

**Moran Township School**

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**Financial Report  
with Supplementary Information**

**June 30, 2012**

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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, 2012, which collectively comprise the 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, 2012, 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 October 5, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and pages 29 through 30 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.



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

October 5, 2012

## **Management's Discussion and Analysis**

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Moran Township School is a K-8 School District located in Mackinac County, Michigan. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Moran Township School management's discussion and analysis of the financial results for the fiscal year ended June 30, 2012.

### **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: Government-wide Financial Statements and Fund Financial Statements.

#### **Government-Wide Financial Statements:**

The Government-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 Government-Wide financial statements.

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

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 the Food Service Fund.

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.

**Summary of Net Assets:**

The following summarizes the net assets at fiscal year ended June 30, 2012 and 2011.

**Net Assets Summary**

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Current assets	\$ 1,193,327	\$ 1,185,634
Capital assets	3,013,735	2,943,092
Less: accumulated depreciation	<u>(1,903,886)</u>	<u>(1,860,898)</u>
Capital assets, net book value	<u>1,109,849</u>	<u>1,082,194</u>
Total assets	<u>\$ 2,303,176</u>	<u>\$ 2,267,828</u>
<b>Liabilities</b>		
Current liabilities	\$ 209,772	\$ 141,082
Long-term liabilities	<u>29,216</u>	<u>79,546</u>
Total liabilities	<u>238,988</u>	<u>220,628</u>
<b>Net Assets</b>		
Invested in capital assets	1,109,849	1,082,194
Restricted for sinking fund	145,266	182,034
Unrestricted	<u>809,073</u>	<u>782,972</u>
Total net assets	<u>2,064,188</u>	<u>2,047,200</u>
Total liabilities and net assets	<u>\$ 2,303,176</u>	<u>\$ 2,267,828</u>

### Financial Analysis of the School's Funds

During fiscal year ended June 30, 2012, the District's net assets increased by \$16,988. A few of the significant factors affecting net assets during the year are discussed below:

- Increased State of Michigan state aid supplement.
- Increased other local revenue sources.

During the 2011/2012 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, 2012 depreciation expense was \$54,198.

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, 2012 were \$81,853.

Combined with the increase in accumulated depreciation, net assets (i.e., net book value) invested in capital assets increased by \$27,655 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.



**Results of Operations:**

For the fiscal year ended June 30, 2012 and 2011 the District wide results of operations were:

	<u>2012</u>	<u>2011</u>
<b>General Revenue:</b>		
Property Taxes levied for General Operations	\$ 972,236	\$ 1,034,130
Property Taxes levied for Sinking Fund	43,863	156,286
State of Michigan State Aid Supplement	41,174	34,978
Other – Federal, State and Local	38,956	47,323
Other – Investment Earnings, Fees	<u>10,840</u>	<u>11,620</u>
Total General Revenue	<u>1,107,069</u>	<u>1,284,337</u>
<b>Program Revenue:</b>		
Charges for Services – Local	12,966	10,705
Operating Grants – Federal and State	<u>106,823</u>	<u>118,983</u>
Total Program Revenue	<u>119,789</u>	<u>129,688</u>
<b>Expenses:</b>		
Instruction and Instructional Support	754,781	694,974
Support Services	348,007	336,330
Food Services	52,884	46,834
Depreciation (Unallocated)	<u>54,198</u>	<u>49,386</u>
Total Expenses	<u>1,209,870</u>	<u>1,127,524</u>
Changes in Net Assets	16,988	286,501
Net Assets – Beginning	<u>2,047,200</u>	<u>1,760,699</u>
Net Assets – Ending	<u>\$ 2,064,188</u>	<u>\$ 2,047,200</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 2011/2012, the District's Non-Exempt taxable value was \$57,375,443 as reported to the district by Mackinac County on the L-4028 in May of 2011. 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 \$968,119 from Non-Exempt taxable values and approximately \$4,000 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 2011/2012 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 \$6,973. During 2011/2012 the district did receive \$2,606 under Section 22D (4) Isolated Districts funding and Section 22e MBT (Michigan Business Tax) Impact on Out of Formula funding in the amount of \$41,174. 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 \$6,973 per student for the 2011/2012 school year. This was a \$470 decrease per student compared to the 2010/2011 school year. School Aid amendments for 2011/2012 included a new Section 22f that allocated \$100 per pupil to districts that met at least 4 of 5 "best practices" by June 1, 2012. As required by MDE's Financial Best Practices Incentive Guidelines, Moran Township School District submitted a board resolution along with the requirements met and became eligible and received \$7,829 under Section 22f.

**Student Enrollment**

For the fall student count in September of 2011, the District’s student FTE was 75.56 for general education and .16 for special education. The February count showed a very small change in membership for general education and special education with 78.61 and .19 respectively.

	<u>Student FTE</u>
2011 – 2012	79
2010 – 2011	78
2009 – 2010	78
2008 – 2009	85
2007 – 2008	85

**Food Service Sales to Students & Adults**

During the 2011/2012 school year, the District generated approximately \$13,034 in local revenue for lunch and milk sales and received \$20,095 from the State of Michigan for the School Breakfast and National School Lunch Programs operated by the District. In addition, the District received \$494 in Section 31d 2011 School Lunch 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, 2011 federal reimbursement claim form indicated that approximately 45% 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 \$20,155 from the General Fund to the Hot Lunch Fund. This amount reflects an increase over the previous year by \$5,735. The most notable factors contributing to this increase include higher food costs, higher personnel costs, 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 2011/2012, the District received an allocation of \$3,839 under Title II A (Teacher/Principal Training and Recruiting). The District was eligible for Title I, A Achievement Funds in the amount of \$15,215 and \$623 in Title I A carryover funds. 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 \$11,515 during the 2011/2012 school year. Prior to beginning of the 2011/2012 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 \$8,105. These funds were specifically used as stipulated in the original application to support reading recovery activities.

**Student Transportation**

2011/2012 was the eighth 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>
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)
2010 – 2011	1,086,328	1,226,815	1,223,274	136,946	(3,541)
2011 – 2012	1,058,333	1,164,483	1,147,705	89,372	(16,778)

**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>
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
2010 – 2011	1,060,278	1,083,276	1,056,166	4,112	27,110
2011 – 2012	1,093,389	1,169,663	1,153,118	(59,729)	16,545

**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 2011-2012, the budget was amended throughout the year. The June 2012 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	\$ 1,058,333
Total Revenues Final Budget	<u>1,164,483</u>
Increase in Budgeted Revenues	<u>\$ 106,150</u>

The District's final budgeted general fund revenues differed from final actual by \$16,778 a variance of 1.44%.

**General Fund Expenditures**

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

Total Expenditures Original Budget	\$ 1,093,389
Total Expenditures Final Budget	<u>1,169,663</u>
Increase in Budgeted Expenditures	<u>\$ 76,274</u>

As indicated above, the District's original budgeted expenditures were less than final budget by 6.52%.

**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, 2012

	Governmental Activities
<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 1,081,772
Accounts receivable	63,361
Due from governmental units	46,990
Inventory	1,204
Total current assets	<u>1,193,327</u>
<b>Noncurrent Assets</b>	
Capital assets, not depreciated	79,093
Capital assets, net of current depreciation	1,030,756
Total noncurrent assets	<u>1,109,849</u>
Total assets	<u><u>\$ 2,303,176</u></u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 99,409
Accrued liabilities	110,363
Total current liabilities	<u>209,772</u>
<b>Noncurrent Liabilities</b>	
Accrued sick leave payable	19,216
Accrued retirement benefits payable	10,000
Total noncurrent liabilities	<u>29,216</u>
Total liabilities	<u>238,988</u>
<b>Net Assets</b>	
Invested in capital assets	1,109,849
Restricted for sinking fund	145,266
Unrestricted	809,073
Total net assets	<u><u>\$ 2,064,188</u></u>

# Moran Township School

## Statement of Activities For the Year Ended June 30, 2012

<b>Functions/Programs</b>	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:				
Instruction:				
Regular	\$ 701,563	\$ -	\$ 64,782	\$ (636,781)
Special education	53,218	-	21,007	(32,211)
Supporting services:				
School administration	112,895	-	-	(112,895)
General administration	8,736	-	-	(8,736)
Business operations	45,390	-	-	(45,390)
Operations & maintenance	96,846	-	-	(96,846)
Pupil transportation	84,140	-	-	(84,140)
Food services	52,884	12,966	21,034	(18,884)
Depreciation - (unallocated)	54,198	-	-	(54,198)
<b>Total Governmental Activities</b>	<b>\$ 1,209,870</b>	<b>\$ 12,966</b>	<b>\$ 106,823</b>	<b>(1,090,081)</b>
General Revenues:				
Taxes:				
Property taxes, levied for general operations				972,236
Property taxes, levied for sinking fund				43,863
State of Michigan state aid supplement				41,174
Other income				38,956
Interest and investment earnings				10,840
<b>Total General Revenues</b>				<b>1,107,069</b>
<b>Changes in Net Assets</b>				16,988
Net assets - beginning				2,047,200
Net assets - ending				<b>\$ 2,064,188</b>



# Moran Township School

## Balance Sheet Governmental Funds June 30, 2012

	General Fund	Capital Projects Sinking Fund	Food Service Fund	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 923,762	\$ 145,266	\$ 12,744	\$ 1,081,772
Accounts receivable	62,963	-	398	63,361
Due from governmental units	46,990	-	-	46,990
Due from other funds	9,661	-	-	9,661
Inventory	-	-	1,204	1,204
Total Assets	\$ 1,043,376	\$ 145,266	\$ 14,346	\$ 1,202,988
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 99,409	\$ -	\$ -	\$ 99,409
Due to other funds	-	-	9,661	9,661
Accrued liabilities and expenses	110,363	-	-	110,363
Total liabilities	209,772	-	9,661	219,433
<b>Fund Balances</b>				
Nonspendable	-	-	1,204	1,204
Restricted	-	145,266	-	145,266
Committed	29,216	-	-	29,216
Assigned	-	-	3,481	3,481
Unassigned	804,388	-	-	804,388
Total fund balances	833,604	145,266	4,685	983,555
Total liabilities and fund balances	\$ 1,043,376	\$ 145,266	\$ 14,346	

**Reconciliation to amounts reported for governmental activities in the statement of net assets:**

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

Capital assets used by governmental activities are not financial resources, and are not reported in the funds.

The cost of the capital assets is	3,013,735	
accumulated depreciation is	(1,903,886)	1,109,849

Long term liabilities are not due and payable in the current period and are not reported in the funds.

Accrued sick leave payable		(19,216)
Accrued retirement benefits payable		(10,000)
Net assets of governmental activities		\$ 2,064,188

# Moran Township School

## Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended June 30, 2012

	General Fund	Capital Projects Sinking Fund	Food Service Fund	Total Governmental Funds
<b>Revenues</b>				
Local sources	\$ 990,081	\$ 45,085	\$ 13,034	\$ 1,048,200
State sources	74,527	-	939	75,466
Federal sources	83,097	-	20,095	103,192
<b>Total revenues</b>	<b>1,147,705</b>	<b>45,085</b>	<b>34,068</b>	<b>1,226,858</b>
<b>Expenditures</b>				
Instruction:				
Regular	751,893	-	-	751,893
Special education	53,218	-	-	53,218
Supporting services:				
School administration	112,895	-	-	112,895
General administration	8,736	-	-	8,736
Business operations	45,390	-	-	45,390
Operations & maintenance	96,846	-	-	96,846
Pupil transportation	84,140	-	-	84,140
Food service	-	-	52,884	52,884
Capital outlay	-	81,853	-	#VALUE!
<b>Total expenditures</b>	<b>1,153,118</b>	<b>81,853</b>	<b>52,884</b>	<b>1,287,855</b>
<b>Excess of Revenues (Expenditures)</b>	<b>(5,413)</b>	<b>(36,768)</b>	<b>(18,816)</b>	<b>(60,997)</b>
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	-	-	20,155	20,155
Operating transfers out	(20,155)	-	-	(20,155)
<b>Total other financing sources (uses)</b>	<b>(20,155)</b>	<b>-</b>	<b>20,155</b>	<b>-</b>
<b>Net Changes in Fund Balances</b>	<b>(25,568)</b>	<b>(36,768)</b>	<b>1,339</b>	<b>(60,997)</b>
<b>Fund Balances- beginning of year</b>	<b>859,172</b>	<b>182,034</b>	<b>3,346</b>	<b>1,044,552</b>
<b>Fund Balances- end of year</b>	<b>\$ 833,604</b>	<b>\$ 145,266</b>	<b>\$ 4,685</b>	<b>\$ 983,555</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, 2012

Net changes in fund balances - total governmental funds \$ (60,997)

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 the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$81,853 exceeded depreciation expense (\$54,198). 27,655

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 50,330

Changes in net assets of governmental activities \$ 16,988

**Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2012**

	<u>Agency Fund</u> <u>Student</u> <u>Activities</u>
<b>Assets</b>	
Cash	\$ <u>7,258</u>
<b>Liabilities</b>	
Due To Clubs and Organizations	\$ <u>7,258</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.

**BASIS OF PRESENTATION****Government-wide Statements**

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds) except for fiduciary funds. The government-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 government-wide Statement of Net Assets, 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 government-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 government-wide financial statements, the District has eliminated interfund transactions.

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

The government-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 basic 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.

The School reports the following 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 Fund – 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 collected within the current period or soon enough thereafter to pay liabilities for 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, 2012, 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.

Bank Deposits and Investments – For the purpose of the Statement of Net Assets, “cash and cash equivalents” includes all demand, savings accounts, and certificates of deposits of the District. Deposits are recorded at cost.

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. The allowance for June 30, 2012 is \$0. 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. 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 and estimated useful life in excess of one year.

In the fund financial statements, capital 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 land improvements	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 20 years

Accrued Sick Leave and Retirement Benefits – The liability for accrued sick leave and retirement benefits reported in the district-wide statements consist of unpaid, accumulated annual and vacation balances as well as retirement payouts. 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.

Fund Balance Classification – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Board has classified Inventories as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year. The School has the food service fund inventory amount of \$1,204 classified as nonspendable.

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

- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Board has classified its sinking fund as restricted.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Board has committed accrued sick leave and retirement benefits.
- **Assigned:** This classification includes amounts that are constrained by the Board's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The Board has assigned funds for Food Service.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Board would typically use Restricted fund balances 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 other classified funds.

**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 October 5, 2012.

**Note 2 - Budgets**

The School District formally adopted General Fund and Special Revenue Funds budgets by function for the fiscal year ended June 30, 2012. 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 held at 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>\$ 1,081,772</u>	<u>\$ 7,258</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, \$859,378 of the School’s bank balance of \$1,109,378 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.

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

- 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.
- 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 District's 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	\$ 79,093	\$ -	\$ -	\$ 79,093
Subtotal	<u>79,093</u>	<u>-</u>	<u>-</u>	<u>79,093</u>
<i>Capital assets being depreciated:</i>				
Land Improvements	255,032	81,853	-	336,885
Buildings	2,371,567	-	-	2,371,567
Equipment	<u>237,400</u>	<u>-</u>	<u>(11,210)</u>	<u>226,190</u>
Subtotal	<u>2,863,999</u>	<u>81,853</u>	<u>(11,210)</u>	<u>2,934,642</u>

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Adjustments/ Decreases</u>	<u>Ending Balances</u>
<i>Less accumulated depreciation for:</i>				
Land Improvements	(37,534)	(17,002)	-	(54,536)
Buildings	(1,643,739)	(28,679)	-	(1,672,418)
Equipment	<u>(179,625)</u>	<u>(8,517)</u>	11,210	<u>(176,932)</u>
Subtotal	<u>(1,860,898)</u>	<u>(54,198)</u>	11,210	<u>(1,903,886)</u>
Net capital assets being depreciated	<u>1,003,101</u>	<u>27,655</u>	-	<u>1,030,756</u>
Governmental activity capital assets – net of depreciation	<u>\$ 1,082,194</u>	<u>\$ 27,655</u>	<u>\$ -</u>	<u>\$ 1,109,849</u>

Depreciation expense for the School District is \$54,198. 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, 2012:

	<u>Accrued Sick Leave</u>	<u>Accrued Retirement Benefits</u>	<u>Total</u>
Balance, July 1, 2011	\$ 49,546	\$ 30,000	\$ 79,546
Deletions/Additions	<u>(30,330)</u>	<u>(20,000)</u>	<u>(50,330)</u>
Balance, June 30, 2012	<u>\$ 19,216</u>	<u>\$ 10,000</u>	<u>\$ 29,216</u>

The debt service requirements for accrued employee benefits are dependent upon future employee retirements and terminations.

**Note 6 - Compensated Absences, Termination, and Post-Retirement Benefits**

**Sick Leave**

Vested sick leave is computed as follows:

<u>Employer Group</u>	<u>Rate/Day</u>	<u>Maximum Days</u>
Teachers	110.00	180
Support Staff	Current Pay Rate	180

Sick leave is vested after 5 years and is paid to the employees upon retirement or termination.

**Note 6 - Compensated Absences, Termination, and Post-Retirement Benefits (Continued)****Personal Leave Time**

Personal leave time is accounted for as sick leave for payout purposes.

**Retirement Benefits**

Retirement benefits are vested to teachers and administrators who qualify for retirement under the terms of the State retirement plan in which the School District participates.

Retirement benefits are computed as follows:

- 1) Qualified employee hires in 2001 and after qualify for a one time lump sum payout at retirement of \$10,000.
- 2) Qualified employee hired before 2001 qualify for a one time lump sum payout at retirement of \$20,000.

**Note 7 - Defined Benefit Pension Plan**

**Plan Description** – The School District participates in the Michigan Public School Employees' Retirement System (MPERS), 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 P.O. Box 30171, Lansing, MI 48909-7671.

**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 rates were 20.66% and 24.46% respectively, for the periods July 1, 2011 through September 30, 2011 and October 1, 2011 through June 30, 2012 of the covered payroll to the plan. Basic plan members contribute rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2012, 2011, and 2010 were \$98,292, \$78,787, and \$71,237 respectively, and were equal to the required contribution for those years.

**Note 7 - Defined Benefit Pension Plan (Continued)**

**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 8 - Interfund Receivables 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 Payables are as follows:

**Interfund Payables:**

		<b>DUE FROM OTHER FUNDS</b>	
<b>DUE TO OTHER FUNDS</b>		General Fund	
	Food Service Fund	<u>\$ 9,661</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:**

		<b>TRANSFERS OUT</b>	
<b>TRANSFERS IN</b>		General Fund	
	Food Service Fund	<u>\$ 20,155</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 9 - 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 10 - Accrued Employee Benefits**

The district offered its teachers and administrative personnel early retirement incentives. Payments under these programs will be made through the year 2012. A liability for amounts payable in years subsequent to the year ended June 30, 2012 of \$29,216 was recorded.

**Note 11 - Commitments and Contingencies**

Consortium - The School has executed a consortium agreement with the EUPISD for various business and maintenance services.

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, 2012.

**Note 12 - 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.

## **Required Supplementary Information**

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# Moran Township School

## Required Supplementary Information Budgetary Comparison Schedule-General Fund For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 962,982	\$ 993,016	\$ 990,081	\$ (2,935)
State sources	8,600	75,724	74,527	(1,197)
Federal sources	86,751	95,743	83,097	(12,646)
<b>Total revenues</b>	<u>1,058,333</u>	<u>1,164,483</u>	<u>1,147,705</u>	<u>(16,778)</u>
<b>Expenditures</b>				
Instruction:				
Regular	654,566	753,098	751,893	1,205
Special education	53,765	53,661	53,218	443
Supporting services:				
School administration	119,174	118,074	112,895	5,179
General administration	6,982	8,982	8,736	246
Business operations	44,050	46,426	45,390	1,036
Operations & maintenance	124,852	99,422	96,846	2,576
Pupil transportation	90,000	90,000	84,140	5,860
<b>Total expenditures</b>	<u>1,093,389</u>	<u>1,169,663</u>	<u>1,153,118</u>	<u>16,545</u>
<b>Excess of Revenues (Expenditures)</b>	(35,056)	(5,180)	(5,413)	(233)
<b>Other Financing Sources (Uses)</b>				
Operating Transfers Out	(13,000)	(20,155)	(20,155)	-
<b>Total other financing sources (uses)</b>	<u>(13,000)</u>	<u>(20,155)</u>	<u>(20,155)</u>	<u>-</u>
<b>Net Changes in Fund Balances</b>	<u>\$ (48,056)</u>	<u>\$ (25,335)</u>	(25,568)	<u>\$ (233)</u>
<b>Fund Balances- beginning of year</b>			<u>859,172</u>	
<b>Fund Balances - end of year</b>			<u>\$ 833,604</u>	

# Moran Township School

## Required Supplementary Information Budgetary Comparison Schedule-Food Service Fund For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 13,325	\$ 12,325	\$ 13,034	\$ 709
State sources	-	938	939	1
Federal sources	19,500	20,100	20,095	(5)
<b>Total revenues</b>	<u>32,825</u>	<u>33,363</u>	<u>34,068</u>	<u>705</u>
<b>Expenditures</b>				
Food service	51,970	52,950	52,884	66
<b>Total expenditures</b>	<u>51,970</u>	<u>52,950</u>	<u>52,884</u>	<u>66</u>
<b>Excess of Revenues (Expenditures)</b>	(19,145)	(19,587)	(18,816)	771
<b>Other Financing Sources (Uses)</b>				
Operating Transfers In	19,145	20,155	20,155	-
<b>Total other financing sources (uses)</b>	<u>19,145</u>	<u>20,155</u>	<u>20,155</u>	<u>-</u>
<b>Net Changes in Fund Balances</b>	<u>\$ -</u>	<u>\$ 568</u>	1,339	<u>\$ 771</u>
<b>Fund Balances- beginning of year</b>			<u>3,346</u>	
<b>Fund Balances - end of year</b>			<u>\$ 4,685</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  
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ROBERT L. HASKE, CPA  
AMBER N. MACK, CPA, EA

**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, 2012, which collectively comprise Moran Township School's basic financial statements and have issued our report thereon, dated October 5, 2012. 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**

Management of the Moran Township School is responsible for establishing and maintaining effective 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 12-1. 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 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 Moran Township School District in a separate letter dated October 5, 2012.

The School's response to the finding identified in our audit is described in the accompanying summary schedule of findings and responses. We did not audit the School's response and accordingly, we express no opinion on it.

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**

October 5, 2012

**Internal Control Over Financial Reporting**

***Significant Deficiencies***

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

*Finding 12-1*

*Specific Requirement:* Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 115 requires management to prepare annual audit statements in accordance with GASB Statement Number 34. (Audit report format)

*Criteria:* Internal controls should be in place to provide reasonable assurance to the School that management reports financial statements (with GASB Statement number 34 formats) necessary to monitor and report annual financial activity without auditor intervention.

*Condition:* Auditor assists in the preparation of financial statements and annual report in compliance with GASB 34.

*Effect:* The effect of this condition places a reliance on the independent auditor as part of the School's internal controls over financial reporting.

*Cause:* Unknown.

*Recommendation:* The School should consider subcontracting financial statement preparation activities to monitor and report annual financial activity in accordance with GASB Statement Number 34 or provide appropriate training.

- *Contact Person(s) Responsible for Correction:*  
William Peltier

- *Corrective Action Planned:*

As a result of limited funding, the School does not have resources to fund this process. We intend to re-evaluate once funding becomes available for the additional reporting and monitoring based on a cost – benefit analysis.





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

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
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**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, 2012, and have issued our report thereon dated October 5, 2012. 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 14, 2012, 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 correspondence about planning matters on August 14, 2012.

### **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 estimates affecting the financial statements were:

- 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.
- Management's estimate of the accrued compensated absences and retirement payouts is based on current hourly rates and policies regarding payment of sick, vacation banks and retirement payouts.
- Management's estimate of the allowance for uncollectible accounts receivable is based on past experience and future expectations of collection of various account balances and has been determined to be zero.

#### ***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 October 5, 2012.

***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.

**Checks (Prior Year)**

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.

Status: Corrected.

**Purchasing (Bid Policy) (Prior Year)**

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.

Status: Uncorrected.

**Reports on Controls (Prior Year)**

As the School continues to expand its use of the Third Party Service Providers, for accounting, payroll, technology etc., assurance should be requested that systems are adequate and effective related to computer processing. A "Report on Controls Placed in Operation" and tests of effectiveness should be requested to assure proper backups are maintained, disaster recovery procedures are in place and other controls are reliable from any third party system vendors.

Status: Uncorrected.

**Student Activity / School Affiliated Group Agency Accounts (Prior Year)**

The District maintains various accounts related to student or school affiliated group activities. To reduce the amount of accounting procedures, Board potential liability and monitoring, accounts should only be maintained for current student groups. Funds with little or no activity should be transferred to authorized organization representations.

Status: Uncorrected.

**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**

October 5, 2012