

**Breckenridge Community
School District**

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



Breckenridge Community School District
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Independent Auditor's Report

Breckenridge Community School District
Breckenridge, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Breckenridge Community School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 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 Breckenridge Community School District 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 October 1, 2012, on our consideration of the 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 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 District's 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

October 1, 2012

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**



BRECKENRIDGE COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
2011-12

GENERAL INFORMATION

Breckenridge Community Schools currently operates one elementary school, one middle school, one high school, and one alternative education school. The school district's 2011-12 September enrollment was 800 students. Breckenridge Community Schools employs a staff of 47 teachers, 4 administrators, and 47 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 Breckenridge Community 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

BRECKENRIDGE COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
2011-12

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.

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, and Fiduciary Funds.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

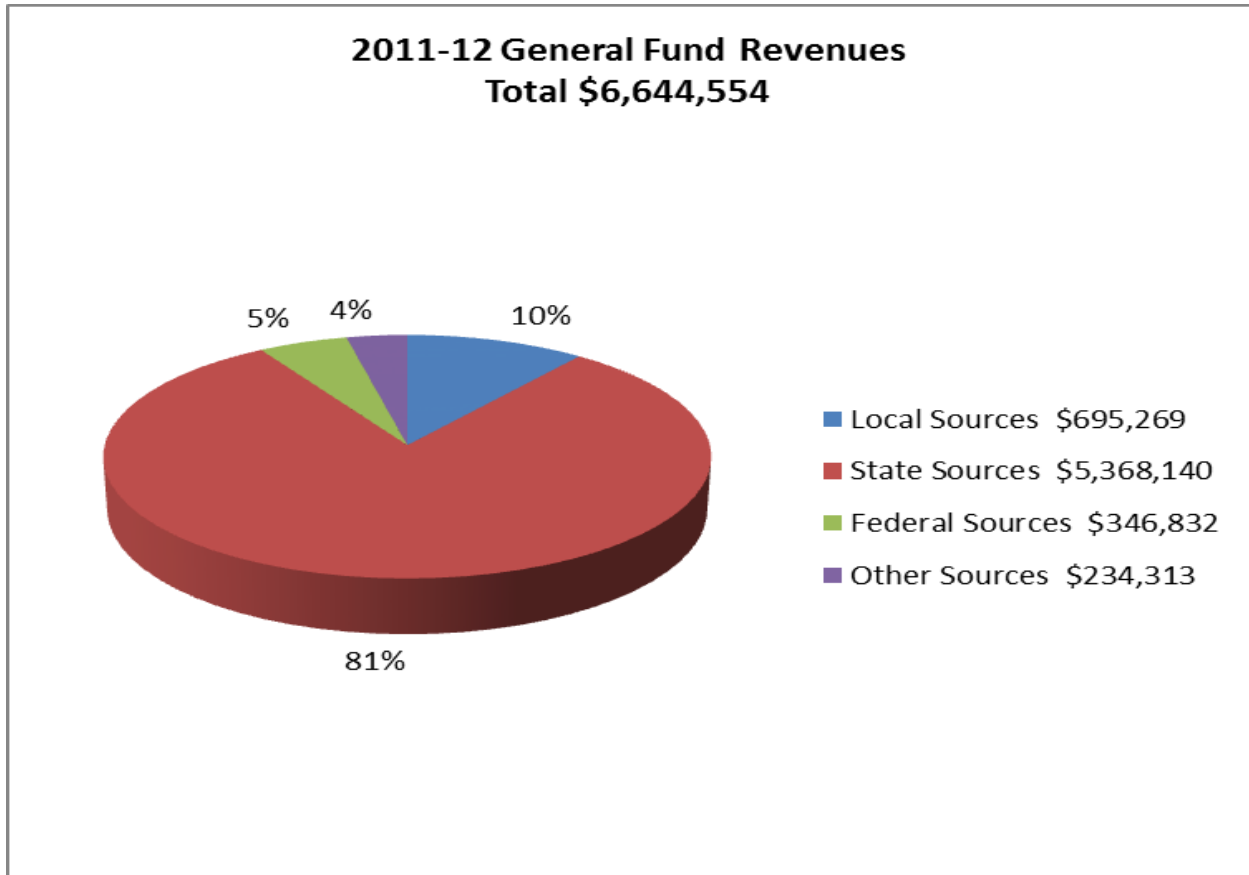
The net assets of the district at June 30, 2012 were \$1,629,546 and are shown in the following *Statement of Net Assets*. The largest portion of the District's net assets reflects investment in capital assets (buildings and improvements, and furniture and equipment) less any related debt used to acquire 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 slight (\$29,586 or 1.8%) decrease in net assets.

BRECKENRIDGE COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
2011-12

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.

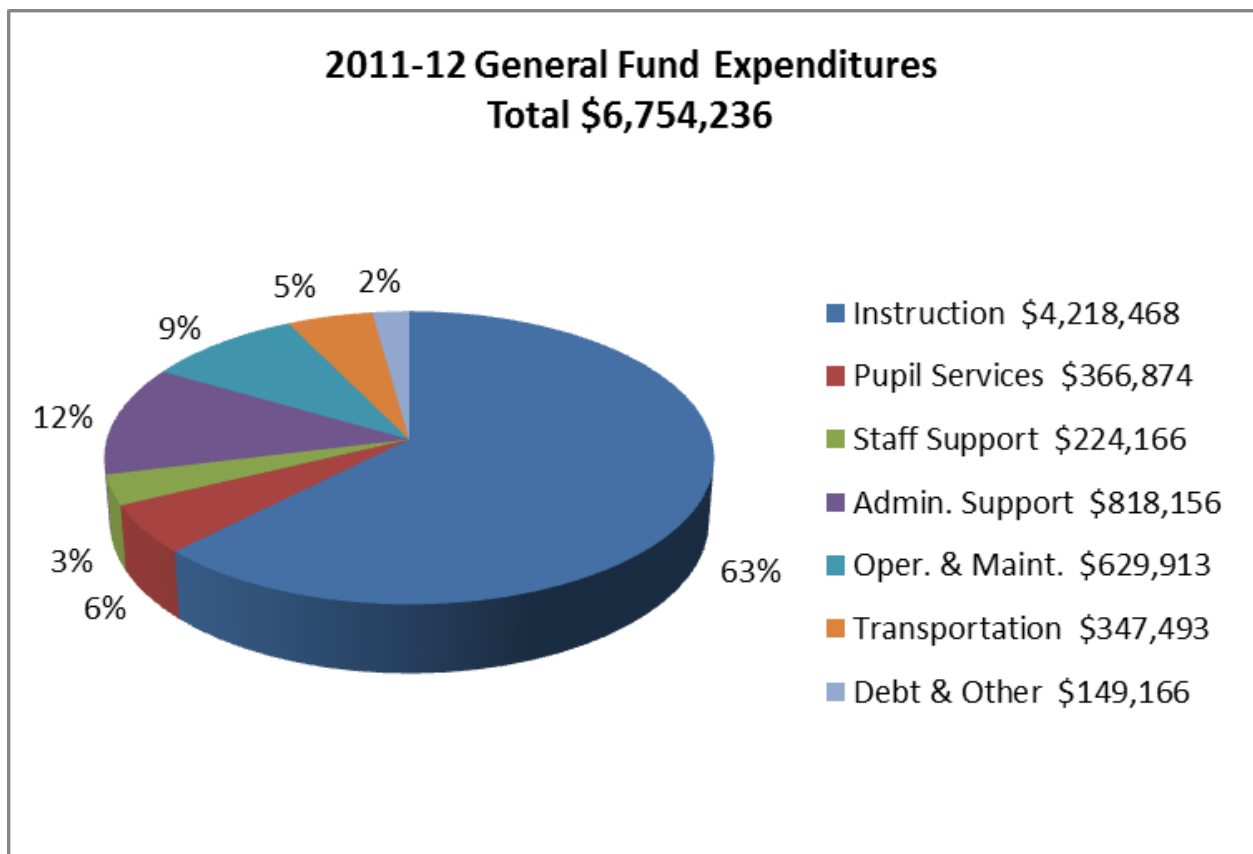
Figure 1



BRECKENRIDGE COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
2011-12

Figure 2 depicts how the district's resources are spent. Instructional services comprise most of the district's expenditures at 63%, while 12% went to administrative, 9% went to operation and maintenance, 5% was spent for transportation. The final 11% was spent on other support services.

Figure 2



BRECKENRIDGE COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
2011-12

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the district as a whole is reflected in its governmental funds as well. Governmental funds combined equity decreased during the 2011-12 school year by \$186,870. The primary reasons for this change are as follows:

General Fund

When taking into account revenue and expenditure activity for the 2011-12 year, the district fund balance levels decreased by \$109,682. This decrease was largely due to lower student enrollments and corresponding reductions in State revenues (decline of \$371,418). Federal revenues were also lower (\$253,521) as funding previously available through the EducationJobs grant was greatly reduced during 2011-12. Expenditures also declined in 2011-12 as a result of reduced funding, however the reduction in revenues exceeded the expenditure reductions.

The result is 9.42% fund equity as a percentage of total expenditures including operating transfers out. On a percentage basis, fund balance reserves decreased slightly below the 10.42% level maintained at the end of 2010-11. Local auditors and State school business experts recommend this percentage be in the 10%-15% range. Sufficient fund equity allows the district to maintain programs and keep class sizes reasonable in the event of future fiscal challenges.

Debt Service

The fund equity increased by \$2,397. The increase occurs to the timing of tax collection and when principal and interest payments are due. Any fund equity will be used to pay down the balance of the debt owed when it becomes due.

Food Service - Special Revenue

The fund equity decreased by \$79,585 during 2011-12, reducing fund balance reserves to \$64,238. The district was notified in April 2012 that Food Service fund balance levels exceeded limits established by the State. As a result, the district decided to invest a portion of the excess funds primarily in equipment upgrades which improved the quality and efficiency of the food service operations.

GENERAL FUND BUDGETGARY 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 1st. As a matter

BRECKENRIDGE COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
2011-12

of practice, the district amends its budget once or 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 property taxes and the investment interest. State revenues were adjusted to reflect changes in the State aid foundation, special education and Young 4's payments. Federal revenues were adjusted to the amount of expenditures.

Changes in Expenditures

Expenditures were adjusted to reflect changes in staffing costs resulting from staff retirements and attrition. Departing staff are usually replaced with less costly employees. Budget updates also reflect changes in utility and fuel costs attempting to match budget estimates closer to actual activity throughout the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, Breckenridge Community Schools had \$5,195,839 (net of depreciation) invested in a broad range of capital assets, including buildings and improvements, equipment, and vehicles.

BRECKENRIDGE COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
2011-12

Debt

At June 30, 2012, Breckenridge Community Schools had \$3,765,980 in long-term debt. The debt consisted of the following:

Commercial Controls	49,980
2008 Bonds	2,440,000
Retirement Incentive	111,000
2010 Bonds	1,165,000

STATE ECONOMIC AND LOCAL FACTORS

One of the most significant factors facing Breckenridge Community 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 based on a combination of the district's enrollment history and projected enrollment levels for the upcoming year. Enrollment levels for 2012-13 are projected to remain stable however declining enrollment continues to be a challenge.

Voter approval was received on a bond issue that addressed some of the district's large capital needs. Bond funding enabled the district to meet capital expenditures that were unable to be supported by the district's general operating budget. Capital expenditures related to this bond issue were completed in June, 2012.

BRECKENRIDGE COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
2011-12

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:

Breckenridge Community Schools
Central Office
700 Wright Street
Breckenridge, MI 48615

**DISTRICT-WIDE
FINANCIAL STATEMENTS**



Breckenridge Community School District
Statement of Net Assets
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,928,934	\$ 1,758,811
Accounts receivable	16,747	-
Due from other governmental units	1,066,302	1,208,970
Prepaid expenses	<u>65,402</u>	<u>65,402</u>
Total current assets	<u>3,077,385</u>	<u>3,033,183</u>
Noncurrent assets		
Deferred charges		
Bond issuance costs less accumulated amortization	75,301	83,825
Capital assets less accumulated depreciation	<u>5,195,839</u>	<u>5,495,712</u>
Total noncurrent assets	<u>5,271,140</u>	<u>5,579,537</u>
Total assets	<u>8,348,525</u>	<u>8,612,720</u>
Liabilities		
Current liabilities		
Accounts payable	74,748	71,352
Salaries payable	267,247	290,634
Accrued interest on short-term note payable	4,774	4,942
Accrued interest on long-term debt	24,722	26,855
Payroll deductions and other withholdings	120,937	119,477
Short-term note payable	1,773,497	1,471,857
Current portion of retirement incentive	72,600	86,165
Current portion of long-term bonds payable	375,000	369,729
Current portion of long-term loans payable	<u>57,623</u>	<u>46,209</u>
Total current liabilities	<u>2,771,148</u>	<u>2,487,220</u>
Noncurrent liabilities		
Bonds payable	3,615,192	3,990,192
Loans payable	39,789	97,412
Compensated absences	119,330	125,567
Premium on bonds less accumulated amortization	62,520	69,597
Retirement incentive	<u>111,000</u>	<u>183,600</u>
Total noncurrent liabilities	<u>3,947,831</u>	<u>4,466,368</u>
Total liabilities	<u>6,718,979</u>	<u>6,953,588</u>
Net assets		
Invested in capital assets, net of related debt	1,108,235	992,170
Restricted for:		
Capital projects	-	51,869
Debt service	135,982	133,585
Food service	64,238	143,823
Unrestricted	<u>321,091</u>	<u>337,685</u>
Total net assets	<u>\$ 1,629,546</u>	<u>\$ 1,659,132</u>

Breckenridge Community School District
Statement of Activities
For the Year Ended June 30, 2012, with Comparative Data

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes Net Assets	2011
		Charges for Services	Operating Grants and Contributions		
Governmental activities:					
Instruction	\$ 4,212,231	\$ -	\$ 878,980	\$ (3,333,251)	\$ (3,227,204)
Support services	2,254,228	45,550	-	(2,208,678)	(1,863,827)
Food service	347,543	70,557	207,832	(69,154)	70,152
Community services	8,039	12,993	-	4,954	2,666
Interest and fees on long-term debt	156,664	-	-	(156,664)	(589,074)
Other expenditures	196,730	-	-	(196,730)	(161,857)
Amortization - unallocated	1,447	-	-	(1,447)	(1,447)
Depreciation - unallocated	316,877	-	-	(316,877)	(220,376)
Total governmental activities	<u>\$ 7,493,759</u>	<u>\$ 129,100</u>	<u>\$ 1,086,812</u>	(6,277,847)	(5,990,967)
General revenues:					
Property taxes				1,088,916	1,033,414
State sources				5,046,270	5,425,266
Unrestricted interest and investment earnings				3,435	2,354
Restricted interest and investment earnings				12,836	252
Miscellaneous				103,576	63,520
Total general revenues				<u>6,255,033</u>	<u>6,524,806</u>
Change in net assets				(22,814)	533,839
Net assets - beginning				1,659,132	1,125,293
Prior period adjustment				(6,772)	-
Net assets - ending				<u>\$ 1,629,546</u>	<u>\$ 1,659,132</u>

FUND FINANCIAL STATEMENTS



Breckenridge Community School District
Balance Sheet
Governmental Funds
June 30, 2012, with Comparative Data

	Major Funds				Totals	
	General	Food Service	Debt Service	Capital Projects	2012	2011
Assets						
Cash and cash equivalents	\$ 1,687,746	\$ 105,206	\$ 135,982	\$ -	\$ 1,928,934	\$ 1,758,811
Accounts receivable	16,747	-	-	-	16,747	-
Due from other funds	4,410	-	-	-	4,410	-
Due from other governmental units	1,065,383	919	-	-	1,066,302	1,208,970
Prepaid expenses	64,777	625	-	-	65,402	65,402
Total assets	<u>\$ 2,839,063</u>	<u>\$ 106,750</u>	<u>\$ 135,982</u>	<u>\$ -</u>	<u>\$ 3,081,795</u>	<u>\$ 3,033,183</u>
Liabilities						
Accounts payable	\$ 36,646	\$ 38,102	\$ -	\$ -	\$ 74,748	\$ 71,352
Due to other funds	-	4,410	-	-	4,410	-
Accrued interest	4,774	-	-	-	4,774	4,942
Salaries payable	267,247	-	-	-	267,247	290,634
Payroll deductions and other withholdings	120,937	-	-	-	120,937	119,477
Short term note payable	1,773,497	-	-	-	1,773,497	1,471,857
Total liabilities	<u>2,203,101</u>	<u>42,512</u>	<u>-</u>	<u>-</u>	<u>2,245,613</u>	<u>1,958,262</u>
Fund balances						
Nonspendable	64,777	625	-	-	65,402	65,402
Restricted for:						
Food service	-	63,613	-	-	63,613	143,198
Debt service	-	-	135,982	-	135,982	133,585
Capital projects	-	-	-	-	-	51,869
Unassigned	571,185	-	-	-	571,185	680,867
Total fund balances	<u>635,962</u>	<u>64,238</u>	<u>135,982</u>	<u>-</u>	<u>836,182</u>	<u>1,074,921</u>
Total liabilities and fund balance	<u>\$ 2,839,063</u>	<u>\$ 106,750</u>	<u>\$ 135,982</u>	<u>\$ -</u>	<u>\$ 3,081,795</u>	<u>\$ 3,033,183</u>

Breckenridge Community 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	\$		836,182
<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		\$ 11,294,330	
Deduct: Accumulated depreciation		<u>(6,098,491)</u>	
			5,195,839
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:</p>			
Deduct: 2010 Bonds		(1,225,000)	
Deduct: 2008 Refunding Bonds		(2,755,000)	
Deduct: Durant Issue		(10,192)	
Deduct: Compensated absences payable		(119,330)	
Deduct: Commercial Controls		(74,970)	
Deduct: MMNet - Installment purchase agreements		(22,442)	
Deduct: Retirement incentive payable		(183,600)	
Deduct: Accrued interest on long-term liabilities		<u>(24,722)</u>	
			(4,415,256)
<p>Other amounts reported in the statement of activities that do not require current financial resources:</p>			
Add: Bond issuance costs (net of amortization)		75,301	
Deduct: Premium on bonds (net of amortization)		<u>(62,520)</u>	
			<u>12,781</u>
Total net assets - governmental activities	\$		<u><u>1,629,546</u></u>

Breckenridge Community School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012, with Comparative Data

	Major Funds				Totals	
	General	Food Service	Debt Service	Capital Projects	2012	2011
Revenues						
Local sources	\$ 695,269	\$74,758	\$ 531,323	\$ 12,478	\$ 1,313,828	\$ 1,268,232
State sources	5,368,140	5,054	-	-	5,373,194	5,750,981
Federal sources	346,832	202,778	-	-	549,610	840,141
Other sources	234,313	-	-	-	234,313	290,866
Total revenues	6,644,554	\$282,590	531,323	12,478	7,470,945	8,150,220
Expenditures						
Instruction						
Basic programs	3,538,774	-	-	-	3,538,774	3,627,005
Added needs	546,496	-	-	-	546,496	668,393
Adult / continuing education	133,198	-	-	-	133,198	136,883
Total instruction	4,218,468	-	-	-	4,218,468	4,432,281
Support services						
Pupil	235,715	-	-	-	235,715	250,441
Instructional staff	224,166	-	-	-	224,166	212,041
General administration	264,645	-	-	-	264,645	256,421
School administration	452,070	-	-	-	452,070	458,267
Business services	87,502	-	-	-	87,502	98,183
Operation and maintenance	629,913	-	-	-	629,913	653,041
Pupil transportation	347,493	-	-	-	347,493	349,631
Central	13,939	-	-	-	13,939	13,575
Other	131,159	-	-	-	131,159	185,236
Total support services	2,386,602	-	-	-	2,386,602	2,476,836
Food service	-	347,543	-	-	347,543	250,994
Community services	8,039	-	-	-	8,039	5,201
Debt service						
Principal payments	-	-	369,729	-	369,729	402,536
Interest, fees and other	-	-	158,797	-	158,797	195,607
Capital assets	12,328	7,860	-	-	20,188	730,376
Other	128,799	-	400	64,347	193,546	161,857
Total expenditures	6,754,236	355,403	528,926	64,347	7,702,912	8,655,688
Excess (deficiency) of revenues over expenditures	(109,682)	(72,813)	2,397	(51,869)	(231,967)	(505,468)
Other financing sources (uses)						
Operating transfers in	-	-	-	-	-	4,046
Operating transfers (out)	-	-	-	-	-	(4,046)
Excess (deficiency) of revenues and other sources over expenditures	(109,682)	(72,813)	2,397	(51,869)	(231,967)	(505,468)
Fund balances - beginning	745,644	143,823	133,585	51,869	1,074,921	1,580,389
Prior period adjustment	-	(6,772)	-	-	(6,772)	-
Fund balances - ending	\$ 635,962	\$ 64,238	\$ 135,982	\$ -	\$ 836,182	\$ 1,074,921

Breckenridge Community 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

Net change in fund balances - total governmental funds	\$	(231,967)
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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:	Loss on disposal	(3,184)
Add:	Capital asset purchases	20,188
Deduct:	Depreciation expense	(316,877)

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 accrual for compensated absences	6,237
Add:	Decrease in accrued interest on long term debt	2,133

Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).

Add:	Commercial control systems debt	24,990
Add:	2008 bonds	320,000
Add:	2010 bonds	40,000
Add:	Durant issue	9,729
Add:	MMNet installment debt	21,219
Add:	Early retirement incentive	86,165

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

Add:	Amortization of premium	7,077
Deduct:	Amortization of bond issuance cost	(8,524)

Change in net assets - governmental activities	\$	<u>(22,814)</u>
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Breckenridge Community School District
Fiduciary Funds - Statement of Net Assets
For the Years Ended June 30, 2012 and 2011

Agency Fund

	<u>2012</u>	<u>2011</u>
Assets		
Cash and cash equivalents	<u>\$ 89,315</u>	<u>\$ 98,804</u>
Total assets	<u><u>\$ 89,315</u></u>	<u><u>\$ 98,804</u></u>
Liabilities		
Due to student and other groups	<u>\$ 89,315</u>	<u>\$ 98,804</u>
Total liabilities	<u><u>\$ 89,315</u></u>	<u><u>\$ 98,804</u></u>

NOTES TO THE FINANCIAL STATEMENTS



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Breckenridge Community 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. 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.

The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities.

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.

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, interest and other revenue for payment of principal and other expenditures on the long-term debt.

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.

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 and become a lien as of July 1 and December 1 and 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 \$152,960,676, which includes \$30,612,817 attributable to non-homesteads. The District levied 18.0 mills for school general operations on the non-homestead taxable value, which totaled \$551,031. The District also levied an additional 3.4 mills on all property in the District for the purpose of debt service, which totaled \$517,461.

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 30th.

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.

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
Buildings & Improvements	10-50
Furniture & Equipment	5-20
Vehicles	5-8
Computer & Related Equipment	5

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 District's policy allows full time, non-teacher employees to accumulate an unlimited amount of vacation days, and to carry the accumulation for an indefinite time into the future. Amounts accumulated are to be paid to the employee and recognized as an expense when vacation days are actually taken. Upon termination, no more than one year's accumulation will be paid to an employee and recognized as an expense. The vacation pay liability at June 30, 2012 is \$41,212.

Sick pay is accumulated at a rate of ten (10) days per year (maximum of 130 days) for teachers, administrators and twelve-month employees. Other employees accumulate sick days at a rate of nine (9) days per year. Amounts accumulated are to be paid to the employee and recognized as an expense when sick leave is actually taken. Upon termination of employment, all sick leave benefits are forfeited. Upon retirement, providing that notice is given to the Board of Directors by May 1st of the year in which retirement is planned, teachers with a minimum of twelve (12) years of service in the Breckenridge School District, and who are eligible to receive retirement benefits from MPERS, are paid sick leave at a rate of \$80 for each unused sick day. The sick pay liability at June 30, 2012 is \$78,118.

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.

Governmental Fund – Fund Balance

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.

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 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 report as unfavorable variances.

DETAIL NOTES

NOTE 3 - CASH AND CASH EQUIVALENTS

At June 30, 2012, the carrying amount of the District's cash and cash equivalents was:

Cash and Cash Equivalents	Amount
Petty Cash	\$ 1,449
Deposits With Financial Institutions: Interest Bearing Checking, Savings, Money Market Accounts, Certificates of Deposit	1,927,485
Totals	\$ 1,928,934

At year-end, the carrying amount of the District's deposits was \$1,927,485 and the bank balance was \$1,957,078. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder 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.

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 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, it 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.

Breckenridge Community School District
Notes to the Financial Statements
June 30, 2011

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

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

Due From	Amount
General Fund:	
State of Michigan – State Aid	\$ 974,311
Title II A	42,906
Title I A	43,261
Gratiot Isabella RESD, Great Start Readiness	4,905
Hot Lunch Fund:	
State of Michigan – State Aid	919
Totals	\$ 1,066,302

NOTE 5 - ACCOUNTS RECEIVABLE

These receivables consist of various amounts owed to the District that are due from non-governmental units.

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables and payables at June 30th.

NOTE 7 - PREPAIDS

Prepaid expenses represent payments for agreements that will benefit future periods.

Breckenridge Community School District
Notes to the Financial Statements
June 30, 2011

NOTE 8 - CAPITAL ASSETS

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

Capital Assets	Beginning Balance	Additions	Disposals	Ending Balance
Buildings & Improvements	\$ 9,003,819	\$ -	(\$ 4,914)	\$ 8,998,905
Computer & Related Equipment	546,719	-	-	546,719
Furniture & Equipment	1,105,242	20,188	(9,835)	1,115,595
Vehicles	748,959	-	(115,848)	633,111
Total Capital Assets	11,404,739	20,188	(130,597)	11,294,330
Accumulated Depreciation				
Buildings & Improvements	(3,883,248)	(245,016)	1,730	(4,126,534)
Computer & Related Equipment	(546,719)	-	-	(546,719)
Furniture & Equipment	(912,048)	(29,850)	9,835	(932,063)
Vehicles	(567,012)	(42,011)	115,848	(493,175)
Total Accumulated Depreciation	(5,909,027)	(316,877)	127,413	(6,098,491)
Net Capital Assets	\$ 5,495,712	(\$ 296,689)	(\$ 3,184)	\$ 5,195,839

Depreciation for the year ended June 30, 2012 totaled \$316,877. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 9 - ACCRUED WAGES

Accrued wages as of June 30th consist mainly of the remaining balance owed on teacher contracts to be paid during the summer months. This also includes amounts earned by other employees as of year-end but not paid until after year-end.

NOTE 10 - SHORT-TERM NOTE PAYABLE

STATE AID LOAN

On August 20, 2011, the District borrowed \$1,800,000 in two notes from the Municipal Bond Authority in the form of State Aid Anticipation Notes for the purpose of providing funds for school operations. The interest rates are stated at 0.311%. These notes are payable at maturity on August 20, 2012. The remaining balances on these notes are shown as a current liability in the General Fund.

On August 20, 2012 (after the end of the current fiscal year), the District borrowed \$2,200,000 in two notes from the Municipal Bond Authority in the form of a State Aid Anticipation Note for the purpose of providing funds for school operations. The interest rate is stated at 1.460%. This note is payable at maturity on August 20, 2013. This loan was acquired after the end of the fiscal year and, therefore, is not shown as current liabilities in the General Fund.

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 obligation bonds and refunding bonds are direct obligations and pledge the full faith and credit of the District. Other long-term obligations include compensated absences.

Breckenridge Community School District
Notes to the Financial Statements
June 30, 2011

2010 BONDS

During the fiscal year ended June 30, 2010, the District issued a general obligation bond in the amount of \$1,300,000. The bonds are a full faith and credit unlimited tax general obligation of the District and the principal thereof and interest thereon will be payable from the proceeds of ad valorem taxes levied on all taxable property in the District without limitation as to rate or amount. The bonds are dated February 24, 2010.

See payment schedule in the back of this report.

2008 REFUNDING BONDS

During the fiscal year ended June 30, 2008, the District advance refunded a general obligation bond issue with a general obligation bond refunding. The District issued \$4,055,000 of general obligation refunding bonds for the purpose of advance refunding a portion of the District's outstanding 1998 bonds and paying costs associated with the issuance of the bonds. The proceeds of the bonds, together with funds on hand, will be used to establish an escrow fund to provide for payment of principal and interest and redemption premiums on the prior bonds being refunded. The escrow fund will consist of cash and direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America.

The bonds are a full faith and credit unlimited tax general obligation of the District and the principal thereof and interest thereon will be payable from the proceeds of ad valorem taxes levied on all taxable property in the District without limitation as to rate or amount. The bonds are dated March 27, 2008.

See payment schedule in the back of this report.

INSTALLMENT PURCHASE

On November 13, 2007, the District entered into a contract with Commercial Controls, Inc. for the purchase, installation and maintenance of a temperature control system. The total cost of the contract was \$199,920. The terms of the contract call for an initial payment of \$24,990 due upon acceptance of the contract and seven annual payments of \$24,990. There was no stated interest rate.

See payment schedule in the back of this report.

RETIREMENT INCENTIVE PAYABLE

Fifteen individuals are currently participating in the early retirement incentive program offered by the District. Under this program, the individuals will receive annual payments ranging from \$5,565 to \$13,600 each through the year 2017.

For additional information see the payment schedule included in the back of this report.

Breckenridge Community School District
Notes to the Financial Statements
June 30, 2011

MMNET

During the year ended June 30, 1999, the District elected to join the Middle Michigan Network for Educational Telecommunications (MMNET). See additional disclosures regarding MMNET in these notes. As a member MMNET, the District was required to purchase a 12.5% undivided interest in various communication equipment and services. Therefore, the District entered into six separate installment purchase agreements for the purchase of the necessary equipment and services. Each purchase agreement has a stated interest rate of 5.68% and calls for equal, semi-annual payments.

The following is a summary of the original installment purchase agreements:

Vendor	Description	Cost	Annual Payment
ITS Technologies, LLC	Data Electronics	\$ 17,380	\$ 1,769
I.T.I., Inc.	Voice Electronics	31,000	3,155
Integrated Systems Development	Miscellaneous Equip.	24,275	2,471
Integrated Systems Development	Telecommunications	34,375	3,405
FLI Communications Corp.	Video Electronics	58,600	5,964
Fiber Link, Inc.	Fiber Optical Filaments	236,268	23,403
Total		\$ 401,898	\$ 40,167

For additional information see the payment schedule included in the back of this report.

CHANGES TO LONG-TERM DEBT

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

	Beginning Balance	Additions	Deletions	Ending Balance	Less: Current Portion	Total due after one year
2010 Bonds	\$ 1,265,000	\$ -	(\$ 40,000)	\$ 1,225,000	\$ (60,000)	\$ 1,165,000
2008 Bonds	3,075,000	-	(320,000)	2,755,000	(315,000)	2,440,000
Durant Bonds	19,921	-	(9,729)	10,192	(10,192)	-
MMNET Loans	43,661	-	(21,220)	22,441	(22,441)	-
Early Retirement Inc.	269,765	-	(86,165)	183,600	(72,600)	111,000
Commercial Controls	99,960	-	(24,990)	74,970	(24,990)	49,980
Compensated abs.	125,567	-	(6,237)	119,330	-	119,330
Total	\$ 4,898,874	\$ -	\$ (508,341)	\$ 4,390,533	\$ (505,223)	\$ 3,885,310

NOTE 12 - EMPLOYEE RETIREMENT SYSTEM

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, defined benefit pension plan administered by the nine-member board of MPERS. MPERS provides retirement benefits and postretirement benefits for health, dental, and vision. MPERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS.

A copy of this report can be requested by calling (989) 322-6000 or by writing to:

Michigan Public School Employees' Retirement System
P.O. Box 30171
Lansing, MI 48909-7671

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 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 MPERS 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 MPERS who became a member of MPERS 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 MPERS Board of Trustees. The health care portion is 5.5% before the 3% for the injunction. The District's contributions to MPERS for the years ended June 30, 2012, 2011, and 2010, were \$857,904, \$738,546, and \$648,836, respectively, which is equal to the required contribution for each year.

Breckenridge Community School District
Notes to the Financial Statements
June 30, 2011

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 MPERS 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 13 - 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 claims relating to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The District has purchased commercial insurance for medical claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 14 - JOINT VENTURE

During the year ended June 30, 1999 the District elected to join the Middle Michigan Network for Educational Telecommunications (MMNET). As a member of MMNET, the District was required to purchase a 12.5% undivided 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 among the following entities: Beal City Public Schools, Breckenridge Community Schools, Clinton County RESA, Central Montcalm Public Schools, DeWitt Public Schools, Fulton Schools, Gratiot-Isabella RESD, Ovid-Elsie Area Schools, and St. Johns Public Schools.

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 participant 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 SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE



Breckenridge Community School District
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance -
	Original	Final		Actual to Final Budget
Revenues				
Local sources	\$ 592,323	\$ 622,934	\$ 695,269	\$ 72,335
State sources	5,599,398	5,367,791	5,368,140	349
Federal sources	262,858	400,817	346,832	(53,985)
Other sources	252,000	223,000	234,313	11,313
Total revenues	6,706,579	6,614,542	6,644,554	30,012
Expenditures				
Instruction				
Basic programs	3,631,182	3,517,616	3,538,774	(21,158)
Added needs	649,217	611,407	546,496	64,911
Adult / continuing education	142,050	157,150	133,198	23,952
Total instruction	4,422,449	4,286,173	4,218,468	67,705
Support services				
Pupil	230,366	249,719	235,715	14,004
Instructional staff	226,622	230,369	224,166	6,203
General administration	255,071	282,336	264,645	17,691
School administration	476,091	456,079	452,070	4,009
Business services	121,300	94,860	87,502	7,358
Operation and maintenance	640,737	648,081	629,913	18,168
Pupil transportation	352,908	380,940	347,493	33,447
Central	26,400	19,018	13,939	5,079
Capital assets	-	-	12,328	(12,328)
Other	6,000	6,000	131,159	(125,159)
Total support services	2,335,495	2,367,402	2,398,930	(31,528)
Community services	7,080	11,128	8,039	3,089
Other	145,590	145,590	128,799	16,791
Total expenditures	6,910,614	6,810,293	6,754,236	56,057
Excess (deficiency) of revenues over expenditures	(204,035)	(195,751)	(109,682)	86,069
Other financing sources (uses)				
Operating transfers in	5,000	-	-	-
Excess (deficiency) of revenues and other sources over expenditures	(199,035)	(195,751)	(109,682)	86,069
Fund balances - beginning	745,644	745,644	745,644	-
Fund balances - ending	<u>\$ 546,609</u>	<u>\$ 549,893</u>	<u>\$ 635,962</u>	<u>\$ 86,069</u>

Breckenridge Community School District
 Budgetary Comparison Schedule for the Food Service Fund
 For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance -
	Original	Final		Actual to Final Budget
Revenues				
Local sources	\$ 71,100	\$ 71,100	\$ 74,758	\$ 3,658
State sources	9,000	9,000	5,054	(3,946)
Federal sources	194,900	194,900	202,778	7,878
Total revenues	<u>275,000</u>	<u>275,000</u>	<u>282,590</u>	<u>7,590</u>
Expenditures				
Food service	<u>275,000</u>	<u>275,000</u>	<u>355,403</u>	<u>(80,403)</u>
Excess (deficiency) of revenues over expenditures	-	-	(72,813)	(72,813)
Fund balances - beginning	<u>143,823</u>	<u>143,823</u>	<u>143,823</u>	<u>-</u>
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(6,772)</u>	<u>(6,772)</u>
Fund balances - ending	<u>\$ 143,823</u>	<u>\$ 143,823</u>	<u>\$ 64,238</u>	<u>\$ (79,585)</u>

OTHER SUPPLEMENTAL INFORMATION



Breckenridge Community School District
 General Fund
 Balance Sheet
 June 30, 2012 and 2011

	2012	2011
Assets		
Cash and investments	\$ 1,687,746	\$ 1,432,298
Accounts receivable	16,747	-
Due from other funds	4,410	-
Due from other governmental units	1,065,383	1,206,819
Prepaid expenses	64,777	64,777
Total assets	\$ 2,839,063	\$ 2,703,894
Liabilities		
Accounts payable	\$ 36,646	\$ 71,340
Accrued expenses	-	-
Accrued interest	4,774	4,942
Salaries payable	267,247	290,634
Payroll deductions and other withholdings	120,937	119,477
Short term note payable	1,773,497	1,471,857
Total liabilities	2,203,101	1,958,250
Fund balance		
Reserved for:		
Nonspendable	64,777	64,777
Unassigned	571,185	680,867
Total fund balance	635,962	745,644
Total liabilities and fund balance	\$ 2,839,063	\$ 2,703,894

Breckenridge Community School District
General Fund
Statement of Revenues
For the Years Ended June 30, 2012 and 2011

	2012	2011
Local sources		
Property taxes	\$ 568,434	\$ 527,413
Interest	3,435	2,354
Recreation fees	-	-
After school program	12,993	7,867
Other local revenues	110,407	79,374
Total local sources	695,269	617,008
State sources		
General state aid	5,035,592	5,353,522
Categorical:		
Special education	104,828	142,884
At risk	164,361	169,983
Vocational education	13,792	17,612
School readiness	49,567	51,000
Datalink	-	4,557
Total state sources	5,368,140	5,739,558
Federal sources		
Title I	200,433	249,841
Education Stabilization Funds	-	100,159
Medicaid	3,412	2,102
Improving teacher quality	128,515	56,683
Education Jobs	14,472	191,568
Total federal sources	346,832	600,353
Other sources		
Other governmental units		
County special education tax	199,600	270,228
Other	34,713	20,638
Total other sources	234,313	290,866
Other financing sources (uses)		
Incoming transfers - food service	-	4,046
Total general fund revenues	\$ 6,644,554	\$ 7,251,831

Breckenridge Community School District
General Fund
Statement of Expenditures
For the Years Ended June 30, 2012 and 2011

	2012	2011
Instruction		
Basic programs		
Elementary		
Salaries	\$ 1,018,211	\$ 1,085,356
Employee benefits	620,423	644,055
Purchased services	52,079	31,995
Supplies, materials and other	19,151	21,910
Total elementary	1,709,864	1,783,316
Middle/junior high		
Salaries	506,925	442,490
Employee benefits	310,784	272,925
Purchased services	5,593	5,606
Supplies, materials and other	5,311	5,149
Total middle school	828,613	726,170
High school		
Salaries	502,587	579,504
Employee benefits	318,992	410,522
Purchased services	107,718	34,824
Supplies, materials and other	26,138	65,900
Total high school	955,435	1,090,750
Readiness program		
Salaries	26,790	18,280
Employee benefits	8,476	5,078
Purchased services	402	258
Supplies, materials and other	9,194	3,153
Total readiness program	44,862	26,769
Total basic programs	3,538,774	3,627,005
Added needs		
Special education		
Salaries	203,354	229,918
Employee benefits	93,940	106,781
Purchased services	6,709	6,469
Supplies, materials and other	1,946	1,441
Total special education	305,949	344,609

Breckenridge Community School District
 General Fund
 Statement of Expenditures
 For the Years Ended June 30, 2012 and 2011

	2012	2011
Instruction (continued)		
Added needs (continued)		
Title I		
Salaries	\$ 140,940	\$ 160,067
Employee benefits	56,865	68,060
Purchased services	-	31
Supplies, materials and other	936	7,442
Total Title I	198,741	235,600
Title II, Part A		
Salaries	-	-
Employee benefits	-	-
Purchased services	3,243	-
Supplies, materials and other	-	-
Total Title II, Part A	3,243	-
Vocational education		
Salaries	19,186	33,033
Employee benefits	7,184	13,283
Purchased services	365	683
Supplies, materials and other	11,828	12,148
Total vocational education	38,563	59,147
At risk		
Salaries	-	21,139
Employee benefits	-	7,506
Purchased services	-	192
Supplies, materials and other	-	200
Total at risk	-	29,037
Total added needs	546,496	668,393
Adult / continuing education		
AIM program		
Salaries	89,256	93,242
Employee benefits	43,942	43,016
Purchased services	-	625
Total adult / continuing education	133,198	136,883
Total instruction	4,218,468	4,432,281

Breckenridge Community School District
 General Fund
 Statement of Expenditures
 For the Years Ended June 30, 2012 and 2011

	2012	2011
Support services		
Pupil services		
Guidance services		
Salaries	\$ 35,262	\$ 47,414
Employee benefits	27,187	18,946
Purchased services	135	-
Supplies, materials and other	-	173
Total guidance services	<u>62,584</u>	<u>66,533</u>
Speech Pathology		
Salaries	56,896	56,246
Employee benefits	33,658	33,029
Supplies, materials and other	522	410
Total speech pathology	<u>91,076</u>	<u>89,685</u>
Other pupil services		
Salaries	63,314	73,834
Employee benefits	18,741	20,389
Total other pupil services	<u>82,055</u>	<u>94,223</u>
Total pupil services	<u>235,715</u>	<u>250,441</u>
Instructional staff		
Educational media services		
Salaries	70,619	68,666
Employee benefits	31,875	30,493
Purchased services	212	242
Supplies, materials and other	6,594	6,645
Total educational media services	<u>109,300</u>	<u>106,046</u>
Technology assisted instruction		
Salaries	14,771	14,609
Employee benefits	7,936	7,709
Purchased services	53,975	37,895
Supplies, materials and other	38,184	45,782
Total technology assisted instruction	<u>114,866</u>	<u>105,995</u>
Total instructional staff	<u>224,166</u>	<u>212,041</u>

Breckenridge Community School District
General Fund
Statement of Expenditures
For the Years Ended June 30, 2012 and 2011

	2012	2011
Support services (continued)		
General administration		
Board of education		
Salaries	\$ -	\$ 13
Purchased services	32,867	35,675
Supplies, materials and other	9,792	11,252
Total board of education	42,659	46,940
Executive administration		
Salaries	121,422	116,214
Employee benefits	69,392	64,473
Purchased services	23,195	22,059
Supplies, materials and other	7,977	6,735
Total executive administration	221,986	209,481
Total general administration	264,645	256,421
School administration		
Offices of the principals		
Salaries	285,619	285,039
Employee benefits	158,192	158,484
Purchased services	3,266	922
Supplies, materials and other	4,993	13,822
Total school administration	452,070	458,267
Business services		
Fiscal services		
Purchased services	1,360	
Supplies, materials and other	27,351	27,352
Total fiscal services	28,711	27,352
Internal services		
Supplies, materials and other	-	2,690
Total internal services	-	2,690

Breckenridge Community School District
 General Fund
 Statement of Expenditures
 For the Years Ended June 30, 2012 and 2011

	2012	2011
Support services (continued)		
Business services		
Other business services		
Workmen's compensation	\$ 14,940	\$ 27,236
Unemployment compensation	6,929	1,000
Interest	33,518	23,141
Taxes abated and written off	3,404	16,071
Supplies, materials and other	-	693
Total other business services	<u>58,791</u>	<u>68,141</u>
Total business services	<u>87,502</u>	<u>98,183</u>
Operation and maintenance		
Salaries	205,649	183,390
Employee benefits	128,694	112,403
Purchased services	134,323	191,820
Supplies, materials and other	161,247	165,428
Total operation and maintenance	<u>629,913</u>	<u>653,041</u>
Pupil transportation		
Salaries	150,208	159,277
Employee benefits	64,240	63,443
Purchased services	45,941	51,561
Supplies, materials and other	87,104	75,350
Capital outlay	-	78,328
Total pupil transportation	<u>347,493</u>	<u>427,959</u>
Central		
Communication services		
Purchased services	8,346	7,883
Data processing		
Purchased services	<u>5,593</u>	<u>5,692</u>
Total central	<u>13,939</u>	<u>13,575</u>

Breckenridge Community School District
General Fund
Statement of Expenditures
For the Years Ended June 30, 2012 and 2011

	2012	2011
Support services (continued)		
Other support services		
Purchased services	\$ 4,000	\$ 4,210
Athletics		
Salaries	36,655	46,176
Employee benefits	17,081	18,653
Purchased services	50,801	69,173
Supplies, materials and other	34,950	47,024
	143,487	185,236
Total other support services		
	143,487	185,236
Total support services	2,398,930	2,555,164
Community services		
Recreation		
Salaries	4,215	3,163
Employee benefits	1,339	894
Supplies, materials and other	1,812	1,144
	7,366	5,201
Total recreation		
	7,366	5,201
Activities		
Supplies, materials and other	673	
	673	
Total community services	8,039	5,201
Other transactions		
Payments to other schools	-	-
Leases	22,984	33,386
MMNET	31,725	31,656
Voc ed tuition	74,090	96,415
	128,799	161,457
Total other transactions		
	128,799	161,457
Total general fund expenditures	\$ 6,754,236	\$ 7,154,103

Breckenridge Community School District
Food Service Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Years Ended June 30, 2012 and 2011

	Totals	
	2012	2011
Revenues		
Local sources		
Student lunches	\$ 54,243	\$ 53,365
Adult lunches	908	768
Ala-carte	15,406	15,802
Interest	195	65
Miscellaneous	4,006	3,292
Total local sources	<u>74,758</u>	<u>73,292</u>
State sources		
School lunch program	5,054	11,423
Total state sources	<u>5,054</u>	<u>11,423</u>
Federal sources		
National school lunch program	185,366	222,645
USDA donated commodities	17,412	17,143
Total federal sources	<u>202,778</u>	<u>239,788</u>
Total revenues	<u>282,590</u>	<u>324,503</u>
Expenditures		
Salaries	33,125	24,765
Benefits	10,523	6,557
Purchased services	80,746	57,030
Supplies, materials and other	223,149	162,642
Capital outlay	7,860	-
Total expenditures	<u>355,403</u>	<u>250,994</u>
Excess (deficiency) of revenues over expenditures	(72,813)	73,509
Other financing sources (uses)		
Operating transfers (out)	-	(4,046)
Excess (deficiency) of revenues and other sources over expenditures	(72,813)	69,463
Fund balances - beginning	143,823	74,360
Prior period adjustment	(6,772)	-
Fund balances - ending	<u>\$ 64,238</u>	<u>\$ 143,823</u>

Breckenridge Community School District
Debt Service Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Years Ended June 30, 2012 and 2011

	Totals	
	2012	2011
Revenues		
Local sources		
Property tax	\$ 520,482	\$ 506,001
Interest on investments	163	187
Total local sources	520,645	506,188
State sources		
Durant bonds	10,678	71,744
Total revenues	531,323	577,932
Expenditures		
Outgoing transfers and other transactions		
Principal - bonds	360,000	350,000
Principal - Durant	9,729	52,536
Interest and other charges - bonds	157,848	176,399
Interest and other charges - Durant	949	19,208
Other fees	400	400
Total expenditures	528,926	598,543
Excess (deficiency) of revenues over expenditures	2,397	(20,611)
Fund balances - beginning	133,585	154,196
Fund balances - ending	\$ 135,982	\$ 133,585

Breckenridge Community School District
Schedule of Long-Term Debt
For the Year Ended June 30, 2012

Fiscal Year	Interest Rate (%)	Annual Principal Due	Interest Due		Total
			November	May	
2008 Refunding Bonds - \$4,055,000					
2013	3.25	315,000	53,919	53,919	422,838
2014	4.00	315,000	48,800	48,800	412,600
2015	4.00	320,000	42,500	42,500	405,000
2016	4.00	315,000	36,100	36,100	387,200
2017	4.00	310,000	29,800	29,800	369,600
2018	4.00	305,000	23,600	23,600	352,200
2019	4.00	300,000	17,500	17,500	335,000
2020	4.00	290,000	11,500	11,500	313,000
2021	4.00	285,000	5,700	5,700	296,400
Total 2008 Refunding Bonds		<u>\$ 2,755,000</u>	<u>\$ 269,419</u>	<u>\$ 269,419</u>	<u>\$ 3,293,838</u>
Durant Issue - \$152,058					
2013	4.76	10,192	-	485	10,677
Total Durant issue		<u>\$ 10,192</u>	<u>\$ -</u>	<u>\$ 485</u>	<u>\$ 10,677</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 2007, the bonds were "refunded". To accomplish that, the debt service payment schedules for applicable districts, including Breckenridge School District, have changed. However, the refunding did not change the total payments for any of the districts.

Commercial Controls - \$199,920

2013	-	24,990	-	-	24,990
2014	-	24,990	-	-	24,990
2015	-	24,990	-	-	24,990
Total Commercial Controls		<u>\$ 74,970</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,970</u>

Breckenridge Community School District
Schedule of Long-Term Debt
For the Year Ended June 30, 2012

Fiscal Year	Interest Rate (%)	Annual Principal Due	Interest Due		Total
			November	May	
MMNet - Installment purchase agreements					
Fiber Link Inc. - \$236,268					
2013	5.68%	22,442	637	323	23,402
Total MMNet		<u>\$ 22,442</u>	<u>\$ 637</u>	<u>\$ 323</u>	<u>\$ 23,402</u>
Early Retirement Incentive					
2013	-	72,600	-	-	72,600
2014	-	55,000	-	-	55,000
2015	-	40,000	-	-	40,000
2016	-	8,000	-	-	8,000
2017	-	8,000	-	-	8,000
Total Retirement Incentive		<u>\$ 183,600</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 183,600</u>
2010 Bonds - \$1,300,000					
2013	2.00	60,000	19,405	19,405	98,810
2014	2.25	75,000	18,805	18,805	112,610
2015	2.50	85,000	17,961	17,961	120,922
2016	3.00	105,000	16,899	19,899	141,798
2017	3.00	130,000	15,324	15,324	160,648
2018	3.20	155,000	13,374	13,374	181,748
2019	3.40	180,000	10,894	10,894	201,788
2020	3.55	210,000	7,834	7,834	225,668
2021	3.65	225,000	4,106	4,106	233,212
Total 2010 Bonds		<u>\$ 1,225,000</u>	<u>\$ 124,602</u>	<u>\$ 127,602</u>	<u>\$ 1,477,204</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

To the Board of Education
Breckenridge Community School District
Breckenridge, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Breckenridge Community School District (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 October 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

Management of the District is responsible for establishing and maintaining effective 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.

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 October 1, 2012.

This report is intended solely for the information and use of management, the Board of Education, 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.

A handwritten signature in black ink that reads "Roslund, Prestage & Company, P.C." in a cursive script.

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

Breckenridge Community School District
Breckenridge, Michigan

Federal Awards
(Supplementary Information
To Financial Statements)
June 30, 2012



Breckenridge Community School District
Federal Awards
Supplementary Information to Financial Statements
June 30, 2012

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

To the Board of Education
Breckenridge Community School District
Breckenridge, Michigan

Compliance

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

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

In our opinion, Breckenridge Community School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Breckenridge Community School 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 October 1, 2012, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Breckenridge Community School District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such 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 basic 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 basic financial statements as a whole.

This report is intended solely for the information and use of management, the Board of Education, 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.
Certified Public Accountants

October 1, 2012

Breckenridge Community School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Award Amount	(Accrued) Deferred Revenue At 7/1/2011	Current Year Receipts	Current Year Expenditures	(Accrued) Deferred Revenue At 6/30/2012	GPFS Federal Revenue Recognized
<u>U.S. DEPARTMENT OF AGRICULTURE</u>								
Passed Through The Michigan Department Of Education:								
<i>Child Nutrition Cluster:</i>								
<i>Cash Assistance:</i>								
National School Breakfast Program	10.553	NA	\$51,734	\$ -	\$ 51,734	\$ 51,734	\$ -	\$ 51,734
National School Lunch Program	10.555	NA	-	(5,105)	138,737	133,632	-	133,632
<i>Non-Cash Assistance:</i>								
National School Lunch Program (Commodities)	10.555	NA	14,565	-	14,565	14,565	-	14,565
National School Lunch Program (Bonus Commodities)	10.555	NA	2,847	-	2,847	2,847	-	2,847
Total 10.555				(5,105)	156,149	151,044	-	151,044
<i>Total Child Nutrition Cluster</i>				(5,105)	207,883	202,778	-	202,778
Total U.S. Department of Agriculture				(5,105)	207,883	202,778	-	202,778
<u>U.S. DEPARTMENT OF EDUCATION</u>								
Passed Through The Michigan Department Of Education:								
Title I, Part A - Improving Basic Programs	84.010	121530 1112	248,611	-	157,172	200,433	(43,261)	200,433
Title I, Part A - Improving Basic Programs	84.010	111530 1011	208,338	(35,199)	35,199	-	-	-
Total 84.010				(35,199)	192,371	200,433	(43,261)	200,433
Title I, Part A - Improving Basic Programs - ARRA	84.389	111535 1011	67,239	(19,758)	19,758	-	-	-
<i>Title I, Part A Cluster</i>				(54,957)	212,129	200,433	(43,261)	200,433
Title II, Part A - Teacher/Principal Training & Recruiting	84.367	120520 1112	132,634	-	81,199	124,104	(42,905)	124,104
Title II, Part A - Teacher/Principal Training & Recruiting	84.367	110520 1011	111,098	(15,246)	19,656	4,410	-	4,410
Total 84.367				(15,246)	100,855	128,514	(42,905)	128,514
Title II, Part D - ARRA	84.386	114295 1011	4,156	(3,903)	3,903	-	-	-
<i>Title II Cluster</i>				(19,149)	104,758	128,514	(42,905)	128,514
Education Stabilization Fund - ARRA	84.394	112525 1011	100,159	(32,353)	32,353	-	-	-
Education Jobs Fund	84.410	112545 1011	191,568	(50,813)	50,813	-	-	-
Education Jobs Fund	84.410	112545 1112	14,472	-	14,472	14,472	-	14,472
Total 84.410				(50,813)	65,285	14,472	-	14,472
Total U.S. Department of Education				(157,272)	414,525	343,419	(86,166)	343,419
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>								
Passed Through The Gratiot-Isabella ISD								
Medial Assistance Program (School Based Services)	93.778	NA	3,413	-	3,413	3,413	-	3,413
TOTALS				\$ (162,377)	\$ 625,821	\$ 549,610	\$ (86,166)	\$ 549,610

The accompanying notes are an integral part of this schedule.

Breckenridge Community School District
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Note 1.

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Breckenridge Community School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and reconciles with amounts presented in the financial statements.

Note 2.

The following programs represent 37% of federal program expenditures and were audited as major programs:

Child Nutrition Cluster

- CFDA #10.553 – School Breakfast Program
- CFDA #10.555 – National School Lunch Program

Note 3.

The threshold for distinguishing Type A and B programs was \$300,000.

Note 4.

Expenditures on this schedule reconcile with amounts reported in the financial statements and financial reports submitted to the Michigan Department of Education.

Note 5.

Management has utilized the Grant Auditor Report (Cash Management System) in preparing the schedule of expenditures of federal awards.

Note 6.

The current year expenditures on the schedule of expenditures of federal awards agree to the federal revenue reported on page 5 in the financial statements.

Breckenridge Community School District
Schedule of Findings and Questioned Cost
Year Ended June 30, 2012

Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's opinion issued: Unqualified.

Internal control over financial reporting:

- Material weakness(es) identified? No.
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? None reported.

Noncompliance material to financial statements noted? No.

FEDERAL AWARDS

Internal control over major program:

- Material weakness(es) identified? No.
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? No.

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

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

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

Auditee qualified as low-risk auditee? Yes.

Identification of major programs:

Child Nutrition Cluster

- CFDA #10.553 – School Breakfast Program
- CFDA #10.555 – National School Lunch Program

Financial Statement Findings

None

Federal Award Findings

None

Breckenridge Community School District
Schedule of Prior Year Findings
Year Ended June 30, 2012

There were no findings for the year ended June 30, 2011.



Management Letter

Breckenridge Community School District
Breckenridge, Michigan

In planning and performing our audit of the financial statements of the Breckenridge Community School District for the fiscal year ended June 30, 2012, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

The memorandum that accompanies this letter summarizes our comments and suggestions regarding matters noted that are opportunities for strengthening internal controls and operating efficiencies. This letter does not affect our audit report dated October 1, 2012, on the financial statements of the Breckenridge Community School District.

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

October 1, 2012

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

None