

**Moran Township School**

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**Basic Financial Statements  
with Supplementary Information**

**June 30, 2010**

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**CERTIFIED PUBLIC ACCOUNTANTS**

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**Independent Auditor's Report**

Superintendent and Board of Education  
Moran Township School  
St. Ignace, MI 49781

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Moran Township School as of and for the year ended June 30, 2010, which collectively comprise the Moran Township School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Moran Township School's management. Our responsibility is to express opinions on these basic 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 and the Michigan School Auditing Manual. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Moran Township School as of June 30, 2010, and the respective changes in financial position, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Superintendent and Board of Education  
Moran Township School

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2010, on our consideration of Moran Township School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Administration's Discussion and Analysis information and the required supplementary information identified in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

September 13, 2010

## **Administration's Discussion and Analysis**

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Moran Township School is a K-8 School District located in Mackinac County, Michigan. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Moran Township School Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2010.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

U.S. generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements.

#### **Fund Financial Statements:**

For the most part; the fund financial statements are comparable to general purpose financial statements. The primary difference is that the Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported.

The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instruction and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: School Service Fund, which is comprised of Food Service.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. Capital assets are not reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

#### **District-Wide Financial Statements:**

The District-Wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-Wide financial statements.

## FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

**Summary of Net Assets:**

The following summarizes the net assets at fiscal year ended June 30, 2010 and 2009.

**Net Assets Summary**

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Current assets	\$ 966,953	\$ 713,123
Capital assets	2,851,189	2,742,884
Less: accumulated depreciation	<u>(1,812,917)</u>	<u>(1,763,022)</u>
Capital assets, net book value	<u>1,038,272</u>	<u>979,862</u>
Total assets	<u>\$ 2,005,225</u>	<u>\$ 1,692,985</u>
<b>Liabilities</b>		
Current liabilities	\$ 165,158	\$ 108,766
Long-term liabilities	<u>79,368</u>	<u>96,814</u>
Total liabilities	<u>244,526</u>	<u>205,580</u>
<b>Net Assets</b>		
Invested in capital assets	1,038,272	979,862
Restricted for sinking fund	92,869	41,741
Restricted for benefits payable	79,368	-
Unrestricted	<u>550,190</u>	<u>465,802</u>
Total net assets	<u>1,760,699</u>	<u>1,487,405</u>
Total liabilities and net assets	<u>\$ 2,005,225</u>	<u>\$ 1,692,985</u>

### Financial Analysis of the School's Funds

During fiscal year ended June 30, 2010, the District's net assets increased by \$273,294. A few of the significant factors affecting net assets during the year are discussed below:

- Changes for the renovations incurred.

During the 2009/2010 fiscal year, the District continued to implement several financial measures taken in previous fiscal years to ensure the continued survival of the Moran Township School District. Those measures included:

- Employment of a part-time superintendent.
- Contracting with outside sources for the district's accounting and business services.
- Contracting with a neighboring district for pupil transportation and athletics.

#### A. Depreciation Expense

GASB 34 requires School Districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets.

For fiscal year ended June 30, 2010 depreciation expense was \$49,895.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset less an estimated salvage value.

#### B. Capital Outlay Acquisitions

Actual capital acquisitions for fiscal year ended June 30, 2010 were \$108,305.

Combined with the increase in accumulated depreciation, net assets (i.e., net book value) invested in capital assets increased by \$58,410 during the year. This is the additional amount the District would have had to spend to maintain the same net value of assets.

Since accumulated depreciation is based on original cost, it does not take into consideration inflation. As a result, the actual investment in capital outlay would have to be more than depreciation expense in order to maintain assets at the same level of maintenance and upkeep.



# Moran Township School

## Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2010

### Results of Operations:

For the fiscal year ended June 30, 2010 and 2009 the District wide results of operations were:

	<u>2010</u>	<u>2009</u>
<b>General Revenue:</b>		
Property Taxes levied for General Operations	\$ 1,008,683	\$ 969,612
Property Taxes levied for Sinking Fund	158,362	147,143
State of Michigan State Aid Supplement	4,012	28,726
Other – Federal, State and Local	13,107	13,753
Other – Investment Earnings, Fees	<u>12,874</u>	<u>14,595</u>
Total General Revenue	<u>1,197,038</u>	<u>1,173,829</u>
<b>Program Revenue:</b>		
Charges for Services – Local	8,456	10,473
Operating Grants – Federal and State	<u>156,475</u>	<u>126,581</u>
Total Program Revenue	<u>164,931</u>	<u>137,054</u>
<b>Expenses:</b>		
Instruction and Instructional Support	649,303	633,312
Support Services	323,765	310,254
Food Services	65,712	59,948
Depreciation (Unallocated)	<u>49,895</u>	<u>36,970</u>
Total Expenses	<u>1,088,675</u>	<u>1,040,484</u>
Changes in Net Assets	273,294	270,399
Net Assets – Beginning	<u>1,487,405</u>	<u>1,217,006</u>
Net Assets – Ending	<u>\$ 1,760,699</u>	<u>\$ 1,487,405</u>

### Property Taxes levied for General Operations (General Fund Property Taxes)

The District levies 16.8734 mills of property taxes for operations (General Fund) on Non-Exempt Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5%, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50% of the market value.

During fiscal year 2009/2010, the District's Non-Exempt taxable value was \$58,143,165 as reported to the district by Mackinac County on the L-4028 in May of 2009. Throughout the year, however, the Non-Exempt taxable values can be adjusted by the Michigan Tax Tribunal, July or December Township Boards of Reviews, and/or a Michigan State Tax Commission Official Order. Given the District's 16.8734 mills levied, the district anticipated generating \$981,073 from Non-Exempt taxable values and approximately \$22,460 from other local taxing sources: ie: delinquent taxes and other tax adjustments.

### State of Michigan Aid, Unrestricted

The State of Michigan aid, unrestricted is determined by the following variables:

- a. State of Michigan Aid Act per student foundation allowance
- b. The District's non-exempt levy

During the 2009/2010 fiscal year, the Moran Township School District was not eligible to receive state funding based on pupil membership under Section 22a Prop A Obligation or Section 22b Discretionary Payment. This was due to the fact that the District's local non-exempt tax collection exceeded the State's per pupil foundation allowance of \$7,443, which were offset by the Section 11d LEA deduct of \$6,759. During 2009/2010 the district did receive \$2,747 under Section 22D(4) Isolated Districts funding and Section 22e MBT (Michigan Business Tax) Impact on Out of Formula funding in the amount of \$4,012. Again, as in past years, the Michigan Department of Education found the District ineligible for At-Risk funding due to the fact that the District exceeds the program's established per pupil funding level.

### Per Student, Foundation Allowance:

Annually, the State of Michigan sets the per student foundation allowance. The Moran Township School foundation allowance was \$7,443 per student for the 2009/2010 school year. This was a \$0 increase per student compared to the 2008/2009 school year.

**Student Enrollment:**

For the fall student count in September of 2009, the District’s student FTE was 75.20 for general education and .36 for special education. The February count showed a very small change in membership for general education and special education with 78.42 and .39 respectively.

	<u>Student FTE</u>
2009 – 2010	78
2008 – 2009	85
2007 – 2008	85
2006 – 2007	92
2005 – 2006	78

**Food Service Sales to Students & Adults:**

During the 2009/2010 school year, the District generated approximately \$8,456 in local revenue for lunches and milk sales and received \$17,713 from the State of Michigan for the School Breakfast and National School Lunch Programs operated by the District. In addition, the District received \$425 in Section 31d 2009 School Lunch Funds and \$1,901 in Section 31f 2009 School Breakfast Funds.

The District operates both a breakfast and lunch program under the School Breakfast Program and the National School Lunch Program, federally funded programs administered by the State of Michigan’s Department of Education. Michigan school districts are reimbursed at specified rates for each fully paid, reduced price, and free breakfast or lunch meal served to students.

The District’s October, 2009 federal reimbursement claim form indicated that nearly 41% of the District’s students were eligible for free and reduced lunches. As in the case of most districts, the Moran Township School District’s General Fund annually subsidizes the District’s Hot Lunch Fund to prevent a deficit in that fund. In total, the District transferred \$38,000 from the General Fund to the Hot Lunch Fund. This amount reflects an increase over the previous year by \$3,901. The most notable factors contributing to this increase include higher food costs, higher personnel costs, extended medical leave for on employee, and a decrease in both student enrollment and participation in program.

**Federal Funding**

The Moran Township School District receives a minimal amount of federal dollars under the No Child Left Behind (NCLB) legislation. In fiscal year 2009/2010, the District received an allocation of \$8,106 under Title II A (Teacher/Principal Training and Recruiting) and \$6,324 in Title II A carryover funds. The District was eligible for Title I, A Achievement Funds in the amount of \$16,376. These funds were used for Title I activities, Reading Recovery, after-school tutoring program, and a summer school program.

The Moran Township School District also continued to be eligible for the U.S. Department of Education REAP Small Rural School Achievement Program. This grant is issued in accordance with the provisions of Title VI, Part B, Subpart 1 of the Elementary and Secondary Education Act, as amended. The district was eligible for and did receive an allocation of \$13,345 during the 2009/2010 school year. Prior to beginning of the 2009/2010 school year, the District submitted and was issued a grant award notification from the U.S. Department of Education for Indian Education (Authority: PL PL 107-110 ESEA as amended by the No Child Left Behind Act of 2001) funds in the amount of \$8,252. These funds were specifically used as stipulated in the original application to support reading recovery activities.

**Student Transportation**

2009/2010 was the sixth year that the Moran Township School District entered into a cooperative agreement with the St. Ignace Area Schools to provide transportation services for Moran's students. This agreement, which originally began in October of 2004, provided the Moran Township School District with a means to reduce the annual expenditures they had been spending on transportation while at the same time providing the same service.

**GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**

**General Fund Revenue Budget Vs. Actual 5-Year History**

<u>Fiscal Year</u>	<u>Revenues Original Budget</u>	<u>Revenues Final Budget</u>	<u>Revenues Final Actual</u>	<u>Revenues Variance Actual &amp; Original Budget</u>	<u>Revenues Variance Actual &amp; Final Budget</u>
2005 – 2006	\$ 921,900	\$ 1,013,626	\$ 995,510	\$ 73,610	\$ (18,116)
2006 – 2007	1,004,214	1,025,543	1,013,004	8,790	(12,539)
2007 – 2008	997,905	964,783	956,063	(41,842)	(8,720)
2008 – 2009	1,058,972	1,143,295	1,135,364	76,392	(7,931)
2009 – 2010	1,071,677	1,175,729	1,174,403	102,726	(1,326)

**General Fund Expenditures Budget Vs. Actual 5-Year History**

<u>Fiscal Year</u>	<u>Expenditures Original Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Expenditures Variance Actual &amp; Original Budget</u>	<u>Expenditures Variance Actual &amp; Final Budget</u>
2005 – 2006	\$ 901,944	\$ 875,798	\$ 845,437	\$ 56,507	\$ 30,361
2006 – 2007	967,842	901,487	862,550	105,292	38,937
2007 – 2008	1,037,710	991,479	899,760	137,950	91,719
2008 – 2009	1,021,800	1,034,698	947,271	74,529	87,427
2009 – 2010	1,048,040	1,054,902	990,514	57,526	64,388

**Original vs. Final Budget:**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Moran Township School amends its budget quarterly during the school year. For the fiscal year 2009-2010, the budget was amended throughout the year. The June 2010 budget amendment was the final budget for the fiscal year. The Moran Township School Board does not budget for expenditures covered by grants or for the grant revenue until an award is received.

**Change from Original to Final Budget:**

General Fund Revenues:

Total Revenues Original Budget	\$ 1,071,677
Total Revenues Final Budget	<u>1,175,729</u>
Increase in Budgeted Revenues	<u>\$ 104,052</u>

The District's final budgeted general fund revenues differed from final actual by \$1,326, a variance of less than .2%.

**General Fund Expenditures:**

The District's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 1,048,040
Total Expenditures Final Budget	<u>1,054,902</u>
Increase in Budgeted Expenditures	<u>\$ 6,862</u>

As indicated above, the District's original budgeted expenditures were less than final budget by .65%.

**Contacting the District's Financial Management:**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Administration Office, Moran Township School at 906-643-7970.

## **Basic Financial Statements**

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# Moran Township School

## Statement of Net Assets June 30, 2010

	Governmental Activities
<b>ASSETS:</b>	
Current Assets:	
Cash and Equivalents	\$ 950,494
Accounts Receivable	13,392
Inventory	3,067
	<hr/>
Total Current Assets	966,953
Noncurrent Assets:	
Capital Assets	2,851,189
Less: Accumulated Depreciation	(1,812,917)
	<hr/>
Total Noncurrent Assets	1,038,272
	<hr/>
TOTAL ASSETS	\$ 2,005,225
<b>LIABILITIES:</b>	
Current Liabilities:	
Accounts Payable	\$ 117,166
Accrued Liabilities	47,992
	<hr/>
Total Current Liabilities	165,158
Noncurrent Liabilities:	
Accrued Sick Leave Payable	47,636
Accrued Retirement Benefits Payable	31,732
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Total Noncurrent Liabilities	79,368
	<hr/>
TOTAL LIABILITIES	244,526
<b>NET ASSETS:</b>	
Invested in Capital Assets	1,038,272
Restricted for Sinking Fund	92,869
Restricted for Benefits Payable	79,368
Unrestricted	550,190
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TOTAL NET ASSETS	\$ 1,760,699
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# Moran Township School

## Statement of Activities For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$ 599,132	\$ -	\$ 94,939	\$ (504,193)
Special Education	50,171	-	41,923	(8,248)
Supporting Services:				
School Administration	15,404	-	-	(15,404)
General Administration	81,468	-	-	(81,468)
Business	39,608	-	-	(39,608)
Food Services	65,712	8,456	19,613	(37,643)
Operations & Maintenance	116,717	-	-	(116,717)
Pupil Transportation	70,568	-	-	(70,568)
Depreciation - Unallocated	49,895	-	-	(49,895)
Total Governmental Activities	<u>\$ 1,088,675</u>	<u>\$ 8,456</u>	<u>\$ 156,475</u>	(923,744)
<b>General Revenues:</b>				
Taxes:				
Property taxes, levied for general operations				1,008,683
Property taxes, levied for sinking fund				158,362
State of Michigan State Aid Supplement				4,012
Other income				13,107
Interest and investment earnings				12,874
Total General Revenues				<u>1,197,038</u>
<b>Changes in Net Assets</b>				273,294
Net Assets - Beginning				<u>1,487,405</u>
Net Assets - Ending				<u>\$ 1,760,699</u>



# Moran Township School

## Balance Sheet Governmental Funds June 30, 2010

	General Fund	Capital Projects Sinking Fund	Food Service Fund	Total Governmental Funds
<b>ASSETS:</b>				
Cash and Equivalents	\$ 811,398	\$ 126,248	\$ 12,848	\$ 950,494
Accounts Receivable	13,232	-	160	13,392
Due from Other Funds	13,256	377	-	13,633
Inventory	-	-	3,067	3,067
	<u>\$ 837,886</u>	<u>\$ 126,625</u>	<u>\$ 16,075</u>	<u>\$ 980,586</u>
<b>TOTAL ASSETS</b>				
<b>LIABILITIES:</b>				
Accounts Payable	\$ 83,410	\$ 33,756	\$ -	\$ 117,166
Due to Other Funds	-	-	13,633	13,633
Accrued Liabilities and Expenses	47,992	-	-	47,992
	<u>131,402</u>	<u>33,756</u>	<u>13,633</u>	<u>178,791</u>
<b>TOTAL LIABILITIES</b>				
<b>FUND BALANCES:</b>				
Unreserved:				
Undesignated	706,484	-	2,442	708,926
Designated	-	92,869	-	92,869
	<u>706,484</u>	<u>92,869</u>	<u>2,442</u>	<u>801,795</u>
<b>TOTAL FUND BALANCES</b>				
<b>TOTAL LIABILITIES AND FUND BALANCES</b>				
	<u>\$ 837,886</u>	<u>\$ 126,625</u>	<u>\$ 16,075</u>	
<b>Reconciliation to amounts reported for governmental activities in the statement of net assets:</b>				
Capital assets used by governmental activities:				
The cost of the capital assets			2,851,189	
Less accumulated depreciation			(1,812,917)	1,038,272
Long term liabilities for governmental activities:				
Accrued Sick Leave Payable				(47,636)
Accrued Retirement Benefits Payable				(31,732)
<b>Net assets of governmental activities</b>				<u>\$ 1,760,699</u>

# Moran Township School

## Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended June 30, 2010

	General Fund	Capital Projects Sinking Fund	Food Service Fund	Total Governmental Funds
<b>REVENUES:</b>				
Local Sources	\$ 1,036,376	\$ 159,433	\$ 8,520	\$ 1,204,329
State Sources	31,118	-	-	31,118
Federal Sources	106,909	-	19,613	126,522
<b>TOTAL REVENUES</b>	<b>1,174,403</b>	<b>159,433</b>	<b>28,133</b>	<b>1,361,969</b>
<b>EXPENDITURES:</b>				
Instruction:				
Regular	616,578	-	-	616,578
Special Education	50,171	-	-	50,171
Supporting Services:				
Food Service	-	-	65,712	65,712
School Administration	15,404	-	-	15,404
General Administration	81,468	-	-	81,468
Business	39,608	-	-	39,608
Operations & Maintenance	116,717	-	-	116,717
Pupil Transportation	70,568	-	-	70,568
Capital Outlay	-	108,305	-	108,305
<b>TOTAL EXPENDITURES</b>	<b>990,514</b>	<b>108,305</b>	<b>65,712</b>	<b>1,164,531</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>183,889</b>	<b>51,128</b>	<b>(37,579)</b>	<b>197,438</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In	-	-	38,000	38,000
Operating Transfers Out	(38,000)	-	-	(38,000)
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>145,889</b>	<b>51,128</b>	<b>421</b>	<b>197,438</b>
<b>FUND BALANCES, JULY 1</b>	<b>560,595</b>	<b>41,741</b>	<b>2,021</b>	<b>604,357</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 706,484</b>	<b>\$ 92,869</b>	<b>\$ 2,442</b>	<b>\$ 801,795</b>

# Moran Township School

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## 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, 2010

Net Changes in fund balances - total governmental funds \$ 197,438

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in statement of activities, the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays \$ 108,305 exceeded depreciation expense (\$ 49,895). 58,410

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available.

Accrued benefits payouts 17,446

Changes in net assets of governmental activities \$ 273,294

**Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2010**

	<u>Agency Fund</u> <u>Student</u> <u>Activities</u>
<b>Assets</b>	
Cash	\$ <u>8,156</u>
<b>Liabilities</b>	
Due To Clubs and Organizations	\$ <u>8,156</u>

## **Notes to Financial Statements**

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**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Moran Township School conform to U.S. generally accepted accounting principles as applicable to School Districts. The following is a summary of the significant accounting policies:

**Financial Reporting Entity**

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. Based on application of the criteria, the entity does not contain component units. The School District also applies Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements.

**BASIS OF PRESENTATION****District-wide Statements**

The District's basic financial statements include both district-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds) except for fiduciary funds. The district-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, both the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts- invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The district-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (grants, certain intergovernmental revenues, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (state sources and federal sources, interest income, etc.).

The District does not allocate indirect costs. In creating the district-wide financial statements, the District has eliminated interfund transactions.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities.

**Fund Financial Statements**

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The various funds are grouped, in the combined financial statements in this report, into generic fund types of broad fund categories as follows:

**Governmental Funds** – Governmental Funds are those funds through which most School District functions typically are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved operating budget.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Food Service Fund is a Special Revenue Fund that segregates, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds.

Capital Project Fund – The Capital Project fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes only one Capital Project Fund and it is used to account for the acquisition of capital assets with transfers made for the General fund. The School District's Capital Project fund is the Sinking Fund.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

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

Activities (Agency) Fund – The School District presently maintains a Student Activities 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 and parents.

**Major and Nonmajor Funds**

The funds are further classified as major or nonmajor as follows:

**Fund**

*Major:*

General Fund

Special Revenue Fund:  
Food Service Fund

Capital Projects Fund:  
Sinking Fund

There were no Nonmajor Funds.

**Measurement Focus and Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus and the district-wide statement uses the economic resources measurement focus.

**Accrual**

Governmental activities in the district-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that the principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.



**Note 1 - Summary of Significant Accounting Policies (Continued)**

The District reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

For Moran Township School taxpayers properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 for 100% of the taxes which are due September 15.

The tax rates for the year ended June 30, 2010, are as follows:

<u>PURPOSE</u>	<u>RATE/ASSESSED VALUATION</u>
General Fund	16.8734 per \$1,000 taxable value (Non-Exempt Property Only)
Sinking Fund	1.75 per \$1,000 taxable value (Exempt and Non-Exempt Property)

The State of Michigan utilizes 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.

Cash and Investments – For the purpose of the Statement of Net Assets, “cash and equivalents” includes all demand, savings accounts, and certificates of deposits of the District.

Investments are carried at fair value except for short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

Receivables – In the district-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include grants.

Inventories – Inventories are stated at cost, on a first-in, first-out basis, which approximates market value. Inventory recorded in the General Fund consists of centrally warehoused teaching and operating supplies for the School District. The Food Services Fund inventory consists of food and paper goods. For other funds, expenditures are recorded at the time of use.

Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The District capitalizes only those assets over \$5,000.

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 20 years

Compensated Absences – The liability for compensated absences reported in the district-wide statements consist of unpaid, accumulated annual and vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance cost, during the current period.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Equity Classifications – Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantor, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of “restricted”.

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

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

Subsequent Events – Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor’s report, which is the date the financial statements were available to be issued.

**Note 2 - Budgets**

The School District formally adopted General Fund and Special Revenue Funds budgets by function for the fiscal year ended June 30, 2010. Expenditures at this level in excess of amounts budgeted is a violation of Michigan law. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with U.S. generally accepted accounting principles.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund and Food Service Fund is presented as Required Supplementary Information.

**Note 3 - Deposits and Investments**

**Deposits**

The School District’s deposits are deposited in one local financial institution. Deposits are carried at cost.

	<u>Governmental</u>	<u>Fiduciary</u>
Deposits per Financial Statements:		
Checking, Savings and Certificates of Deposit	\$ <u>950,494</u>	\$ <u>8,156</u>

**Investment and Deposit Risk**

*Interest Rate Risk.* Through its investment policy, the School manages its exposure risk to fair value losses arising from increasing interest rates by limiting the duration of its investment portfolio to one year or less.

*Credit Risk.* The Schools policy limits investments in bonds, bills, or notes of the United States; certificates of deposits; commercial paper rated prime 1 or prime 2, maturing 270 days or less.

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the School’s deposits may not be returned. State law does not require and the School does not have a policy for deposit custodial credit risk. As of year end, \$726,441 of the School’s bank balance of \$976,441 was exposed to credit risk because it was uninsured and uncollateralized.

**Statutory Authority:**

Michigan laws compiled Section 129.91, authorizes the School District to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.

**Note 3 - Deposits and Investments (Continued)**

- f. Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchase through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Districts deposits are in accordance with state statutes.

**Note 4 - Capital Assets**

A summary of changes in governmental capital assets follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Adjustments/ Decreases</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 20,000	\$ 59,093	\$ -	\$ 79,093
Construction in Progress	-	33,756	-	33,756
Subtotal	<u>20,000</u>	<u>92,849</u>	<u>-</u>	<u>112,849</u>
<i>Capital assets being depreciated:</i>				
Land Improvements	248,791	-	-	248,791
Buildings	2,260,329	15,456	-	2,275,785
Equipment	213,764	-	-	213,764
Subtotal	<u>2,722,884</u>	<u>15,456</u>	<u>-</u>	<u>2,738,340</u>
<i>Less accumulated depreciation for:</i>				
Land Improvements	(4,363)	(16,585)	-	(20,948)
Buildings	(1,591,457)	(25,193)	-	(1,616,650)
Equipment	(167,202)	(8,117)	-	(175,319)
Subtotal	<u>(1,763,022)</u>	<u>(49,895)</u>	<u>-</u>	<u>(1,812,917)</u>
Net capital assets being depreciated	<u>959,862</u>	<u>(34,439)</u>	<u>-</u>	<u>925,423</u>
Governmental activity capital assets – net of depreciation	<u>\$ 979,862</u>	<u>\$ 58,410</u>	<u>-</u>	<u>1,038,272</u>

**Note 4 - Capital Assets (Continued)**

Depreciation expense for the School District is \$49,895. The School determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

**Note 5 - Long-Term Liabilities**

The following is a summary of changes in the Long-Term Liabilities for the year ending June 30, 2010:

	<u>Accrued Sick and Vacation</u>	<u>Accrued Employee Retirement</u>	<u>Total</u>
Balance, July 1, 2009	\$ 48,819	\$ 47,995	\$ 96,814
Debt Payments/Additions	<u>(1,183)</u>	<u>(16,263)</u>	<u>(17,446)</u>
Balance, June 30, 2010	<u>\$ 47,636</u>	<u>\$ 31,732</u>	<u>\$ 79,368</u>

The debt service requirements for accrued employee benefits are dependent upon future employee retirements and terminations. Therefore, reasonable estimates of future payments required for accrued employee benefits cannot be determined as of June 30, 2010.

**Note 6 - Defined Benefit Pension Plan**

**Plan Description** – The School District participates in the Michigan Public School Employees’ Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer, and defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees’ Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

**Funding Policy** – Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school 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 pension benefit rate totals 16.54 percent for the period July 1, 2009 through September 30, 2009 and 16.94 percent for October 1, 2009 through June 30, 2010 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 6.4 percent of gross wages. The District’s contributions to the MPSERS plan for the years ended June 30, 2010, 2009, and 2008 were \$71,237, \$63,258, and \$62,311.

**Note 6 - Defined Benefit Pension Plan**

**Post Employment Benefits** – Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post employment health care benefits are included as part of the District’s total contribution to the MPSERS plan discussed above.

**Note 7 - Interfund Receivable and Payables, and Transfers**

The School reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

**Interfund Payables:**

DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS		
	General Fund	Sinking Fund	Total
Food Service Fund	\$ <u>13,256</u>	\$ <u>377</u>	\$ <u>13,633</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Interfund Transfers:**

TRANSFERS IN	TRANSFERS OUT
	General Fund
Food Service Fund	\$ <u>38,000</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Note 8 - Risk Management**

The School District is exposed to risks of loss related to property loss, torts, errors, and omissions, employee injuries (worker’s compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for health claims and participates in the SET/SEG (risk pool) for claims relating to worker’s compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for School Districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

**Note 9 - Accrued Employee Benefits**

The district offered its teachers and administrative personnel early retirement incentives. Payments under these programs will be made through the year 2010. A liability for amounts payable in years subsequent to the year ended June 30, 2010 of \$31,732 was recorded.

**Note 10 - Commitments and Contingencies**

Grants

The School District has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the School District at June 30, 2010.

**Note 11 - Sinking Fund**

The Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

**Note 12 - Excess Expenditures Over Appropriations**

Public Act 621 of 1978, Section 18(1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the School District’s actual expenditures were in excess of amounts appropriated as follows:

	<u>Total Appropriations</u>		<u>Amount of Expenditures</u>		<u>Budget Variance</u>
Food Service Fund:					
Food Service	\$ 62,927	\$	65,712	\$	(2,785)



## **Required Supplementary Information**

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# Moran Township School

## Required Supplementary Information Budgetary Comparison Schedule-General Fund For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Local Sources	\$ 973,277	\$ 1,023,223	\$ 1,036,376	\$ 13,153
State Sources	12,500	27,008	31,118	4,110
Federal Sources	85,900	125,498	106,909	(18,589)
<b>TOTAL REVENUES</b>	<u>1,071,677</u>	<u>1,175,729</u>	<u>1,174,403</u>	<u>(1,326)</u>
<b>EXPENDITURES:</b>				
Instruction:				
Regular	614,581	639,556	616,578	22,978
Special Education	53,585	63,080	50,171	12,909
Supporting Services:				
School Administration	15,050	18,740	15,404	3,336
General Administration	94,333	83,786	81,468	2,318
Business	42,135	40,059	39,608	451
Operations & Maintenance	123,356	126,681	116,717	9,964
Pupil Transportation	105,000	83,000	70,568	12,432
Capital Outlay	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>1,048,040</u>	<u>1,054,902</u>	<u>990,514</u>	<u>64,388</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	23,637	120,827	183,889	63,062
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers Out	(30,000)	(38,000)	(38,000)	-
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<u>\$ (6,363)</u>	<u>\$ 82,827</u>	145,889	<u>\$ 63,062</u>
<b>FUND BALANCE, JULY 1</b>			<u>560,595</u>	
<b>FUND BALANCE, JUNE 30</b>			<u>\$ 706,484</u>	

# Moran Township School

## Required Supplementary Information Budgetary Comparison Schedule-Food Service Fund For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Local Sources	\$ 10,990	\$ 8,990	\$ 8,520	\$ (470)
State Sources	1,900	1,900	-	(1,900)
Federal Sources	15,100	15,100	19,613	4,513
TOTAL REVENUES	27,990	25,990	28,133	2,143
EXPENDITURES:				
Supporting Services:				
Food Service	62,927	62,927	65,712	(2,785)
TOTAL EXPENDITURES	62,927	62,927	65,712	(2,785)
EXCESS OF REVENUES OVER EXPENDITURES	(34,937)	(36,937)	(37,579)	(642)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	30,000	38,000	38,000	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (4,937)</u>	<u>\$ 1,063</u>	421	<u>\$ (642)</u>
FUND BALANCE, JULY 1			2,021	
FUND BALANCE, JUNE 30			<u>\$ 2,442</u>	

# **Report on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  

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ROBERT L. HASKE, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**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***

Superintendent and Board of Education  
Moran Township School  
St. Ignace, MI 49781

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Moran Township School, as of and for the year ended June 30, 2010, which collectively comprise Moran Township School's basic financial statements and have issued our report thereon, dated September 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the Michigan School Auditing Manual, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting, listed as 10-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Moran Township School'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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 10-2.

We noted certain matters that we reported to management of the Moran Township School District in a separate letter dated September 13, 2010.

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



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

September 13, 2010

**Internal Control Over Financial Reporting**

*Significant Deficiencies*

**Preparation of the Financial Statements in Accordance  
with Generally Accepted Accounting Principles**

*Finding 10-1*

*Condition:* As part of the audit process, the School, like some other governments, has historically relied on the independent auditors to assist in the preparation of the School-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. Management feel's it is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

*Criteria:* Governmental entities are required to issue financial statements that are prepared in accordance with GAAP. Statement on Auditing Standards No. 115 (SAS 115), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that responsibility for the financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

*Effect:* The School relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP. This reliance makes the independent auditors effectively part of the School's internal controls. By definition, independent auditors should not be part of the School's internal controls.

*Cause:* Change in application of auditing standards.

*Recommendation:* We recommend that the School consider providing applicable employees with training that would allow them to attain the qualification required to fully understand the GAAP financial statements preparation process. Should the Board choose not to address this issue, management and the Board of Education should realize that an increased risk is present.

*Management's Response – Corrective Action:* Historically it has been the practice for the independent auditors of School to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements. The Board needs to evaluate the cost benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP or outsourcing this task to its external auditors in determining the best interests of the School.

- Contact Person(s) Responsible for Correction:  
William Peltier
- Anticipated Completion Date:  
September 2010.

**Section II – Financial Statement Findings (Continued)**

**Compliance and Other Matters**

*Noncompliance with State Statutes*

**Excess Expenditures Over Appropriations**

*Finding 10-2*

*Condition:* Our examination of procedures used by the School to adopt and maintain operating budgets for the School’s budgetary fund revealed the following instance of noncompliance with the provisions of Public Act 621 of 1978, Section 18(1), as amended, the Uniform Budgeting and Accounting Act.

The School’s 2009-10 General Appropriations Act (budget) provided for expenditures of the Food Service Fund to be controlled to the activity level. During the fiscal year ended June 30, 2010, expenditures were incurred in excess of amounts appropriated in the amended budgets for the Food Service Fund on page 29 of the financial statements.

*Criteria:* The expenditures of funds in excess of appropriations are contrary to the provisions of Public Act 621 of 1978, as amended.

During the year ended June 30, 2010, the School incurred expenditures in certain budgetary funds, which were in excess of the amount appropriated as follows:

	<u>Total Appropriations</u>		<u>Amount of Expenditures</u>		<u>Budget Variance</u>
Food Service Fund:					
Food Service	\$ 62,927	\$	65,712	\$	(2,785)

*Effect:* The School has not complied with various State Statutes.

*Cause:* Failure to amend the budget for the Food Service Fund during the year.

*Recommendation:* We recommend that the School and personnel responsible for administering the activities of the various funds of the School, develop budgetary control procedures for the Food Service Fund, which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

*Management’s Response – Corrective Action Plan:* Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

- Contact Person(s) Responsible for Correction:  
William Peltier
- Anticipated Completion Date:  
June 2011





**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL  

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ROBERT L. HASKE, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

Superintendent and Board of Education  
Moran Township School  
St. Ignace, Michigan 49781

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Moran Township School for the year ended June 30, 2010, and have issued our report thereon dated September 13, 2010. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated August 19, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the School District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 19, 2010.

### **Significant Accounting Policies**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Moran Township School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### ***Disagreement with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated September 13, 2010.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### ***Comments and Recommendations***

The following is a summary of our observations with suggestions for improvements we believe should be brought to your attention. We noted no material matters involving the internal control over financial reporting and compliance, as reported in a separate letter in accordance with Government Auditing Standards of the basic financial statement audit report.

### **Agency Funds (Prior Year)**

At June 30, 2009, one of the activity accounts had a deficit balance. Activity accounts are only permitted to expend the funds they have taken in. They are not allowed to borrow from other activities thus creating a deficit balance.

Status: Corrected.

### **Receipts (Prior Year)**

It was noted during our testing of receipts that one receipt was received and deposited in March of 2009 although it was not posted to the general ledger until June of 2009. Care should be taken in timely posting of the School's receipts.

Status: Corrected.

## **Checks**

During testing, it was noted that the School does not receive check images back for the bank. It is recommended that the school receive check images from the bank every month.

## **Payroll**

During testing, it was noted that the Superintendent signed his own timesheet. It is recommended that department heads have another individual sign their timesheets to verify accuracy.

## **Equipment Management**

OMB Circular A-102 requires that equipment records be maintained and that a physical inventory be taken at least once every two years and reconciled to the detail records. Although the school does not have significant federal purchased assets, we recommend the district perform a physical inventory at least biennially.

## **Purchasing (Bid Policy)**

The School Board should consider amending its bidding policy to include practices outside of state bidding thresholds. Purchasing practices generally include conflict of interest, local preferences, expense and travel, price quotation methods, credit card usage, and other provisions. A more specific policy would provide further assurance regarding cash management practices.

## **Check Signatures**

The School currently does not require all checks to have dual signatures (sinking fund and payroll checks only have one signature line). The School should require dual signatures for all checks to act as another control and prevent one individual from solely signing their own check.

## **GASB 54 Fund Balance Components**

The Governmental Accounting Standards Board has recently issued a new pronouncement, GASB #54 – Fund Balance Reporting and Governmental Fund Type Definitions. GASB #54 eliminates the current use of the terms reserved and designated in the reporting of fund balance, and replaces those terms with five new categories for segregating fund balance. The Standard is effective for periods beginning after June 15, 2010.

Following are the new categories and related definitions to be used for describing the components of your fund balance:

- **Non-spendable** – Includes amounts either not in spendable form or legally or contractually required to be maintained intact. This would include inventory, prepaids, and non-current receivables.

- **Restricted** – Reflects the same definition as Restricted net assets: Constraints placed on the use of amounts are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. This would generally include amounts in bonded capital projects funds and debt service funds.
- **Committed** – Includes amounts that are committed for specific purposes by formal action of the School District’s highest level of decision-making authority. Amounts classified as “committed” are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the School District removes or changes the limitation by taking the same form of action it employed to previously imposed the limitation.
- **Assigned** – Amounts that are intended by the School District to be used for specific purposes, but are neither restricted nor limited, should be reported as assigned fund balance. Intent should be expressed by the Board itself or a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policies established by the board. This would include ANY activity reported in a fund other than the General Fund.
- **Unassigned** – Includes any remaining amounts after applying the above definitions. Planned spending in the subsequent year’s budget would be included here and can no longer be described as “designated”.

The Standard also requires disclosure in the financial statements of any minimum fund balance policies. We encourage the School District to become familiar with the new terms and definitions and work with the users of the financial statements to ensure a clear presentation and understanding of the new requirements.

### **Conclusion**

This letter is intended solely for the information and use of the Board of Education, management, federal awarding agencies, pass through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any further assistance, please contact us.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

September 13, 2010