

**ST. LOUIS PUBLIC SCHOOL DISTRICT  
St. Louis, Michigan**

**Financial Statements  
With Supplemental Information  
June 30, 2012**



**RPC**  
Roslund Prestage & Company  
CERTIFIED PUBLIC ACCOUNTANTS

Saint Louis Public School District  
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June 30, 2012

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## Independent Auditor's Report

St. Louis Public School District  
St. Louis, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Louis Public Schools as of and for the year ended June 30, 2012, which collectively comprise Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Schools' 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 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 St. Louis Public Schools as of June 30, 2012, and the respective changes in financial position 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 1, 2012, on our consideration of Schools' 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 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 Schools' financial statements as a whole. The other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information is the responsibility of management and was derived from and relates 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. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants  
November 1, 2012

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**



ST. LOUIS PUBLIC SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
2011-2012

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## GENERAL INFORMATION

St. Louis Public Schools currently operates two elementary schools, one middle school, one high school, one alternative education school, and a Community Education Program. The school district's 2011-12 September enrollment was 1,147. St. Louis Public Schools employs a staff of 60 teachers, 8 administrators, and 52 support personnel.

The Board of Education consists of seven members who are elected at large for four-year overlapping terms. The Board annually elects a President, Vice-President, Treasurer and Secretary. The Board is responsible for the selection and appointment of the Superintendent of Schools. The Board meets as a single body to set or amend policy, develop long-range educational goals and act upon recommendations of the Superintendent of Schools. The Board is also responsible for adopting and periodically amending the operating budget and evaluating school programs in accordance with governing laws.

## USING THIS ANNUAL REPORT

The discussion and analysis of St. Louis Public Schools' financial performance provides an overall review of the school district's financial activities for the fiscal year ended June 30, 2012. The intent of this report is to provide a look at the performance of the district as a whole, and includes financial statements, notes to the financial statements, and budgetary information. In addition, this analysis will show comparative data from the prior 2010-11 school year.

## OVERVIEW OF THE FINANCIAL STATEMENTS

### *District-wide Financial Statements*

The district-wide financial statements are full accrual basis statements and provide information about the district's overall financial status. They are used to help determine the condition of the district as the result of the year's activities. The *Statement of Net Assets* reports all of the district's assets and liabilities, both short-term and long-term, regardless of their availability. Capital assets and long-term obligations of the district are reported in this statement. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid. The two district-wide statements report the district's net assets and how they have changed. Net assets (the difference between the district's assets and liabilities) are one way to measure the district's financial condition. Over time, increases or decreases in the district's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. However, it is important to note that to assess the district's overall position, you need to consider additional non-financial factors such as changes in the district's property base, the quality of education provided, and the condition of the district's buildings.

ST. LOUIS PUBLIC SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
2011-2012

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In the district-wide statements, the district's activities are classified as *governmental activities*. This includes most of the district's basic services such as regular and special education, food service, athletics, transportation, and administration. These activities are financed mostly by state aid, federal aid, and property taxes.

*Fund Financial Statements*

The district's fund financial statements provide detailed information about the most significant funds, and are comparable to prior year financial statements. The fund level statements are reported on a modified accrual basis, which means that only those assets that are measurable and currently available are reported. Liabilities are recognized to the extent that they are expected to be paid with current financial resources. The fund statements are formatted to meet the requirements of the Michigan Department of Education's "Accounting Manual". Major instructional and instructional support activities are reported in the General Fund. Other activities are reported in their relevant funds including; Special Revenue Funds for Food Service and Athletics, Debt Service, Capital Projects, and Fiduciary Funds.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The net assets of the district at June 30, 2012 were \$3,303,505 and are shown in the following *Statement of Net Assets*. The largest portion of the District's net assets (65.4%) reflects investment in capital assets (land, buildings and improvements, and furniture and equipment), less any related debt used to acquire those assets that are still outstanding. The district uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the district's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations.

The results of this year's operations for the District as a whole are reported in the following *Statement of Activities*, which shows the changes in net assets for fiscal year 2012. The district experienced a decrease in net assets, due in part to a decrease in general revenues.

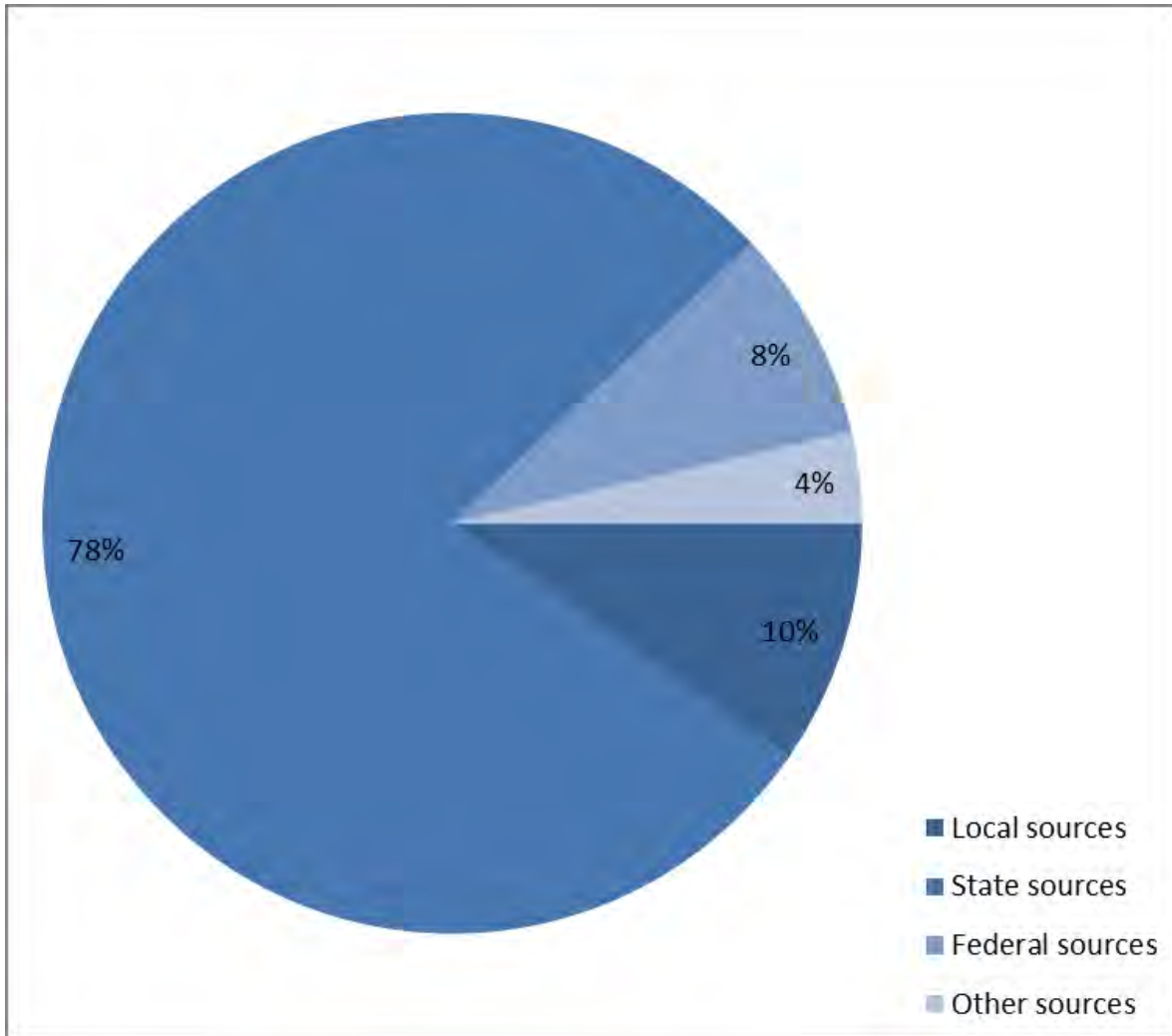
ST. LOUIS PUBLIC SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
2011-2012

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A substantial portion of the district's revenues is received from State sources. This means that the financial stability of the district rests primarily with the economic health of the State of Michigan. Figure 1 depicts the breakdown of the sources of revenue for the district.

Figure 1

**2011-12 General Fund Revenues**  
**Total \$9,764,237**



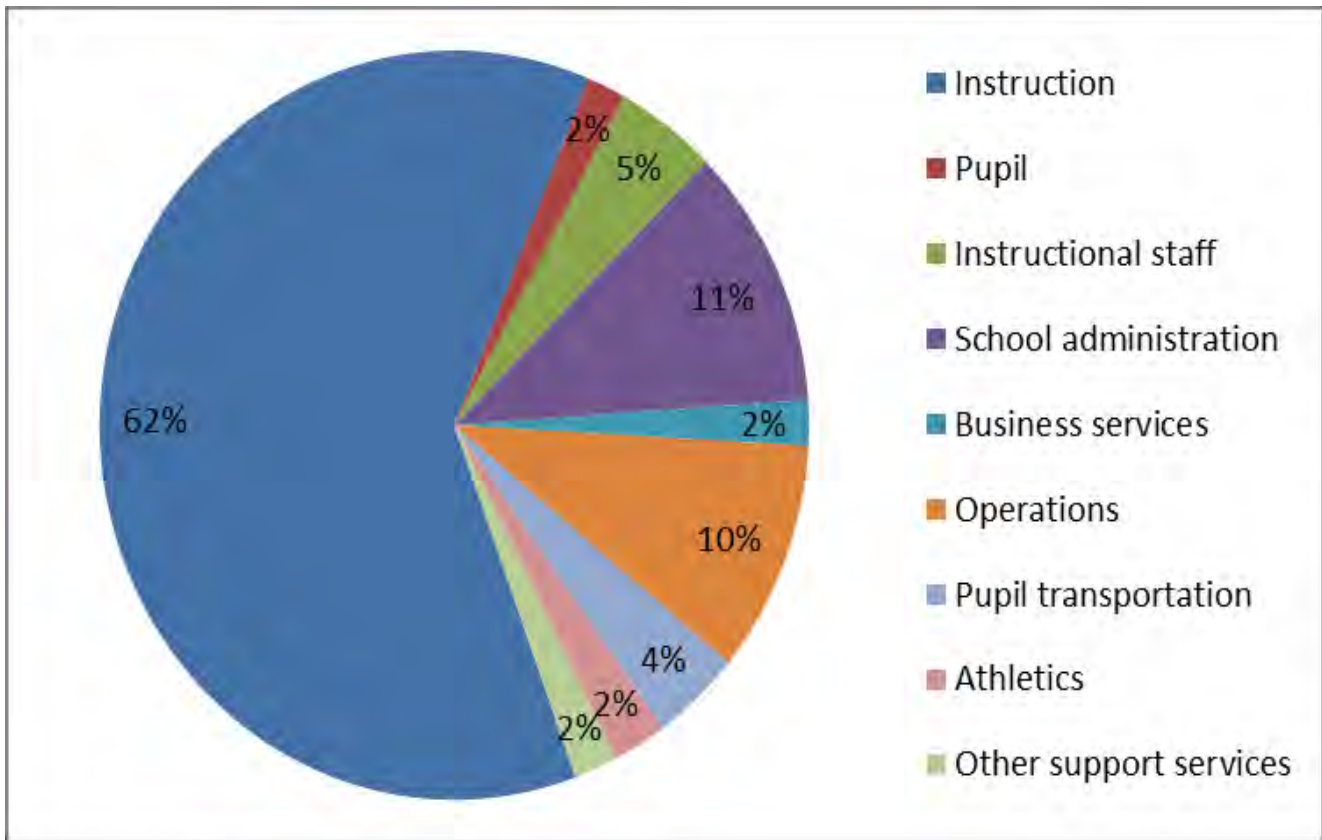


ST. LOUIS PUBLIC SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
2011-2012

Figure 2 depicts how the district's resources are spent. Instructional services comprised 62% of the district's expenditures, while 13% went to administrative and business services, 10% was spent for operation and maintenance, including utilities and custodial services. The final 15% was spent on other support services.

Figure 2

**2011-12 General Fund Expenditures**  
**Total \$9,679,737**



ST. LOUIS PUBLIC SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
2011-2012

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FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the district as a whole is reflected in its governmental funds as well. The combined governmental funds equity increased during the 2011-12 school year. The primary reasons for this change are as follows:

General Fund

As a result of cost reductions, the district increased its fund equity by 10%.

Capital Projects

The district's Capital Projects Fund had an increase of 0.1% due to interest income on cash accounts.

Debt Service

The fund equity decreased by 15% due to the district making payments on the outstanding balance of the school bond loan fund.

Special Revenue

This year, the district increased 269% of the school lunch fund equity due to decreased costs and increased meal sales. The district went from \$8,766 fund balance to \$32,287.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Uniform Budget Act of the State of Michigan requires that the local Board of Education adopt an original budget for the upcoming fiscal year by July 1<sup>st</sup>. As a matter of practice, the district amends its budget at least twice during the fiscal year. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the significant changes in the budget during the year.

Changes in Revenues

Local revenues were adjusted to reflect changes in non-homestead property tax values. State revenues were adjusted to reflect the decrease in state aide. Federal sources saw a decrease due to the ARRA stimulus funding not being available for 2011-12.

Changes in Expenditures

Expenditures were adjusted for an increase in teacher wages, health insurance premiums and substitute teacher costs. General and School Administration expenses were decreased due consolidation of services for business and transportation services.

ST. LOUIS PUBLIC SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
2011-2012

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CAPITAL ASSET AND DEBT ADMINISTRATION

*Capital Assets*

At June 30, 2012, St. Louis Public Schools had \$15,829,864 (net of depreciation) invested in a broad range of capital assets, including land, buildings and improvements, equipment, and vehicles.

*Debt*

At June 30, 2012, St. Louis Public Schools had \$13,794,348 in long-term debt. The debt consisted of the following:

Compensated Absences	\$ 140,129
2010 Bonds	\$ 6,565,000
2005 Refunding Bonds	\$ 4,520,000
School Bond Loan Fund	\$ 2,448,857
MMNET Property	\$ 28,637
Bus Loans	\$ 77,609
Durant Bonds	\$ 14,116
Total	<u>\$13,794,348</u>

STATE ECONOMIC AND LOCAL FACTORS

One of the most significant factors facing St. Louis Public Schools is the economic condition of the State of Michigan. With state funding the primary source of revenue, the district monitors the state's periodic revenue-estimating conference in order to project revenue for the upcoming fiscal year's budget. In addition, local student enrollment is another revenue producing factor that the district monitors. The state foundation is based on a blended student count. This count is taken in September and February of each fiscal year. The blended count consists of 90% of September's count and 10% of the February count. In addition to the state required count days, the district conducts monthly enrollment updates in order to monitor this important revenue source. For budgeting purposes, an estimated student count is used, based on the district's enrollment history.

The budget prepared for the 2011-12 school year was based on a decrease in state funding, and a decline in student enrollment. Staff reductions were made in order to retain adequate fund equity.

REQUEST FOR INFORMATION

This financial report is designed to provide our stakeholders with a general overview of the district's finances and to show the district's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to St. Louis Public Schools, Central Office, 113 E. Saginaw St., St. Louis, MI 48880

**DISTRICT-WIDE  
FINANCIAL STATEMENTS**



St. Louis Public School District  
Statement of Net Assets - Governmental Activities  
June 30, 2012

<b>Assets</b>	
Current assets	
Cash and investments	\$ 1,147,328
Accounts receivable, net	14,161
Due from other governmental units	1,473,458
Inventory	25,293
Prepays	143,844
Total current assets	<u>2,804,084</u>
Noncurrent assets	
Deferred Charges	
Bond issuance cost, net of amortization	125,591
Capital assets less accumulated depreciation	15,829,864
Total noncurrent assets	<u>15,955,455</u>
Total assets	18,759,539
<b>Liabilities</b>	
Current liabilities	
Accounts payable	151,798
Accrued expenses	193,004
Accrued wages and other payroll liabilities	490,938
Deferred revenue	63,573
State aid note payable	700,000
Accrued interest on long-term debt	62,373
Current portion of long-term obligations	915,923
Total current liabilities	<u>2,577,609</u>
Noncurrent liabilities	
Noncurrent portion of long-term obligations	10,289,439
Compensated absences	140,129
School bond loan fund payable	2,448,857
Total noncurrent liabilities	<u>12,878,425</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	2,175,645
Restricted for:	
Debt service	190,205
Capital projects	9,709
Unrestricted	927,946
Total net assets	<u>\$ 3,303,505</u>

St. Louis Public School District  
Statement of Activities  
For the Year Ended June 30, 2012

Functions / Programs	Expenses	Program Revenues		Total
		Charges for Services	Operating Grants and Contributions	
<b>Governmental activities:</b>				
Instruction	\$ 6,002,957	\$ 36,110	\$ 1,616,722	\$ (4,350,125)
Support services	3,544,600	78,059	-	(3,466,541)
Food service	413,161	68,735	367,947	23,521
Interest and fees	567,691	-	99,351	(468,340)
Other	32,506	-	-	(32,506)
Depreciation - unallocated	738,489	-	-	(738,489)
Total governmental activities	<u>\$ 11,299,404</u>	<u>\$ 182,904</u>	<u>\$ 2,084,020</u>	<u>(9,032,480)</u>
<b>General revenues:</b>				
Property taxes				2,131,969
State aid not restricted to specific purposes				7,163,604
Unrestricted interest and investment earnings				2,441
Restricted interest and investment earnings				977
Miscellaneous				104,351
Total general revenues				<u>9,403,342</u>
<b>Change in net assets</b>				370,862
<b>Net assets - beginning</b>				<u>2,932,643</u>
<b>Net assets - ending</b>				<u>\$ 3,303,505</u>

## FUND FINANCIAL STATEMENTS



St. Louis Public School District  
Balance Sheet - Governmental Funds  
June 30, 2012

	Major Funds				Total
	General	Food Service	Debt Service	Capital Projects	
<b>Assets</b>					
Cash and investments	\$ 779,761	\$ 167,653	\$ 190,205	\$ 9,709	\$ 1,147,328
Accounts receivable	14,161	-	-	-	14,161
Due from other funds	152,625	-	-	-	152,625
Due from other governmental units	1,460,636	12,822	-	-	1,473,458
Inventory	8,857	16,436	-	-	25,293
Prepays	143,844	-	-	-	143,844
<b>Total assets</b>	<b>\$ 2,559,884</b>	<b>\$ 196,911</b>	<b>\$ 190,205</b>	<b>\$ 9,709</b>	<b>\$ 2,956,709</b>
<b>Liabilities</b>					
Accounts payable	\$ 139,799	\$ 11,999	\$ -	\$ -	\$ 151,798
Accrued expenses	193,004	-	-	-	193,004
Accrued wages	490,938	-	-	-	490,938
Deferred revenue	63,573	-	-	-	63,573
Due to other funds	-	152,625	-	-	152,625
Short-term note payable	700,000	-	-	-	700,000
<b>Total liabilities</b>	<b>1,587,314</b>	<b>164,624</b>	<b>-</b>	<b>-</b>	<b>1,751,938</b>
<b>Fund balance</b>					
Nonspendable	152,701	16,436	-	-	169,137
Restricted	-	-	190,205	9,709	199,914
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Undesignated	819,869	15,851	-	-	835,720
<b>Total fund balance</b>	<b>972,570</b>	<b>32,287</b>	<b>190,205</b>	<b>9,709</b>	<b>1,204,771</b>
<b>Total liabilities and fund balance</b>	<b>\$ 2,559,884</b>	<b>\$ 196,911</b>	<b>\$ 190,205</b>	<b>\$ 9,709</b>	<b>\$ 2,956,709</b>



St. Louis Public School District  
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds  
To Net Assets of Governmental Activities on the Statement of Net Assets  
For the Year Ended June 30, 2012

Total fund balance - governmental funds	\$	1,204,771
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Add: Cost of capital assets	\$ 32,208,962	
Deduct: Accumulated depreciation	<u>(16,379,098)</u>	
		15,829,864
<p>Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds. These liabilities consist of:</p>		
Long-term obligations		
Deduct: Bonds payable - Durant	(14,116)	
Deduct: Bonds payable - 2005	(4,520,000)	
Deduct: Bonds payable - 2010	(6,565,000)	
Deduct: Bus loan payable	(77,609)	
Deduct: Loan payable - MMNET property	<u>(28,637)</u>	
		(11,205,362)
Compensated absences		
Deduct: Compensated absences payable		(140,129)
School loan funds payable		
Deduct: School bond loan fund payable		(2,448,857)
<p>Long-term liabilities (and corresponding deferrals) are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:</p>		
Add: Bonds payable - 2005 issuance cost (net of amortization)	70,103	
Add: Bonds payable - 2010 issuance cost (net of amortization)	55,488	
Deduct: Accrued interest on long-term liabilities	<u>(62,373)</u>	
		<u>63,218</u>
Total net assets - governmental activities	\$	<u><u>3,303,505</u></u>

St. Louis Public School District  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2012

	Major Funds				Total
	General	Food Service	Debt Service	Capital Projects	
<b>Revenues</b>					
Local sources	\$ 943,319	\$ 68,735	\$ 1,364,118	\$ 10	\$ 2,376,182
State sources	7,659,238	13,659	99,351	-	7,772,248
Federal sources	818,484	340,146	-	-	1,158,630
Other sources	349,064	14,142	-	-	363,206
Total revenues	<u>9,770,105</u>	<u>436,682</u>	<u>1,463,469</u>	<u>10</u>	<u>11,670,266</u>
<b>Expenditures</b>					
Instruction					
Basic programs	4,694,850	-	-	-	4,694,850
Added needs	1,283,385	-	-	-	1,283,385
Total instruction	<u>5,978,235</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,978,235</u>
Support services					
Pupil	172,017	-	-	-	172,017
Instructional staff	447,411	-	-	-	447,411
General administration	328,303	-	-	-	328,303
School administration	769,593	-	-	-	769,593
Business services	189,377	-	-	-	189,377
Operation and maintenance	974,964	-	-	-	974,964
Pupil transportation	392,229	-	-	-	392,229
Central	31,165	-	-	-	31,165
Athletics	239,541	-	-	-	239,541
Total support services	<u>3,544,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,544,600</u>
Food service	-	413,161	-	-	413,161
Debt service					
Principal payments - long-term debt	103,345	-	878,364	-	981,709
Principal payments - school bond loan	-	-	198,104	-	198,104
Interest, fees and other	34,452	-	420,451	-	454,903
Other	21,973	-	375	-	22,348
Total expenditures	<u>9,682,605</u>	<u>413,161</u>	<u>1,497,294</u>	<u>-</u>	<u>11,593,060</u>
<b>Revenues over (under) expenditures</b>	87,500	23,521	(33,825)	10	77,206
<b>Other financing sources (uses)</b>					
Proceeds from bus loan	153,800	-	-	-	153,800
Payment for new buses	(153,800)	-	-	-	(153,800)
<b>Revenues and other sources over (under) expenditures and other uses</b>	87,500	23,521	(33,825)	10	77,206
<b>Fund balance - beginning</b>	<u>885,070</u>	<u>8,766</u>	<u>224,030</u>	<u>9,699</u>	<u>1,127,565</u>
<b>Fund balance - ending</b>	<u>\$ 972,570</u>	<u>\$ 32,287</u>	<u>\$ 190,205</u>	<u>\$ 9,709</u>	<u>\$ 1,204,771</u>

St. Louis Public School District  
 Reconciliation of the Statement of Revenues, Expenditures and Changes  
 In Fund Balances of Governmental Funds to the Statement of Activities  
 For the Year Ended June 30, 2012

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Net change in fund balances - total governmental funds	\$	77,206
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Deduct:	Depreciation expense	(738,489)
Add:	Capital outlay	153,800

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.

Add:	Decrease in accrued interest on long term debt	7,717
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Long term debt proceeds are reported as other financing sources in governmental funds, thereby increasing fund balances. In the statement of net assets, however, issuing long term debt increases liabilities and has no effect on net assets. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Add:	Payment of principal on bonds payable - Durant	73,364
Add:	Payment of principal on bonds payable - 2005	430,000
Add:	Payment of principal on bonds payable - 2010	375,000
Add:	Payment of principal on bus loan payable	76,191
Add:	Payment of principal on loan payable - MMNET property	27,154
Deduct:	Proceeds from issuance of bus loan	(153,800)
Deduct:	Increase in accrual for compensated absences	(24,722)
Deduct:	Change in school bond loan fund and revolving fund payable	77,599

Other amounts reported in the statement of activities that do not require current financial resources consist of:

Deduct:	Amortization of 2005 debt issuance cost	(5,534)
Deduct:	Amortization of 2010 debt issuance cost	(4,624)

Change in net assets - governmental activities	\$	<u><u>370,862</u></u>
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St. Louis Public School District  
Statement of Net Assets  
Fiduciary Funds  
For the Year Ended June 30, 2012

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Agency Fund

<b>Assets</b>	
Cash and investments	\$ 252,394
<b>Liabilities</b>	
Due to student and other groups	<u>252,394</u>
<b>Net Assets</b>	
Restricted	<u><u>\$ -</u></u>

## NOTES TO THE FINANCIAL STATEMENTS



## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the St. Louis Public School District (the District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the District.

### **Reporting Entity**

The District is governed by a seven member Board of Education which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the District's reporting entity, and which organizations are legally separate, component units of the District. Based on the application of the criteria, the District does not contain any component units.

### **District-wide and Fund Financial Statements**

The District-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. All of the District-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items, including taxes and intergovernmental payments, not properly included among program revenues, are reported instead as general revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

District-wide Financial Statements – The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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**Fund Financial Statements** - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The District reports the following major governmental funds:

- The general fund is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.
- The debt service fund is used to record tax revenue, interest revenue, other revenue for payment of principal and other expenditures on the bond issues.
- The capital projects fund accounts for financial resources used for the acquisition, construction, and improvement of major capital facilities other than those financed by proprietary funds. These resources are derived from contributions from the general fund.
- Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The school service funds are special revenue funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The District maintains full control of these funds. The school service funds maintained by the District are the athletic fund and food service fund.

Additionally, the District reports the following fund types:

- Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary fund net assets and results of operations are not included in the District-wide statements. Agency funds are custodial in nature (i.e. assets equal liabilities) and do not involve measurement of results of operations.
- The District presently maintains a student activity fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

### **Comparative Data**

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

### **Budgetary Data**

Budgets are adopted by the District for the general and special revenue funds. The budgets are adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level and control is exercised at the activity level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

### **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

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Michigan Compiled Laws, Section 129.91, authorizes the District to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The District's deposits are in accordance with statutory authority.

**Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the State of Michigan.

**Property Tax Revenue**

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1, are due upon receipt of the billing by the taxpayer, and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and interest and penalties may be assessed by the collecting entity.

The taxable value for the District amounted to \$157,481,437 which includes homestead and non-homestead property. The District levied 17.7440 mills for school general operations which totaled \$747,231. The District also levied an additional 8.52 mills on all property in the District for the purpose of debt service, which totaled \$1,340,050.

**State Aid Revenue**

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**Inventory**

Inventories are valued at cost, on a first in, first out (FIFO) basis. Fund balance is reserved for the amount of inventories on hand as of June 30.

USDA donated commodities are recorded as a deferred revenue and inventory when received based on their fair market value as determined by the U.S. Department of Agriculture. Revenues and expenditures are then recognized when the commodities are used.

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the governmental column in the District-wide financial statements. Capital assets are defined by the District as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.



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The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The District does not have infrastructure-type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the District-wide financial statements.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land and Improvements	Not Depreciated
Buildings and Additions	20 – 50
Machinery and Equipment	5 – 20
Vehicles	5 – 10

**Estimates**

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

**Compensated Absences**

The school board's policy does not allow teachers to accumulate vacation days and carry the accumulation forward to future years. Support staff may carry ten days in a bank at any time with such benefits to be paid in full upon retirement, death, or permanent disability at their current rate of pay. The vacation pay liability as of June 30<sup>th</sup> is \$22,726.

Sick days can be accumulated up to seventy days (70) days for teachers and one hundred (120) days for other employees. Amounts accumulated are to be paid to employees and recognized as an expense when sick leave is taken.

After 15 years of continuous service to the District, a teacher, retirement, resignation, or termination, shall be paid for accumulated sick leave at a rate of \$70 per day to a maximum of \$3,150. Upon retirement, resignation, or death, sick leave is paid to support staff at a rate of \$35 per day. The sick leave liability as of June 30<sup>th</sup> is \$117,403.

**Deferred Revenue**

Deferred revenues arise when resources are received by the District before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and District-wide financial statements, and revenue is recognized.

**Long-Term Obligations**

In the District-wide financial statements, long-term debt and other long-term liabilities are reported as liabilities in the statement of net assets.

**Net Assets and Fund Balances**

Restricted net assets shown in the District-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental funds financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the District-wide and fund

financial statements and because of the use of funds to imply that restrictions exist.

#### Fund Balances - Reserves and Designations

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.
  
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District's Capital Projects and Debt Service fund balances are considered restricted.
  
- The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.
  
- Committed fund balance—amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
  
- Assigned fund balance—amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.
  
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

#### Net Assets – Restrictions

Net assets in the District-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

#### **Unemployment Compensation**

The District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method the District must reimburse the Employment Commission for all benefits charged against the District for the year. No provision has been made for possible future claims.

### **NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

#### **Excess Of Expenditures Over Appropriations**

Budgets are adopted at the functional level and on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is not employed in governmental funds.

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

- The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
  
- Public hearings are conducted to obtain taxpayer comments.
  
- Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting

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and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

- Management is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
- The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2012. The District does not consider these amendments to be significant.

During the current year the District incurred expenditures in excess of the amounts budgeted as indicated in the budget comparison schedules as unfavorable variances.

**NOTE 3 - CASH AND INVESTMENTS**

At June 30<sup>th</sup>, the carrying amount of the District's cash, deposits and investments was as follows:

Cash and Investments	Amount
Petty Cash	\$ 1,094
Deposits With Financial Institutions: Interest Bearing Checking, Savings, Money Market Accounts	1,146,234
Total	\$ 1,147,328

At year-end, the bank balance was \$3,085,688. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining balance was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks.

The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

As of June 30<sup>th</sup>, the District had \$9,709 of cash in the capital projects fund, which is restricted for future capital improvement expenditures.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; 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 shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the 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 statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio

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so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. See above for amount of deposits held by the District that are exposed to custodial credit risk because it is uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, it is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

**NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS**

As of June 30<sup>th</sup>, due from other governmental units is comprised of the following amounts:

Due From	Amount
<b>General Fund:</b>	
State of Michigan – State Aid	\$ 1,402,237
St. Louis technology fund	10,093
Vocational Ed	20,747
Great Start	9,644
Edu jobs	14,380
Title II	3,535
<b>Food Service Fund:</b>	
State of Michigan – State Aid	2,321
National School Breakfast & Lunch Program	10,501
Total	\$ 1,473,458

**NOTE 5 - PREPAIDS**

Prepaid expenses represent payments for the following expenses that will benefit future periods:

Prepaid	Amount
Insurance	\$ 61,000
Chartwells – Food Services	43,000
Capital Outlay	39,844
Total	\$ 143,844

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**NOTE 6 - CAPITAL ASSETS**

A summary of changes in the District's capital assets follows:

<b>Capital Assets</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 160,785	\$ -	\$ -	\$ 160,785
Buildings and Additions	29,372,321	-	-	29,372,321
Equipment	1,247,207	-	-	1,247,207
Vehicles	1,274,849	153,800	-	1,428,649
<b>Total Capital Assets</b>	<b>32,055,162</b>	<b>153,800</b>	<b>-</b>	<b>32,208,962</b>
<b>Accumulated Depreciation</b>				
Buildings and Additions	(13,547,758)	(666,123)	-	(14,213,881)
Equipment	(1,003,188)	(30,254)	-	(1,033,442)
Vehicles	(1,089,663)	(42,113)	-	(1,131,776)
<b>Total Accumulated Depreciation</b>	<b>(15,640,609)</b>	<b>(738,489)</b>	<b>-</b>	<b>(16,379,098)</b>
<b>Net Capital Assets</b>	<b>\$ 16,414,553</b>	<b>\$ (584,689)</b>	<b>\$ -</b>	<b>\$ 15,829,864</b>

Depreciation for the year ended June 30, 2012 totaled \$738,490. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**NOTE 7 - DUE TO OTHER GOVERNMENTAL UNITS**

As of June 30<sup>th</sup>, the District was not indebted to other governmental units.

**NOTE 8 - ACCRUED EXPENSES**

Accrued expenses as of June 30<sup>th</sup> are as follows:

<b>Accrued Expenses</b>	<b>Amount</b>
Retirement	\$ 120,084
FICA	37,557
Health Insurance	35,363
<b>Total</b>	<b>\$ 193,004</b>

**NOTE 9 - ACCRUED WAGES AND OTHER PAYROLL LIABILITIES**

Wages payable as of June 30<sup>th</sup> represents the remaining balance owed on teacher contracts to be paid during the summer months and wages earned for non-teacher employees but unpaid as of the end of the fiscal year. Also included are payroll taxes due for accrued wages as of June 30<sup>th</sup>.

**NOTE 10 - SHORT-TERM NOTE PAYABLE**

On July 7, 2011, the District borrowed \$1,807,000 in the form of a State Aid Note for the purpose of providing funds for school operations. The interest rate is stated at 1.14% and the maturity date is July 6, 2012.

On June 28, 2012, the District borrowed \$700,000 in the form of a State Aid Note for the purpose of providing funds for school operations. The interest rate is stated at 0.44% and the maturity date is August 22, 2012.

On August 20, 2012 (after the end of the current fiscal year), the District borrowed \$1,950,000 in the form of a State Aid Note for the purpose of providing funds for school operations. The interest rate is stated at 0.74% and the maturity date is August 20, 2013.

**NOTE 11 - LONG-TERM DEBT**

The District issues bonds, notes and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligations bonds and refunding bonds are direct obligations and pledge the full faith and credit of the District. Other long-term obligations include compensated absences.

**2005 Bonds**

During the fiscal year ended June 30, 2005, the District issued \$7,190,000 of general obligation bonds for the purpose of a current refunding of \$7,090,000 of the 1995 bonds outstanding.

As a result, the 1995 bonds have been refunded and the liability has been removed from the governmental activities column of the statement of net assets. This current refunding was undertaken to reduce total debt service payments over the next 20 years by \$735,074 and resulted in an economic gain of approximately \$642,000.

See bond payment schedule included in the report.

**School Bond Loan Fund and School Loan Revolving Fund**

The District has periodically approved the borrowing from the State Of Michigan's School Bond Loan Fund and the School Loan Revolving Fund for the purpose of paying debt service. The interest rates are variable. Repayment of the loan will begin when excess funds are available from the taxes collected for payment of the bond issue.

See bond payment schedules included in this report.

**2010 Refunding Bonds**

During the fiscal year ended June 30, 2011, the District issued \$6,940,000 of general obligation tax-exempt bonds for the purpose of an advance refunding of \$6,725,000 of the 2001 bonds outstanding.

As a result, the 2001 bonds have been advance refunded and the liability has been removed from the governmental activities column of the statement of net assets. This advance refunding was undertaken to reduce total debt service payments over the next 15 years by \$766,267 and resulted in an economic gain of approximately \$644,837.

See bond payment schedule included in the report.

**MMNET**

During the year ended June 30, 2001 the District elected to join the Middle Michigan Network for Educational Telecommunications (MMNET). See additional disclosures regarding MMNET in these notes. The total cost of participating in MMNET is \$450,000 and is financed as follows: 1) an agreement with MMNET in the amount of \$181,158, and 2) a loan with a local bank in the amount of \$268,842.

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Purchase Agreement - MMNET Admission Fee

As a member of MMNET, the District was required to purchase an interest in various communication equipment and services. The agreement entered into with MMNET, dated October 30, 2000, calls for annual payments of \$15,000 plus interest payable over 10 years. The interest rate is stated at 5.68%.

Loan Payable – MMNET Property

On November 21, 2000, the District borrowed \$268,842 from a local bank to purchase telecommunications equipment, including engineering and installation, in order to participate in the MMNET Consortium. The terms of the loan call for semi-annual payments of \$14,898 due May 15<sup>th</sup> and November 15<sup>th</sup> of each year. The interest rate is stated at 5.380% and the maturity date is May 15, 2013.

**Changes to Long-Term Debt**

The changes in long-term debt during the year ended June 30, 2012 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Less: Current Portion	Total due after one year
Comp. Absences	\$ 115,407	\$ 24,722	\$ -	\$ 140,129	\$ -	\$ 140,129
MMNET Loan Payable	55,791	-	(27,154)	28,637	28,637	-
School Bond Loan Fund	2,526,456	120,173	(197,772)	2,448,857	-	2,448,857
2010 Bonds	6,940,000	-	(375,000)	6,565,000	415,000	6,150,000
2005 Bonds	4,950,000	-	(430,000)	4,520,000	410,000	4,110,000
Durant Bonds	87,480	-	(73,364)	14,116	14,116	-
Bus Loans	-	153,800	(76,191)	77,609	48,170	29,439
<b>Total</b>	<b>\$ 14,675,134</b>	<b>\$298,695</b>	<b>\$(1,179,481)</b>	<b>\$ 13,794,348</b>	<b>\$ 915,923</b>	<b>\$ 12,878,425</b>

The annual requirements to pay principal and interest on the outstanding obligations on June 30, 2012 are shown in the *Schedule of Long-Term Debt* at the back of this report.

**NOTE 12 - OPERATING LEASES**

The School District is currently leasing seven copy machines from Xerox Corporation. Monthly payments range from \$82 to \$1,185, all payable over 60 months.

**NOTE 13 - EMPLOYEE RETIREMENT SYSTEM**

Plan Description

The District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPSERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members joining the system on or after July 1, 2008 contribute at the following

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graduated rate: 3% of the first \$5,000, 3.6% of \$5,001 through \$15,000 and 6.4% of all wages over \$15,000. Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus Member. The Pension Plus Plan pairs a guaranteed retirement income (defined benefit pension) with a flexible and transferable retirement savings (defined contribution) account.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate through September 30, 2011 was 20.66% of payroll and increased to 24.46% for the base plan and 23.23% for pension plus members effective October 1, 2011 through October 31, 2012 at which time it increased again due to the number of retirees associated with the early retirement incentive to 27.37% for basic plan members and 26.14% for pension plus members for the period October 1, 2012 through September 30, 2013. In addition, the district is required to match 50% up to 1% of the employees contribution in the pension plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The health care portion is 5.5% before the 3% for the injunction. The District contributions to MPSERS for the year ended June 30, 2012, 2011, and 2010, were \$1,176,572, \$1,018,148, and \$985,770 respectively, and were equal to the required contribution for those years.

#### Other Post-Employment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees. For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit and were paid less than \$18,000 in the prior school year and members who were hired on or after July 1, 2010, with a starting salary of less than \$18,000 are required to contribute 1.5% of the members' compensation. For each school fiscal year that begins on or after July 1, 2011, members shall contribute 3% of compensation into the health care funding account. Effective April 1, 2011, a court order eliminated this requirement. The court order is being appealed by the State of Michigan.

Pension recipients are generally eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing coverage.

The District is not responsible for the payment of retirement or post-retirement benefits which is the responsibility of the State of Michigan.

#### **NOTE 14 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District participates in the SET/SEG risk pool for employee injuries (worker's compensation) and has purchased commercial insurance for claims relating to property loss, torts, errors and omissions, and for medical claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.



**NOTE 15 - JOINT VENTURE**

During the year ended June 30, 2001 the District elected to join the Middle Michigan Network for Educational Telecommunications (MMNET). As a member of MMNET, the District was required to purchase an interest in various communication equipment and services as well as pay for annual administrative cost incurred by Gratiot-Isabella RESD, the administrative agent. Information regarding the purchase of equipment and services is shown in the above notes.

The MMNET Consortium was established by a previously approved inter local Consortium Agreement. The purpose of MMNET is to provide for interactive voice/video/data interconnections and services required for, or useful in, the instruction and training of students and other persons utilizing the participants services, the conducting of research, or the administrative operations of the participants; and to enable the participants to cooperatively share their resources for the ownership, financing, installation, administration and operation of MMNET.

Additional information on MMNET, including separate financial statements, is available by contacting the fiscal agent at Gratiot-Isabella Regional Education Service District, 1131 East Center Street, Ithaca, Michigan 48847  
Phone: 989-875-5101

**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULES**

St. Louis Public School District  
 Budgetary Comparison Schedule for the General Fund  
 For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 867,148	\$ 934,341	\$ 943,319	\$ 8,978
State sources	7,640,524	7,744,299	7,659,238	(85,061)
Federal sources	634,038	880,893	818,484	(62,409)
Other sources	313,757	346,999	349,064	2,065
Total revenues	<u>9,455,467</u>	<u>9,906,532</u>	<u>9,770,105</u>	<u>(136,427)</u>
<b>Expenditures</b>				
Instruction				
Basic programs	4,732,612	4,855,050	4,694,850	160,200
Added needs	<u>1,346,709</u>	<u>1,293,990</u>	<u>1,283,385</u>	<u>10,605</u>
Total instruction	6,079,321	6,149,040	5,978,235	170,805
Support services				
Pupil	179,934	168,228	172,017	(3,789)
Instructional staff	423,699	471,992	447,411	24,581
General administration	314,633	325,140	328,303	(3,163)
School administration	652,597	741,856	769,593	(27,737)
Business services	247,509	182,830	189,377	(6,547)
Operation and maintenance	1,028,569	977,288	974,964	2,324
Pupil transportation	397,949	527,538	392,229	135,309
Central	39,000	34,242	31,165	3,077
Athletics	<u>163,666</u>	<u>239,394</u>	<u>239,541</u>	<u>(147)</u>
Total support services	3,447,556	3,668,508	3,544,600	123,908
Debt service	68,000	64,796	137,797	(73,001)
Other	<u>1,300</u>	<u>7,281</u>	<u>21,973</u>	<u>(14,692)</u>
Total expenditures	<u>9,596,177</u>	<u>9,889,625</u>	<u>9,682,605</u>	<u>207,020</u>
<b>Revenues over (under) expenditures</b>	(140,710)	16,907	87,500	70,593
<b>Other financing sources (uses)</b>				
Proceeds from bus loan	-	-	153,800	(153,800)
Payment for new buses	<u>-</u>	<u>-</u>	<u>(153,800)</u>	<u>153,800</u>
<b>Revenues and other sources over (under) expenditures and other uses</b>	(140,710)	16,907	87,500	70,593
<b>Fund balance - beginning</b>	<u>885,070</u>	<u>885,070</u>	<u>885,070</u>	<u>-</u>
<b>Fund balance - ending</b>	<u>\$ 603,650</u>	<u>\$ 918,884</u>	<u>\$ 1,060,070</u>	<u>\$ 141,186</u>

St. Louis Public School District  
 Budgetary Comparison Schedule for the Food Service Fund  
 For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Local sources	\$ 80,271	\$ 80,271	\$ 68,735	\$ (11,536)
State sources	13,000	13,000	13,659	-
Federal sources	250,000	250,000	340,146	90,146
Other sources	-	-	14,142	14,142
Total revenues	<u>343,271</u>	<u>343,271</u>	<u>436,682</u>	<u>92,752</u>
<b>Expenditures</b>				
Food service	<u>382,300</u>	<u>382,300</u>	<u>413,161</u>	<u>(30,861)</u>
<b>Revenues over (under) expenditures</b>	<u>(39,029)</u>	<u>(39,029)</u>	<u>23,521</u>	<u>62,550</u>
<b>Fund balance - beginning</b>	<u>8,766</u>	<u>8,766</u>	<u>8,766</u>	<u>-</u>
<b>Fund balance - ending</b>	<u><u>\$ (30,263)</u></u>	<u><u>\$ (30,263)</u></u>	<u><u>\$ 32,287</u></u>	<u><u>\$ 62,550</u></u>

**OTHER SUPPLEMENTAL INFORMATION**



St. Louis Public School District  
 General Fund  
 Statement of Revenues  
 For the Year Ended June 30, 2012

<b>Local sources</b>	
Property taxes	\$ 768,818
Tuition	15,363
Earnings on investments and deposits	2,441
Revenue from student activities	78,059
Revenue from community service activities	1,112
Other local revenues	77,526
Total local sources	<u>943,319</u>
<b>State sources</b>	
General state aid	7,163,604
Categorical:	
Special education	179,237
At risk	258,843
152a Headlee Obligation	24,980
Pre-school	36
Vocational education	32,538
Total state sources	<u>7,659,238</u>
<b>Federal sources</b>	
Title I	353,644
Title II - Improving teacher quality	94,682
Title VI	54,302
Edu jobs	287,344
Medicaid	28,512
Total federal sources	<u>818,484</u>
<b>Other sources</b>	
Other governmental units	
County special education tax	302,604
Vocational education transportation	20,747
Other	25,713
Total other sources	<u>349,064</u>
Total general fund revenues	<u><u>\$ 9,770,105</u></u>

St. Louis Public School District  
 General Fund  
 Statement of Expenditures  
 For the Year Ended June 30, 2012

**Instruction**

Basic programs	
Elementary	
Salaries	\$ 1,367,020
Employee benefits	705,927
Purchased services	27,570
Supplies, materials and other	31,630
Total elementary	<u>2,132,147</u>
Middle/junior high	
Salaries	712,008
Employee benefits	424,443
Purchased services	17,941
Supplies, materials and other	7,192
Total middle school	<u>1,161,584</u>
High school	
Salaries	883,152
Employee benefits	445,450
Purchased services	26,542
Supplies, materials and other	45,975
Total high school	<u>1,401,119</u>
Total basic programs	4,694,850
Added needs	
Special education	
Salaries	338,078
Employee benefits	162,380
Purchased services	21,590
Supplies, materials and other	1,999
Total special education	<u>524,047</u>
Compensatory education	
Title I	
Salaries	228,539
Employee benefits	99,429
Purchased services	6,498
Supplies, materials and other	17,867
Total title I	<u>352,333</u>
At risk	
Salaries	161,657
Employee benefits	71,690
Purchased services	1,390
Supplies, materials and other	1,374
Total at risk	<u>236,111</u>

St. Louis Public School District  
 General Fund  
 Statement of Expenditures  
 For the Year Ended June 30, 2012

**Instruction (continued)**

Added needs (continued)	
Compensatory education (continued)	
Title II	
Supplies, materials and other	\$ 21,991
Total title II	<u>21,991</u>
Bilingual	
Purchased services	7,382
Total bilingual	<u>7,382</u>
Total compensatory education	617,817
Career and technical education	
Salaries	81,798
Employee benefits	47,251
Purchased services	6,452
Supplies, materials and other	6,020
Total career and technical education	<u>141,521</u>
Total added needs	<u>1,283,385</u>
Total instruction	<u>5,978,235</u>

**Supporting services**

Pupil services	
Guidance services	
Salaries	32,216
Employee benefits	13,276
Purchased services	1,730
Supplies, materials and other	2,026
Total guidance services	<u>49,248</u>
Health Services	
Salaries	3,290
Employee benefits	1,090
Total health services	<u>4,380</u>
Speech	
Salaries	44,476
Employee benefits	30,668
Supplies, materials and other	90
Total speech	<u>75,234</u>



St. Louis Public School District  
 General Fund  
 Statement of Expenditures  
 For the Year Ended June 30, 2012

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**Supporting services (continued)**

Pupil services (continued)

Other pupil services	
Salaries	\$ 31,263
Employee benefits	8,521
Supplies, materials and other	3,371
Total other pupil services	43,155
Total pupil services	172,017

Instructional staff

Improvement of instruction	
Salaries	7,560
Employee benefits	2,143
Purchased services	55,882
Supplies, materials and other	60,504
Total improvement of instruction	126,089

Library

Salaries	53,198
Employee benefits	21,891
Purchased services	3,732
Supplies, materials and other	15,874
Total library	94,695

Instructional staff

Technology assisted instruction	
Purchased services	96,979
Supplies, materials and other	101,907
Capital outlay	27,741
Total Instructional staff	226,627

Total instructional staff

447,411

General administration

Board of education	
Employee benefits	70,000
Purchased services	31,123
Supplies, materials and other	6,003
Total board of education	107,126

St. Louis Public School District  
 General Fund  
 Statement of Expenditures  
 For the Year Ended June 30, 2012

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<b>Support services (continued)</b>	
General administration (continued)	
Executive administration	
Salaries	\$ 131,457
Employee benefits	83,414
Purchased services	299
Supplies, materials and other	6,007
Total executive administration	<u>221,177</u>
Total general administration	328,303
School administration	
Offices of the principals	
Salaries	483,210
Employee benefits	262,829
Purchased services	4,086
Supplies, materials and other	19,468
Total offices of the principals	<u>769,593</u>
Business services	
Fiscal services	
Salaries	14,129
Employee benefits	7,443
Purchased services	36,360
Supplies, materials and other	(129)
Total fiscal services	<u>57,803</u>
Internal services	
Supplies, materials and other	31,673
Other business services	
Insurances	19,182
Supplies, materials and other	7,103
Interest	25,072
Taxes refunded and abated	42,624
Dues and fees	5,920
Total other business services	<u>99,901</u>
Total business services	189,377

St. Louis Public School District  
General Fund  
Statement of Expenditures  
For the Year Ended June 30, 2012

<b>Support services (continued)</b>	
Operation and maintenance	
Salaries	\$ 358,620
Employee benefits	211,276
Purchased services	137,608
Supplies, materials and other	267,460
Total operation and maintenance	<u>974,964</u>
Pupil transportation	
Salaries	186,979
Employee benefits	55,808
Purchased services	67,478
Supplies, materials and other	81,964
Total pupil transportation	<u>392,229</u>
Central	
Communication services	
Purchased services	500
Support services technology	
Purchased services	<u>30,665</u>
Total central	31,165
Athletics	
Salaries	100,712
Employee benefits	31,317
Purchased services	61,760
Supplies, materials and other	45,752
Total athletics	<u>239,541</u>
Total support services	<u>3,544,600</u>
<b>Other transactions</b>	
Debt service - MMNET loan	
Principal	12,154
Membership fee	15,000
Interest	116
Debt service - Bus loan	76,191
Xerox payment	34,336
Other	21,973
Total other transactions	<u>159,770</u>
Total general fund expenditures	<u>\$ 9,682,605</u>

St. Louis Public School District  
Debt Service Funds  
Combining Balance Sheet  
June 30, 2012

	Durrant	2005 Debt	2010 Debt	Total
<b>Assets</b>				
Cash and investments	\$ -	\$ 75,697	\$ 114,508	\$ 190,205
Total assets	<u>\$ -</u>	<u>\$ 75,697</u>	<u>\$ 114,508</u>	<u>\$ 190,205</u>
<b>Liabilities</b>				
Due to other funds	\$ -	\$ -		\$ -
<b>Fund Balance</b>				
Reserved for debt service	-	75,697	114,508	190,205
Total fund balance	<u>\$ -</u>	<u>\$ 75,697</u>	<u>\$ 114,508</u>	<u>\$ 190,205</u>

St. Louis Public School District  
Debt Service Funds  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Year Ended June 30, 2012

	Durant	2005 Debt	2010 Debt	Total
<b>Revenues</b>				
Local sources				
Property tax	\$ -	\$ 725,070	\$ 638,081	\$ 1,363,151
Interest on investments	-	967	-	967
State sources				
Durant	99,351	-	-	99,351
<b>Total revenues</b>	<u>99,351</u>	<u>726,037</u>	<u>638,081</u>	<u>1,463,469</u>
<b>Expenditures</b>				
Principal repayments	73,364	430,000	375,000	878,364
School Bond Loan Fund	-	-	198,104	198,104
Interest and other charges	25,987	211,272	183,192	420,451
Other	-	375	-	375
<b>Total expenditures</b>	<u>99,351</u>	<u>641,647</u>	<u>756,296</u>	<u>1,497,294</u>
<b>Revenues over (under) expenditures</b>	-	84,390	(118,215)	(33,825)
<b>Other financing sources (uses)</b>				
Operating transfers in	-	-	-	-
Operating transfers (out)	-	-	-	-
Payment to escrow agent	-	-	-	-
Proceeds from refunding bonds	-	-	-	-
<b>Revenues and other sources over (under) expenditures and other uses</b>	-	84,390	(118,215)	(33,825)
<b>Fund balance - beginning</b>	<u>-</u>	<u>137,191</u>	<u>86,839</u>	<u>224,030</u>
<b>Fund balance - ending</b>	<u>\$ -</u>	<u>\$ 221,581</u>	<u>\$ (31,376)</u>	<u>\$ 190,205</u>

St. Louis Public School District  
Schedule of Long-Term Debt  
For the Year Ended June 30, 2012

Maturity Date	Interest Rate (%)	Annual Principal Due	Interest Due		Total
			July	May	
<b>Durant Issue - \$210,571</b>					
<u>Due May 15,</u>					
2013	4.76	\$ 14,116	\$ -	\$ 672	\$ 14,788
Total		<u>\$ 14,116</u>	<u>\$ -</u>	<u>\$ 672</u>	<u>\$ 14,788</u>

The State School Aid Act, as amended by Public Act 142 of 1997 provided appropriations as part of a settlement to school districts involved in the Durant litigation as well as schools not involved in the litigation. The Michigan Municipal Bond Authority (MMBA) issued bonds for those districts that elected to receive a lump sum amount from the MMBA rather than receive part of the settlement in fifteen annual payments.

As part of the Executive Budget Recommendation for FY 2004, the bonds were "refunded". To accomplish that, the debt service payment schedules for applicable districts, including St. Louis Public School District, have changed. However, the refunding did not change the total payments for any of the districts.

The above schedule reflects these changes.

**Loan Payable - MMNET Property - \$268,842**

<u>Due November 15 and May 15,</u>					
2013	5.38	\$ 28,637	\$ 770	\$ 391	\$ 29,798
Total		<u>\$ 28,637</u>	<u>\$ 770</u>	<u>\$ 391</u>	<u>\$ 29,798</u>

**Bus Loan Payable - \$153,800**

<u>Due July 6,</u>					
2013	3.56	\$ 48,170	\$ 2,763	\$ -	\$ 50,933
2014	3.56	29,439	1,048	-	30,487
Total		<u>\$ 77,609</u>	<u>\$ 3,811</u>	<u>\$ -</u>	<u>\$ 81,420</u>

St. Louis Public School District  
Schedule of Long-Term Debt  
For the Year Ended June 30, 2012

Maturity Date	Interest Rate (%)	Annual Principal Due	Interest Due		Total
			November	May	
<b>2010 Refunding Bonds - \$6,940,000</b>					
<u>Due May 1,</u>					
2013	4.50	\$ 415,000	\$ 88,970	\$ 85,443	\$ 589,413
2014	4.50	430,000	85,443	81,358	596,801
2015	4.50	470,000	81,358	76,658	628,016
2016	4.50	510,000	76,658	70,793	657,451
2017	4.50	550,000	70,793	63,918	684,711
2018	4.60	590,000	63,918	55,953	709,871
2019	4.60	605,000	55,953	47,180	708,133
2020	4.60	595,000	47,180	38,106	680,286
2021	4.60	590,000	38,106	28,961	657,067
2022	4.60	605,000	28,961	19,433	653,394
2023	4.70	595,000	19,433	9,913	624,346
2024	4.70	610,000	9,913	-	619,913
Total		<u>\$ 6,565,000</u>	<u>\$ 666,686</u>	<u>\$ 577,716</u>	<u>\$ 7,809,402</u>
<b>2005 Bond Issue - \$7,190,000</b>					
<u>Due May 1</u>					
2013	3.75	\$ 410,000	\$ 98,113	\$ 98,113	\$ 606,226
2014	3.75	415,000	90,425	90,425	595,850
2015	4.00	400,000	82,644	82,644	565,288
2016	5.00	390,000	74,644	74,644	539,288
2017	5.00	380,000	64,894	64,894	509,788
2018	5.00	375,000	55,394	55,394	485,788
2019	4.10	370,000	46,019	46,019	462,038
2020	4.20	365,000	38,434	38,434	441,868
2021	4.20	365,000	30,769	30,769	426,538
2022	4.38	355,000	23,013	23,013	401,026
2023	4.38	345,000	15,247	15,247	375,494
2024	4.40	350,000	7,700	7,700	365,400
Total		<u>\$ 4,520,000</u>	<u>\$ 627,296</u>	<u>\$ 627,296</u>	<u>\$ 5,774,592</u>

St. Louis Public School District  
Schedule of Long-Term Debt  
For the Year Ended June 30, 2012

Year	Loan Proceeds	Accrued Interest	Balance Due
<b>School Bond Loan Fund</b>			
1996	\$ 628,964	\$ 25,889	\$ 654,853
1997	185,564	42,878	883,295
1998	-	48,004	931,299
1999	-	47,704	979,003
2000	-	49,979	1,028,982
2001	-	50,719	1,079,701
2002	-	45,453	1,125,154
2003	242,871	43,756	1,411,781
2004	282,182	45,345	1,739,308
2005	246,219	56,818	2,042,345
2006	-	83,377	2,125,722
2007	-	100,898	2,226,620
2008	-	100,070	2,326,690
2009	-	109,907	2,436,597
2010	-	137,987	2,574,584
2011	-	131,933	2,706,517
2011 Repayment	-	(180,061)	2,526,456
2012	-	120,173	2,646,629
2012 Repayment	-	(197,772)	2,448,857
Total	<u>\$ 1,585,800</u>	<u>\$ 863,057</u>	

As of June 30, 2012, the interest rate was 4.625%.



St. Louis Public School District  
Schedule of Long-Term Debt  
For the Year Ended June 30, 2012

Year	Annual Principal Due	Annual Interest Due	Total
<b>Summary by Year (excluding School Bond Loan Fund)</b>			
2013	\$ 915,923	\$ 375,235	\$ 1,291,158
2014	874,439	348,699	1,223,138
2015	870,000	323,304	1,193,304
2016	900,000	296,739	1,196,739
2017	930,000	264,499	1,194,499
2018	965,000	230,659	1,195,659
2019	975,000	195,171	1,170,171
2020	960,000	162,154	1,122,154
2021	955,000	128,605	1,083,605
2022	960,000	94,420	1,054,420
2023	940,000	59,840	999,840
2024	960,000	25,313	985,313
Totals	<u>\$ 11,205,362</u>	<u>\$ 2,504,638</u>	<u>\$ 13,710,000</u>



**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**

St. Louis Public Schools  
St Louis, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Louis Public Schools (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 1, 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 District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as items 2012-1, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated November 1, 2012. The 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 District's response and, accordingly, we express no opinion on it. This report is intended solely for the information and use of management, its Board, others within the entity, and 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.

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants  
November 1, 2012

**Finding 2012-1**

Finding considered a significant deficiency

Effective for the year ended June 30, 2012, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (Issued May 2006) requires us to communicate in writing when a client requires assistance to prepare the financial statements and related footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The annual financial statements for the year ended June 30, 2012 required numerous audit adjustments. The staff of the District does understand all information included in the annual financial statements; however, we assist in preparing the financial statements and related footnotes.

We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We expect this situation to be ongoing in future years.