Fund

The Internal Service Fund is used to account for operations that provide services to other departments or agencies of the government.

Fiduciary Funds

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

Cash and Equivalents

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

Investments

Investments are stated at market value.

Inventories

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

NOTES TO FINANCIAL STATEMENTS - Continued

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 5 to 50 years. The School District generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

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

Buildings	50 years
Improvements, other than buildings	20 years
Buses and vehicles	10 years
Furniture and equipment	5 years

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 interest method.

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

Fund Equity

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

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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 Program, which are reported as operating grants and contributions.

Encumbrance Accounting

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

Allocation of Expenses

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

The School District has elected to not allocate indirect expenses.

Use of Estimates in the Preparation of Financial Statements

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

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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 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:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Operating transfers out	<u>\$ -</u>	<u>\$ 9,600</u>	<u>\$ (9,600)</u>

In violation of Michigan Public Act 621, the School District adopted a General Fund deficit budget of \$169,036 and a Food Service fund deficit budget of \$6,672 for the current fiscal year; however, at the end of the current fiscal year, the actual General Fund balance deficit was \$41,119 and Food Service fund balance was \$-. The School District adopted a positive General Fund budget of \$21,052 and a Food Service fund budget of \$- for the ensuing fiscal year ending June 30, 2013. During the current fiscal year, the School District filed a Deficit Elimination Plan with the State to closely monitor ongoing operations for continued efficiencies.

NOTE C - CASH AND INVESTMENTS

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

	<u>Cash and Equivalents</u>
Cash on hand	\$ 575
Bank deposits	374,393
Investments - MILAF	<u>173,320</u>
	<u>\$ 548,288</u>

NOTES TO FINANCIAL STATEMENTS - Continued

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, \$400,392 of the School District's deposits were insured. The remaining balance of \$18,477 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The School District's investment policy permits investments in the following vehicles:

1. Bonds, bills or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States or the State of Michigan.
2. Certificates of deposit issued by financial institutions organized and authorized to operate in Michigan.
3. Commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government or Federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the Federal Deposit Insurance Corporation.
5. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
6. Michigan Investment Liquid Asset Fund Plus ("MILAF").

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 securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in short-term securities or MILAF, and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District's investment policy further limits its investment choices as described above. The School District's investment in the MILAF investment pool was rated AAAM by Standard & Poor's.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

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

During the fiscal year, \$18 per \$1,000 of equalized non-principal residence property value of \$185 million and \$6 per \$1,000 of equalized commercial personal property value of \$3.8 million was levied for general operating purposes. For Debt Service purposes, \$2.74 per \$1,000 of equalized principal, non-principal residence property and commercial personal property value of \$331 million was levied for bonded debt repayments by the Debt Service Fund.

Intergovernmental Receivables and Deferred Revenue

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

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

Due from the State of Michigan	
State Aid	\$ 57,763
Due from Federal grants	<u>34,667</u>
	<u>\$ 92,430</u>

NOTES TO FINANCIAL STATEMENTS - Continued

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>
Land improvements	\$ 683,307	\$ -	\$ -	\$ 683,307
Buildings and improvements	17,288,431	-	-	17,288,431
Furniture and equipment	1,659,151	-	-	1,659,151
Buses and vehicles	<u>454,878</u>	<u>-</u>	<u>(123,767)</u>	<u>331,111</u>
Total depreciable assets	20,085,767	-	(123,767)	19,962,000
Less accumulated depreciation	(3,659,851)	(511,289)	123,767	(4,047,373)
Land	<u>912</u>	<u>-</u>	<u>-</u>	<u>912</u>
Total capital assets, net	<u>\$ 16,426,828</u>	<u>\$ (511,289)</u>	<u>\$ -</u>	<u>\$ 15,915,539</u>

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

Unallocated	<u>\$ 511,289</u>
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NOTE F - LONG-TERM LIABILITIES

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

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$14,735,481	\$ -	\$ (290,362)	\$14,445,119	\$ 330,119
Accumulated leave liability	67,784	-	(9,685)	58,099	-
Early retirement incentive	19,351	37,462	-	56,813	-
Unamortized bond issuance costs/premium	<u>(79,226)</u>	<u>-</u>	<u>5,444</u>	<u>(73,782)</u>	<u>-</u>
Long-term debt	<u>\$14,743,390</u>	<u>\$ 37,462</u>	<u>\$ (294,603)</u>	<u>\$14,486,249</u>	<u>\$ 330,119</u>

Payments on general obligation bonds are made by the Debt Service Fund. The accumulated leave liability will be liquidated primarily by the General Fund and the early retirement incentives will be liquidated by the Internal Service Fund.

NOTES TO FINANCIAL STATEMENTS - Continued

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

2006 School Building and Site Bonds; due in annual installments of \$709,594 to \$1,158,100 through May 2036; interest rate of 4.25% to 5.125%.	\$14,440,000
1998 School Improvement Bond (Durant); due in installments of \$5,119 through May 15, 2013; average interest rate of 2.36%. This debt will be repaid using revenues provided by the State of Michigan specifically for this purpose. If the Michigan Legislature fails to appropriate funds, the School District is not liable for repayment of these bonds.	<u>5,119</u>
Total general obligation bonds payable	14,445,119
Unamortized bond issuance costs/premium	(73,782)
Accumulated leave liability	58,099
Early retirement incentive	<u>56,813</u>
Total long-term debt	<u><u>\$14,486,249</u></u>

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

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 330,119	\$ 668,080
2014	365,000	654,000
2015	415,000	638,488
2016	465,000	620,850
2017	515,000	599,925
2018-2022	3,105,000	2,625,081
2023-2027	3,250,000	1,901,531
2028-2032	3,300,000	1,161,844
2033-2036	<u>2,700,000</u>	<u>345,938</u>
	<u><u>\$14,445,119</u></u>	<u><u>\$ 9,215,737</u></u>

Accumulated Leave Liability

Employees of the School District accumulate days of compensated sick leave to 130 days, as specified by the bargaining units' contract. This benefit vests after 10 years of employment. Upon either resignation or retirement, the employees are compensated at one-fourth of the daily rates specified in the bargaining units' contracts, up to \$3,400.

Early Retirement Incentives

Certain employees of the School District, hired prior to July 1, 2004, who have no less than 6 consecutive years of service and qualify under MPSERS, have the option, after completion of their contract, to be granted an early retirement incentive. The retiring member is entitled to a one-time payment of a sum of money equivalent to 25% of the annual teaching salary received during the year preceding retirement.

Durant Settlement

As a result of the Durant v. State of Michigan settlement regarding State underfunding of school revenues, the School District received \$8,381 per year over a ten-year period beginning November 15, 1998. This represents 50% of the expected funds. For the remaining 50% of the funds from this settlement, or \$83,807, the School District has opted to participate in a bonding program enabling it to receive a lump-sum payment on November 15, 1998. The debt will be repaid over a 15-year period beginning May 15, 1999 using revenues provided by the State specifically for this purpose.

As part of the Executive Budget Recommendation for fiscal year 2004, the State refunded the bonds. The refunding changes the payment schedule without changing the total payments. There were no debt service payments for fiscal years 2004 and 2005, and payments resumed in 2006. There were no debt service payments in 2007 and 2008, and payments resumed in 2009.

NOTE G - RISK MANAGEMENT

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

The School District pays unemployment claims on a reimbursement basis. No significant claims are known to exist.

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

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

NOTE 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.

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 3,771	\$ 10,596
2006 Capital Projects Fund	9,190	-
Other Governmental Funds	<u>1,406</u>	<u>3,771</u>
	<u>\$ 14,367</u>	<u>\$ 14,367</u>

Transfers and Payments

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

The government-wide statement of activities eliminates transfers as reported within the governmental activities column.

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

<u>Transfers in</u>	<u>Amount</u>	<u>Transfers out</u>	<u>Amount</u>
Other Governmental Funds		Major Governmental Funds	
Food Service Fund	<u>\$ 9,600</u>	General Fund	<u>\$ 9,600</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, or by calling (517) 322-5103 or on the State of Michigan's website at www.Michigan.gov.

Funding Policy

Plan members who participate in MIP are required to contribute 3% to 6.4% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the Plan; and Bellaire Public Schools is required to contribute at an actuarially determined rate using the entry age actuarial cost method. The rate was 20.66% and 19.16%, dependent upon entrance date, for the period 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 MPSERS for the years ended June 30, 2012, 2011 and 2010 were \$451,899, \$419,847 and \$426,637, respectively, which is equal to the required contribution for each year.

Post-Employment Benefits

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

NOTE 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.

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Northern Michigan Education Association. The Bellaire Public Schools and the Northern Michigan Education Association have a contract from September 1, 2010 through August 31, 2012.

The Support and Food Service personnel at the School District are organized under the Bellaire Educational Support Professional Association. The Board of Education and the Bellaire Educational Support Professional Association have a contract for September 1, 2011 through August 31, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

Bellaire Public Schools

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual Total</u>
Revenues					
Local sources	\$ 3,420,542	\$ 3,469,824	\$ 3,450,644	\$ 49,282	\$ (19,180)
State revenues	420,219	274,809	288,868	(145,410)	14,059
Federal revenues	111,599	139,293	144,970	27,694	5,677
Other	<u>48,672</u>	<u>71,931</u>	<u>168,936</u>	<u>23,259</u>	<u>97,005</u>
Total revenues	<u>4,001,032</u>	<u>3,955,857</u>	<u>4,053,418</u>	<u>(45,175)</u>	<u>97,561</u>
Expenditures					
Instruction	2,644,175	2,576,284	2,551,171	67,891	25,113
Supporting Services	1,616,054	1,539,356	1,533,692	76,698	5,664
Other	<u>5,950</u>	<u>15,800</u>	<u>6,621</u>	<u>(9,850)</u>	<u>9,179</u>
Total expenditures	<u>4,266,179</u>	<u>4,131,440</u>	<u>4,091,484</u>	<u>134,739</u>	<u>39,956</u>
REVENUES OVER (UNDER) EXPENDITURES	(265,147)	(175,583)	(38,066)	89,564	137,517
Other financing uses					
Operating transfers out	<u>-</u>	<u>-</u>	<u>(9,600)</u>	<u>-</u>	<u>(9,600)</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(265,147)	(175,583)	(47,666)	89,564	127,917
Fund balance, beginning of year	<u>6,547</u>	<u>6,547</u>	<u>6,547</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ (258,600)</u>	<u>\$ (169,036)</u>	<u>\$ (41,119)</u>	<u>\$ 89,564</u>	<u>\$ 127,917</u>

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

Bellaire Public Schools

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2012

	Food Service	Capital Projects Fund	2006 Capital Projects Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 326	\$ 451	\$ 5,614	\$ 6,391
Due from other funds	1,406	-	-	1,406
Inventory	2,149	-	-	2,149
Total assets	\$ 3,881	\$ 451	\$ 5,614	\$ 9,946
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	\$ 2,171	\$ -	\$ -	\$ 2,171
Deferred revenue	1,710	-	-	1,710
Due to other funds	-	-	3,771	3,771
Total liabilities	3,881	-	-	7,652
FUND BALANCES				
Nonspendable	2,149	-	-	2,149
Restricted	-	451	1,843	2,294
Unassigned	(2,149)	-	-	(2,149)
Total liabilities and fund balances	\$ 3,881	\$ 451	\$ 5,614	\$ 9,946

Bellaire Public Schools

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

Year Ended June 30, 2012

	Food Service	Capital Projects Fund	2006 Capital Projects Fund	Total Non-Major Governmental Funds
Revenues				
Interest	\$ 5	\$ -	\$ 3	\$ 8
State revenues	4,515	-	-	4,515
Federal revenues	98,948	-	-	98,948
Other	39,052	-	2,604	41,656
Total revenues	142,520	-	2,607	145,127
Expenditures				
Food Service	155,270	-	-	155,270
Capital outlay	-	-	2,590	2,590
Total expenditures	155,270	-	2,590	157,860
REVENUES OVER (UNDER) EXPENDITURES	(12,750)	-	17	(12,733)
Other financing sources				
Operating transfers in	9,600	-	-	9,600
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	(3,150)	-	17	(3,133)
Fund balance, beginning of year	3,150	451	1,826	5,427
Fund balance, end of year	\$ -	\$ 451	\$ 1,843	\$ 2,294



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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
Bellaire Public Schools

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Bellaire Public 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 September 4, 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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency to be a *material weakness* in internal controls:

Segregation of Duties

We remind you that an inherent weakness in your system of internal control exists because the limited size of your staff does not permit an adequate segregation of duties. Without an adequate segregation of duties, there is an increased risk that errors or fraud could occur and not be detected. We recommend the School District utilize the financial services of TBAISD to help you identify your greatest risk exposures, design procedures and provide oversight, including journal entry review, to reduce those risks to the extent reasonably possible.

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. In violation of Michigan Public Act 621, the School District adopted a General Fund deficit budget of \$169,036 and a Food Service fund deficit budget of \$6,672 for the current fiscal year; however, at the end of the current fiscal year, the actual General Fund balance deficit was \$41,119 and Food Service fund balance was \$-. The School District adopted a positive General Fund budget of \$21,052 and a Food Service fund budget of \$- for the ensuing fiscal year ending June 30, 2013. In violation of Michigan Public Act 621, the School District incurred General Fund expenditures of \$9,600 in excess of the amounts appropriated for interfund transfers.

The 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 4, 2012