

Kalkaska Public Schools

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2011

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Kalkaska Public Schools

Kalkaska County

Administration's Discussion and Analysis

For the fiscal year ended June 30, 2011

Kalkaska Public Schools, a K-12 school District located in Kalkaska County, Michigan, has complied with the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Kalkaska Public Schools Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2011.

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

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 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 instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Funds, Capital Projects and the School Service Funds (Food Service).

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is 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 years' 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.

Kalkaska Public Schools

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Administration's Discussion and Analysis

For the fiscal year ended June 30, 2011

Summary of Net Assets

The following summarizes the net assets at fiscal years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Assets		
Current assets	<u>\$21,292,351</u>	<u>\$24,406,780</u>
Capital assets	26,914,794	20,537,312
Less: accumulated depreciation	<u>(10,325,778)</u>	<u>(9,897,417)</u>
Capital assets net book value	<u>16,589,016</u>	<u>10,639,895</u>
Total assets	<u>\$37,881,367</u>	<u>\$35,046,675</u>
Liabilities		
Current liabilities	\$ 4,562,132	\$ 2,723,858
Long-term liabilities	<u>20,966,333</u>	<u>21,883,834</u>
Total liabilities	<u>25,528,465</u>	<u>24,607,692</u>
Net Assets		
Invested in capital assets, net of related debt	6,668,936	6,590,621
Reserved for school-based activities	244,034	363,880
Reserved for debt service	1,288,737	157,026
Unrestricted	<u>4,151,195</u>	<u>3,327,456</u>
Total net assets	<u>12,352,902</u>	<u>10,438,983</u>
Total liabilities and net assets	<u>\$37,881,367</u>	<u>\$35,046,675</u>

Kalkaska Public Schools

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Administration's Discussion and Analysis
For the fiscal year ended June 30, 2011

Analysis of Financial Position

During fiscal year ended June 30, 2011, the District's net assets increased by \$1,913,919. A few of the significant factors affecting net assets during the year are discussed below:

	<u>2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>2011</u>
1. Capital Assets				
Building and improvements	\$16,739,402	\$ -	\$(300,000)	\$16,439,402
Furniture and equipment	2,002,920	240,421	-	2,243,341
Busses and vehicles	438,490	69,550	-	508,040
Land	1,356,500	-	-	1,356,500
Construction-in-process	-	6,367,511	-	6,367,511
	<u>20,537,312</u>	<u>6,677,482</u>	<u>(300,000)</u>	<u>26,914,794</u>
Less accumulated depreciation	<u>(9,897,417)</u>	<u>(618,849)</u>	<u>190,488</u>	<u>(10,325,778)</u>
	<u>\$10,639,895</u>	<u>\$6,058,633</u>	<u>\$(109,512)</u>	<u>\$16,589,016</u>

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, 2011, the net increase in accumulated depreciation was \$428,361.

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

One way to think of depreciation expense is that in order to maintain net assets at the same level, acquisitions of capital outlay and capitalized major maintenance projects would have to equal the annual depreciation expense. In other words, to stay even in net assets the District would have had to capitalize \$618,849 in assets during the year.

b. Capital Outlay Acquisitions

Actual capital outlay acquisitions for fiscal year ended June 30, 2011 were \$6,677,482.

Combined with the increase in accumulated depreciation, net capital assets (i.e., net book value) invested in capital assets increased by \$5,949,121 during the year.

Since accumulated depreciation is based on original cost, it does not take inflation into consideration. 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.

2. Long-Term Debt

At year-end, the District had \$22,144,110 in bonds payable and \$414,663 in early retirement and accumulated leave liabilities. More detailed information about the District's long-term debt is presented in Note G to the financial statements.

	<u>2010</u>	<u>2011</u>
Bonds payable	\$23,110,494	\$22,144,110
Early retirement incentives	28,354	387,000
Accumulated leave liability	<u>24,405</u>	<u>27,663</u>
	<u>\$23,163,253</u>	<u>\$22,558,773</u>

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Administration's Discussion and Analysis
For the fiscal year ended June 30, 2011

Results of Operations

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

	2011	% of Total	2010	% of Total
General Revenue				
Property taxes levied for General Operations	\$ 5,707,158	32.2 %	\$ 5,883,238	36.5 %
State of Michigan Aid, Unrestricted	<u>4,935,907</u>	<u>27.9 %</u>	<u>5,091,274</u>	<u>31.6 %</u>
Michigan's Foundation Grant Allowance	10,643,065	60.1 %	10,974,512	68.1 %
Property taxes levied for Debt Service	2,063,707	11.7 %	1,074,690	6.7 %
Property taxes levied for Special Education	151,096	.9 %	140,445	.9 %
Other - Federal, State and Local	577,760	3.3 %	521,467	3.2 %
Total General Revenue	13,435,628	76.0 %	12,711,114	78.9 %
Program Revenue				
Charges for Services – Local	382,628	2.2 %	403,732	2.6 %
Operating and Capital Grants - Federal and State	<u>3,890,270</u>	<u>21.8 %</u>	<u>2,984,544</u>	<u>18.5 %</u>
Total Revenues	17,708,526	100.0 %	16,099,390	100.0 %
Expenses				
Instructional and instructional support	8,245,601	52.2 %	7,851,764	52.7 %
Support services	5,094,765	32.3 %	4,903,179	33.0 %
Community services and other	72,098	.5 %	100,022	.7 %
Food Services	755,956	4.8 %	709,013	4.8 %
Athletics	-	- %	212,727	1.4 %
Interest on long-term debt	897,826	5.7 %	484,039	3.3 %
Depreciation (unallocated)	618,849	3.9 %	606,673	4.1 %
Loss on disposal of assets	<u>109,512</u>	<u>.6 %</u>	-	-
Total Expenses	<u>15,794,607</u>	<u>100.0 %</u>	<u>14,867,417</u>	<u>100.0 %</u>
Increase in Net Assets	\$ <u>1,913,919</u>		\$ <u>1,231,973</u>	

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For the fiscal year ended June 30, 2011

Revenues (continued)

1. Property Taxes Levied for General Operations (General Fund Property Taxes)

The District levies 18.0 mills of property taxes for operations (General Fund) on non-principal residence property. 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 50% of the market value.

The District's non-principal residence property taxable value for the 2010-2011 fiscal year was \$317,572,366 and the commercial personal property taxable value was \$19,994,195 for a total of \$337,566,561. The non principal residence and commercial personal property taxable value increased by 1.46% over the prior year. There were no unpaid personal property taxes at fiscal year end June 30, 2011.

The following summarizes the District's non-homestead taxable value for the past five years:

Fiscal Year	Non-homestead Taxable Value	% Increase From Prior Year
2010-2011	\$337,566,561	1.46 %
2009-2010	332,700,669	(.14) %
2008-2009	345,530,044	(.01) %
2007-2008	345,576,502	6.98 %
2006-2007	323,035,998	3.18 %

Average increase over the last 5 years 2.29%

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Revenues (continued)

2. State Of Michigan Aid, Unrestricted

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

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75% of current year fall count and 25% of prior year winter count
- c. The District's non-principal residence property levy

Per Student, Foundation Allowance

Annually, the State of Michigan sets the per student foundation allowance. The Kalkaska Public Schools foundation allowance was \$7,316 for the 2010-2011 school year. This is the same amount as Kalkaska's 2009-2010 foundation allowance per student. However, in the current year, there was \$265,071 LEA pupil deduction from the State that equated to a \$170 per pupil reduction in State revenue.

Student Enrollment

The District's student enrollment for the fall count of 2010-2011 was 1,559 students. The District's enrollments have gradually declined in the past four years although in 2009-2010, we increased by 5 students and then decreased again this year by 7; it still appears we are leveling off.

The following summarizes State Aid Membership for the past five years:

<u>Fiscal Year</u>	<u>Student FTE</u>	<u>Student FTE Change</u>
2010-2011	1,559	(7)
2009-2010	1,566	5
2008-2009	1,561	(29)
2007-2008	1,590	(96)
2006-2007	1,686	(79)

Subsequent to year-end June 30, 2011, the fall 2011 student count indicates that the 2011-2012 student enrollment will be stabilizing. Our fall count is at 1,592 and comparing that to the fall of 2010 we are up 27 students, so we are optimistic that we are again increasing our numbers possibly due to our construction updates.

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For the fiscal year ended June 30, 2011

Revenues (continued)

3. Property Taxes levied for Debt Service

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2010-2011, the District's total debt millage levy was 3.50 mills (1.55 mills was for debt, .24 mills was for tech debt 1.42 for the QSCBA debt, and .29 for the QZABB debt), which generated a levy of \$2,063,707. All of personal debt taxes were paid to the District. The paid taxes represent 100% of the total levy. Kalkaska County pays the District for all uncollected real property taxes for general operating and debt service near the end of June each year.

The District collected no IFT taxes in 2010-2011.

4. Food Service Sales to Students and Adults

The District's food and milk sales to students and adults increased throughout the 2010-2011 school year. With the increase in Federal income, however, the department showed a decrease in fund balance. The decrease to fund balance was the result of Food Service Department purchases of a new 'Blodgett Oven', which is natural gas, and 'Combi Ovens' that are electric. Both of these are for Birch Street Elementary kitchen. These purchases were major improvements (over \$41,000) recognized by the Food Service Department.

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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>Variance Final & Original Budget</u>	<u>Variance Actual & Final Budget</u>
2010-2011	\$13,238,660	\$14,317,162	\$14,007,319	8.15%	(2.16)%
2009-2010	13,479,859	14,491,398	14,035,302	7.50%	(3.15)%
2008-2009	13,293,305	13,744,140	13,687,160	3.39%	(0.41)%
2007-2008	13,250,142	13,889,800	13,806,929	4.20%	(0.60)%
2006-2007	13,984,389	14,301,206	14,355,098	2.65%	0.38 %

Five year Average Over (Under) Budget 5.18% (1.19)%

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 Final & Original Budget</u>	<u>Expenditures Variance Actual & Final Budget</u>
2010-2011	\$14,005,262	\$14,335,325	\$13,149,692	2.36%	(8.27)%
2009-2010	13,692,055	14,565,527	13,168,799	6.38%	(9.59)%
2008-2009	13,495,532	13,485,246	12,708,805	(.08)%	(5.76)%
2007-2008	13,560,378	14,026,879	12,913,789	4.77%	(7.94)%
2006-2007	13,325,524	13,633,975	12,837,215	3.66%	(5.84)%

Five year Average Over (Under) Budget 3.42% (7.48)%

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Administration's Discussion and Analysis

For the fiscal year ended June 30, 2011

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, Kalkaska Public Schools amends its budget twice during the school year. For fiscal year 2010-2011, the budget was amended in December 2010 and June 2011. The June 2011 budget amendment was the final budget for the fiscal year.

Change from Original to Final Budget

General Fund Revenues:

Total Revenues Original Budget Total	\$13,238,660	100.0%
Total Revenues Final Budget Total	14,317,162	108.2%
Increased Budgeted Revenues	\$ 1,078,502	8.2%

The General Fund's actual revenues \$14,007,319 differed from the final budgeted revenues by \$309,843, a variance of (2.16)%. Our original budget was based on 1,540 students with a foundational allowance of \$7,316. The final revenue budget reflects the following changes from the original budget:

Actual student enrollments were 19 students more than projected in the Original Budget. We projected student enrollment for the 2010-2011 school year at 1,540 and our official count was 1,559. This would have increased our net unrestricted State aid by \$139,004, which can be calculated as follows:

$$19 \text{ FTE students} \times \$7,316 \text{ per student} = \$139,004.$$

Due to State Legislation, we did not receive our full funding.

Kalkaska Public Schools

Kalkaska County
Administration's Discussion and Analysis
For the fiscal year ended June 30, 2011

Financial Analysis of the District's Funds

Proposal A, approved by statewide voters in 1994, dramatically affected financial operations for public schools. A downturn in the economy has dramatically affected the State budget and cuts were made in educational funding. The initiative prohibits Districts from seeking millage requests from local voters, and it also forces reliance upon student enrollment for the majority of funding. The District's enrollment has been declining, and this is a constant cause of concern. Other factors expected to affect the District's financial health are technology costs. Negotiations for the certified staff settled in June of 2010 and expire August 31, 2012. The support staff is under contract through August 27, 2012. Support has maintained MESSA coverage, but has changed the prescription card from \$5/\$10 to \$10/\$20.

In the General Fund for the year ended June 30, 2011, the District increased fund balance by \$788,866.

In May 2008, the District successfully passed a Technology Bond. This was considered a huge success, especially in these tough economic times. The full board, superintendent and staff took a major role in communicating the need for this millage. Technology is a crucial part of the No Child Left Behind education laws as well as the new graduation requirements. With the funds the District upgraded our infrastructure, replaced and added new servers and backup devices, purchased 375 new computers and wireless labs, replaced and or purchased LCD projectors and electronic white boards.

We were able to do this by asking voters to maintain the current debt levy. In 2007 we lowered our debt levy from 2.10 to 1.75. In 2008 through 2010, we kept the debt levy at 1.75, 1.5 for old debt (1991 and 1997 refunding) and .25 for the new Technology Bonded Debt. In 2011, the debt levy went to 1.79, 1.55 for old debt and .24 for the Technology Bonded Debt. There were two new levies in 2011 for the QSCBA (1.42) and QZABB (.29) debt used to fund the construction project.

On February 23, 2010, the District successfully passed a building bond proposal for \$18,740,000 for the purpose of constructing, equipping and furnishing additions to and remodeling, re-equipping and refurbishing school buildings; acquiring and installing educational technology improvements to schools buildings and developing and improving sites. This will be paid back with QSCBA and QZABB funds as well as tax levy over an eighteen-year period.

This was a one time opportunity for the voters of Kalkaska Public Schools to approve a government backed loan. The total cost of the proposal is \$18.7 million. Part of this would be funded through the American Recovery and Reinvestment Act and another portion would be through Qualified Zone Academy Bond (QZAB). With the use of both of these, the District will be able to pay for the bonds in 17 years instead of the normal 25 to 30 years. The property tax increase for 2010 was 1.75 mills for a total of 3.50 mills. The main proposals for these funds would be used to enclose Birch Street classrooms; they are currently the 'open concept.' This will increase the security for classrooms as well as the learning environment; at Kalkaska Middle schools the library would be enlarged and a new lobby with new restrooms by the gymnasium; for the High school the existing gymnasium would be remodeled to a 500 seat auditorium with an attached and renovated band room, also a new gym for the high school. The current gym is not large enough to hold many high school events. The existing library would be renovated to a new cafeteria-kitchen and the existing auditorium would be renovated to a new library. The heating system at the high school in the 1959 section is 50 years old and is expected to be over \$2.0 million alone. This is a list of the major items in the proposal.

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Again, these funds were a once in a lifetime event and we feel very fortunate to have obtained them. The interest rate to the District was very low and we are pleased to be able to make renovations to our District that will put us on a level playing field with our surrounding schools.

Those items that were completed by June 30, 2011:

- Middle School Library
- Computers for Middle School Library
- Shelving/cabinets and tables for Middle School Library
- Computers for Middle School Library
- Wireless access/equipment software/controller for Middle/High Schools
- Weight room equipment
- Pro curve switches for wireless Middle/High Schools
- Fiber Project High School to Middle School
- Fiber project High School to Birch Street

These are a few of the items completed and represent 35.54% of the projects.

Kalkaska Public Schools has also started a PR Committee. The committee has established an advertising campaign through a local television station, and has been instrumental in the restoring of the District newsletter and internal PR efforts.

The public relations initiative emerged from Board of Education goals set in the 2006-2007 school year. The goals include not only marketing, but raising student achievement, fostering staff development and collaboration and conserving energy.

Capital improvements is another goal the Board continues to address, with the successful recent bond proposal the Board feels that we will put our District over the top and will be a place that parents want to come to and have their children educated here! The District may seek approval of a sinking fund from voters in the future, which would relieve the burden from the general fund. The sinking fund would provide money for roof repairs, carpeting, acquisition of property and other necessary improvements.

General Fund Expenditures

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

Total Expenditures Original Budget	\$ 14,005,262	100.0 %
Total Expenditures Final Budget	14,335,325	102.4%
Increase in Budgeted Expenditures	\$ 330,063	2.4%

The District's actual expenditures of \$13,149,692 were less than final budget by \$1,185,633 or 8.3%.

These adjustments were due to ARRA funds that were allocated and therefore, budgeted as well as expended. We received less revenue than anticipated and had fewer expenses than anticipated.

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Financial Analysis of the District's Funds (continued)

Capital Outlay and Improvements:

The purchase of a used van for the maintenance department, a 2009 used Blue Bird bus for the transportation department, 15 new computers for North Side Educational Center, library automation for middle and high school libraries, repairs to Cherry Street chimney.

	<u>FTE</u> <u>2009-2010</u>	<u>FTE</u> <u>2010-2011</u>	<u>FTE</u> <u>Increase (Decrease)</u>
Regular Education Teachers	84.0	79.0	(5.96%)
Special Education Teachers	12.0	11.5	(4.17%)
Counselors	5.0	5.0	-

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 Kalkaska Public Schools Business Office at 315 S. Coral, Kalkaska, MI 49646. Phone (231) 258-9109.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Kalkaska Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Kalkaska Public Schools* (the "School District") as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 the Kalkaska Public Schools as of June 30, 2011, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2011, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i through xii and 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's financial statements as a whole. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining non-major fund financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Dennis, Gartland & Niergarth

October 27, 2011

Kalkaska Public Schools

STATEMENT OF NET ASSETS

June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 19,803,408
Other receivables	5,991
Due from other governments	1,454,852
Prepays	93
Inventory	<u>28,007</u>
Total current assets	21,292,351
Capital assets, net of accumulated depreciation	<u>16,589,016</u>
Total assets	<u><u>\$ 37,881,367</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Current liabilities	
Accounts payable	\$ 2,805,065
Due to other governments	124,912
Accrued interest	298,225
Deferred revenue	26,170
Current portion of long-term liabilities	<u>1,307,760</u>
Total current liabilities	4,562,132
Non-current portion of long-term liabilities	<u>20,966,333</u>
Total liabilities	<u><u>25,528,465</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	6,668,936
Restricted for	
Debt Service	1,288,737
Food Service	244,034
Unrestricted	<u>4,151,195</u>
Total net assets	<u><u>12,352,902</u></u>
Total liabilities and net assets	<u><u>\$ 37,881,367</u></u>

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

Kalkaska Public Schools
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

Functions/Program	Expenses	Program Revenues			Net (Expense)/ Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Instruction	\$ 8,245,601	\$ 129,034	\$ 2,468,010	\$ -	\$ (5,648,557)
Supporting Services	5,094,765	61,208	-	-	(5,033,557)
Community Services	54,492	-	-	-	(54,492)
Food Service	755,956	192,386	600,026	-	36,456
Interest on long-term debt	897,826	-	803,396	-	(94,430)
Depreciation-unallocated	618,849	-	-	-	(618,849)
Other	17,606	-	-	18,838	1,232
Total governmental activities	<u>\$ 15,685,095</u>	<u>\$ 382,628</u>	<u>\$ 3,871,432</u>	<u>\$ 18,838</u>	<u>(11,412,197)</u>
General purpose revenues					
Property taxes					
					5,707,158
					151,096
					2,063,707
					4,935,907
					549,754
					28,006
					<u>13,435,628</u>
					<u>(109,512)</u>
					1,913,919
					<u>10,438,983</u>
					<u>\$ 12,352,902</u>

Kalkaska Public Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2011

	General Fund	2010 QSCB Capital Projects Fund	2010 QZAB Capital Projects Fund	Other Non-major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 410,716	\$ 9,348	\$ 8,247	\$ 1,807,418	\$ 2,235,729
Investments	4,169,352	10,228,157	3,170,170	-	17,567,679
Due from other governments	1,449,673	-	-	5,179	1,454,852
Accounts receivable	5,991	-	-	-	5,991
Due from other funds	-	-	-	22,597	22,597
Prepays	93	-	-	-	93
Inventory	-	-	-	28,007	28,007
	\$ 6,035,825	\$ 10,237,505	\$ 3,178,417	\$ 1,863,201	\$ 21,314,948
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenses	\$ 1,322,458	\$ 951,806	\$ 524,766	\$ 6,035	\$ 2,805,065
Deferred revenue	-	-	-	26,170	26,170
Due to other funds	22,597	-	-	-	22,597
Due to other governments	124,912	-	-	-	124,912
	1,469,967	951,806	524,766	32,205	2,978,744
FUND BALANCES					
Nonspendable					
Inventory	-	-	-	28,007	28,007
Prepays	93	-	-	-	93
Restricted					
Debt retirement	-	-	-	1,586,962	1,586,962
Capital projects	-	9,285,699	2,653,651	-	11,939,350
Food service	-	-	-	216,027	216,027
Assigned					
Compensated absences	27,663	-	-	-	27,663
Forest enhancement	22,043	-	-	-	22,043
Subsequent year expenditures	1,181,248	-	-	-	1,181,248
Unassigned	3,334,811	-	-	-	3,334,811
	4,565,858	9,285,699	2,653,651	1,830,996	18,336,204
Total liabilities and fund balances	\$ 6,035,825	\$ 10,237,505	\$ 3,178,417	\$ 1,863,201	

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

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$26,914,794 and the accumulated depreciation is \$(10,325,778).

16,589,016

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

	Bonds payable	\$ 22,144,110
	Accrued interest on bonds	298,225
	Early retirement payable	387,000
	Unamortized bond discount	(105,550)
	Unamortized bond issuance costs	(179,130)
	Accumulated leave liability	27,663
		(22,572,318)

Total net assets - governmental activities

\$ 12,352,902

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

Kalkaska Public Schools

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

Year Ended June 30, 2011

	General Fund	2010 QSCB Capital Projects Fund	2010 QZAB Capital Projects Fund	Other Non-major Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 5,858,254	\$ -	\$ -	\$ 2,063,707	\$ 7,921,961
Interest	5,152	13,285	3,420	4,723	26,580
State revenues	5,923,657	-	-	53,969	5,977,626
Federal revenues	1,609,294	-	-	564,895	2,174,189
Other	610,962	1,200	200	995,808	1,608,170
Total revenues	14,007,319	14,485	3,620	3,683,102	17,708,526
Expenditures					
Instruction	7,886,955	-	-	-	7,886,955
Supporting Services	5,053,793	-	-	-	5,053,793
Community Services	54,492	-	-	-	54,492
Food Service	-	-	-	755,956	755,956
Other	3,356	-	-	-	3,356
Debt Service					
Principal	-	-	-	966,384	966,384
Interest	-	-	-	956,605	956,605
Other	-	-	-	14,250	14,250
Capital outlay	151,096	5,490,740	1,025,919	47,441	6,715,196
Total expenditures	13,149,692	5,490,740	1,025,919	2,740,636	22,406,987
REVENUES OVER (UNDER) EXPENDITURES	857,627	(5,476,255)	(1,022,299)	942,466	(4,698,461)
Other financing sources (uses)					
Operating transfers in	15,000	-	-	83,761	98,761
Operating transfers out	(83,761)	-	-	(15,000)	(98,761)
Total other financing sources (uses)	(68,761)	-	-	68,761	-
REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	788,866	(5,476,255)	(1,022,299)	1,011,227	(4,698,461)
Fund balance, beginning of year, as restated	3,776,992	14,761,954	3,675,950	819,769	23,034,665
Fund balance, end of year	\$ 4,565,858	\$ 9,285,699	\$ 2,653,651	\$ 1,830,996	\$ 18,336,204

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

Kalkaska Public Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

Total Net Change in Fund Balances - Governmental Funds \$ (4,698,461)

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

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

Capital outlays	\$ 6,677,482	
Depreciation expense	<u>(618,849)</u>	6,058,633

In the statement of activities, certain operating expenses-compensated absences (vacations and sick leave) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, accumulated leave time paid was less than the amounts earned by \$3,258. Accumulated retirement incentives paid were less than amounts earned by \$358,646. (361,904)

Repayment of bond principal are expenditures or other financing uses in the governmental funds, but reduce long-term liabilities in the statement of net assets and does not affect the statement of activities. 966,384

Loss on disposal of assets not recorded in the governmental funds. (109,512)

Bond discounts, issuance costs and differences between the reacquisition price and net carrying amount of defeased debt, are a reduction of bond proceeds in the governmental funds, but are amortized over the life of the bonds in the district-wide statements. (36,540)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds payable. 95,319

Changes in Net Assets of Governmental Activities \$ 1,913,919

Kalkaska Public Schools

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2011

	<u>Fiduciary Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 125,568</u>
LIABILITIES	
Due to student groups	<u>\$ 125,568</u>

Kalkaska Public Schools

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Kalkaska Public Schools (the "School District") is a Michigan public school district consisting of three elementary schools, a middle school and a high school all located in Kalkaska County, Michigan. The School District primarily serves the Kalkaska and Mancelona communities. As of June 30, 2011, the School District employs 95 professional staff and 86 non-professional staff, and has 1,559 students enrolled within its School District.

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

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2011.

The Financial Reporting Entity

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

District-Wide and Fund Financial Statements

District-Wide Financial Statements

The statement of net assets and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by taxes and School District general revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The School District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The district-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

Fund Types and Major Funds

Activities in Major Funds

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those accounted for in another fund.

The 2010 Capital Projects Funds (Qualified School Construction Bond ("QSCB") and Qualified Zone Academy Bond ("QZAB")) are used to account for activity related to construction, equipping and furnishing additions to and remodeling, re-equipping and refurbishing School District buildings, including educational technology improvements.

Other Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are committed or restricted to expenditures for specified purposes. The Special Revenue Fund maintained by the School District is the Food Service Fund.

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

Fiduciary Funds

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

Cash and Equivalents

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

Inventories

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

Capital Assets

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

Buildings and improvements	20-50 years
Furniture and equipment	3-10 years
Buses and vehicles	5-10 years

Long-term Debt, Deferred Debt Expense and Bond Discounts/Premiums

In the district-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the interest method.

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

Fund Equity

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

When both restricted and unrestricted fund balances are available for use, it is the School District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Allocation of Expenses

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

The School District has elected to not allocate indirect expenses.

Use of Estimates in the Preparation of Financial Statements

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

NOTES TO FINANCIAL STATEMENTS - Continued

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Title I, At-Risk, ARRA stabilization and School Lunch Program, which are reported as operating grants and contributions.

Encumbrance Accounting

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

NOTE B - ACCOUNTING CHANGES

For the year ended June 30, 2011, the School District implemented the provisions of Governmental Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with the standard, fund balance is classified as nonspendable, restricted, committed, assigned or unassigned, and the Athletics Fund was closed into the General Fund as follows:

	<u>General Fund</u>	<u>Athletics Fund</u>
Fund balance at June 30, 2010	\$ 3,682,311	\$ 94,681
Close Athletics Fund to General Fund	<u>94,681</u>	<u>(94,681)</u>
Fund balance July 1, 2010, as restated	<u><u>\$ 3,776,992</u></u>	<u><u>\$ -</u></u>

NOTE C - BUDGETARY POLICY AND PRACTICE

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2011, the School District was in compliance with the Act.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE D - CASH AND INVESTMENTS

At June 30, 2011, the School District's cash and investments include the following:

	<u>Cash and Equivalents</u>
Bank deposits and cash on hand	\$ 2,388,459
Investment pools ("MILAF")	<u>17,540,517</u>
	<u>\$19,928,976</u>

Bank Deposits

All of the School District's bank deposits are with financial institutions which provide FDIC insurance coverage.

Custodial Credit Risk - Deposits

As of June 30, 2011, \$1,999,142 of the School District's bank balance of \$2,700,169 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

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

1. Bonds and other obligations of the United States; the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificate of deposits issued by financial institutions organized and authorized to operate in Michigan.
3. Certain commercial paper.
4. Securities issued or guaranteed by agencies or instruments of the United States government.
5. United States government of Federal agency obligation repurchase agreements.
6. Banker's acceptance issued by a bank that is a member of the FDIC.
7. Certain mutual funds.
8. Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982.

Investments at June 30, 2011 consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
MILAF	<u>\$17,540,517</u>	<u>\$17,540,517</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Interest Rate Risk

In accordance with the School District's investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fail due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, or MILAF and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk

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

NOTE E - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

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

During the fiscal year, \$18 per \$1,000 of equalized non-principal residence property value of \$318 million and \$6 per \$1,000 of equalized commercial personal property value of \$20 million was levied for general operating purposes. For Debt Service purposes, \$3.50 per \$1,000 of equalized homestead and non-homestead property value of \$584 million was levied for bonded debt repayments by the Debt Service Fund.

Intergovernmental Receivables and Deferred Revenue

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

NOTES TO FINANCIAL STATEMENTS - Continued

Amounts due from other governments at June 30, 2011 are as follows:

Due from the State of Michigan	
State Aid	\$ 1,079,276
Other receivables	109,299
Due from Federal Grants	<u>266,277</u>
	<u>\$ 1,454,852</u>

NOTE F - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2011</u>
Buildings and improvements	\$ 16,739,402	\$ -	\$ (300,000)	\$ 16,439,402
Furniture and equipment	2,002,920	240,421	-	2,243,341
Buses and vehicles	<u>438,490</u>	<u>69,550</u>	<u>-</u>	<u>508,040</u>
Total depreciable assets	19,180,812	309,971	(300,000)	19,190,783
Less accumulated depreciation	(9,897,417)	(618,849)	190,488	(10,325,778)
Construction-in-process	-	6,367,511	-	6,367,511
Land	<u>1,356,500</u>	<u>-</u>	<u>-</u>	<u>1,356,500</u>
Total capital assets, net	<u>\$ 10,639,895</u>	<u>\$ 6,058,633</u>	<u>\$ (109,512)</u>	<u>\$ 16,589,016</u>

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

Unallocated	<u>\$ 618,849</u>
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NOTE G - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2011 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments/ Defeasance</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General Obligation Bonds	\$23,110,494	\$ -	\$ (966,384)	\$22,144,110	\$1,181,599
Unamortized bond discount	(116,877)	-	11,327	(105,550)	(6,614)
Unamortized bond issuance costs	(203,322)	-	24,192	(179,130)	(11,225)
Loss on 2009 refunding	(1,021)	-	1,021	-	-
Early retirement incentives	28,354	358,646	-	387,000	144,000
Accumulated leave liability	<u>24,405</u>	<u>3,258</u>	<u>-</u>	<u>27,663</u>	<u>-</u>
Total Long-term debt	<u>\$22,842,033</u>	<u>\$ 361,904</u>	<u>\$ (929,844)</u>	<u>\$22,274,093</u>	<u>\$1,307,760</u>

NOTES TO FINANCIAL STATEMENTS - Continued

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

At June 30, 2011, the School District's long-term debt consisted of the following:

1991 Capital Bonds due in annual installments of \$229,436 to \$118,365 beginning May 2012 through May 1, 2021, with interest rates of 7.10% to 7.20%.	\$ 1,686,232
2005 Qualified Zone Academy Bond ("QZAB"), due May 2020; no annual installments; 0% interest rate.	1,256,406
2008 School Building Bonds due in annual installments of \$110,000 to \$160,000 through May 15, 2014, with an interest rate of 3.00% to 4.00%.	425,000
1998 Durant School Improvement Bonds, due in annual installments of \$16,384 to \$93,266 through May 15, 2013, with an interest rate of 4.76%.	36,472
2010 Qualified School Construction Bonds ("QSCB"), due in annual installments of \$1,000,000 to \$1,350,000 beginning May 2015 through May 2027, with an interest rate of 4.00% to 6.40%.	15,000,000
2010 Qualified Zone Academy Bond ("QZAB"), due in annual installments of \$200,000 to \$825,000 beginning May 2012 through May 2027, with an interest rate of 2.20% to 6.40%.	<u>3,740,000</u>
Total general obligation bonds payable	22,144,110
Unamortized bond discount	(105,550)
Unamortized bond issuance costs	(179,130)
Early retirement incentives	387,000
Accumulated leave liability	<u>27,663</u>
Total long-term debt	<u><u>\$22,274,093</u></u>

NOTES TO FINANCIAL STATEMENTS - Continued

Total annual requirements to amortize bonds outstanding as of June 30, 2011 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 1,181,599	\$ 1,789,768
2013	1,203,281	1,781,684
2014	1,182,355	1,768,958
2015	1,183,968	1,745,832
2016	1,170,618	1,714,182
2017-2021	6,947,289	7,978,618
2022-2026	7,750,000	1,962,050
2027-2031	<u>1,525,000</u>	<u>97,600</u>
	<u>\$22,144,110</u>	<u>\$18,838,692</u>

Interest expense for the year ended June 30, 2011 was \$94,430, and interest paid for the year ended June 30, 2011 was \$956,605.

Accumulated Leave Liability

Year-round employees of the School District accumulate days of compensated vacation leave, as specified by the bargaining units' contract. This benefit vests after 10 years of employment. Upon either resignation or retirement, the employees are compensated at daily rates specified in the bargaining units' contracts. As of June 30, 2011, a liability for compensated vacation leave of \$27,663 had accumulated to employees.

Early Retirement Incentives

Certain employees of the School District, who have at least 20 years of service and qualify under MPSERS, are eligible to receive early retirement benefits from the School District for up to seven years. The benefit amount is based on a calculation of a percentage of salary and number of years of service and also includes a supplemental health insurance payment. Lump-sum payments are optional and limited in amount. The amount recorded consists of individuals currently receiving benefits. During the year eleven individuals elected to receive early retirement benefits. There is no amount recorded for eligible employees not yet receiving benefits as the benefit amount cannot be estimated.

2005 School Building and Site Bonds (QZAB)

The 2005 School Building and Site Bonds are "qualified zone academy bonds" ("QZAB") under Section 1397E(d)(6) of the Internal Revenue Code (the "Code"), allowing holders of the bonds certain income tax credits. The QZAB bonds are due in May 2020, but require annual deposits of \$83,761 into an escrow account beginning May 2006. The escrow account balance was \$517,339 at June 30, 2011. The escrow deposits plus the interest earned thereon, which is fixed at .4%, will be sufficient to pay off the bonds upon maturity. Any spread from the escrow account will be paid to the purchaser of the bonds.

2010 Qualified School Construction Bonds (Series A) and Qualified Zone Academy Bonds (Series B)

The 2010 Qualified School Construction Bonds (Series A) and Qualified Zone Academy Bonds (Series B) are qualified under Section 54F and 54E, respectively, of the Code. The School District has irrevocably elected under Section 6431(f)(2) of the Code to receive a direct payment from the United States Treasury equal to the lesser of the amount of interest payable on the Series A and B bonds or the amount of interest which would have been payable on the Series A and B bonds if interest were determined at the applicable credit rate determined under Section 54A(b)(3) of the Code. The direct payments are recorded in the 2010 QSCB and 2010 QZAB debt service funds and are classified as an operating grant in the statement of activities.

Durant Settlement

As a result of the Durant v State of Michigan settlement regarding State underfunding of school revenues, the School District has opted to participate in a bonding program enabling it to receive a lump-sum payment of \$268,254 on November 15, 1998. The debt will be repaid over a 15-year period beginning May 15, 1999 using revenues provided by the State specifically for this purpose.

As part of the Executive Budget Recommendation for fiscal year 2004, the State refunded the bonds. The refunding changes the payment schedule without changing the total payments. There were no debt service payments for fiscal years 2004 and 2005. Payments resumed in 2006 in the amount of \$18,838. In the fiscal years 2007 and 2008 there were no debt payments. Payments resumed in 2009 in the amount of \$18,838. The School District made payments in the amount of \$126,567 and \$18,838, in the fiscal years 2010 and 2011, respectively.

NOTE H - RISK MANAGEMENT

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

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

NOTE I - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Receivables and Payables

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payables between funds.

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Fund:		
General Fund	\$ -	\$ 22,597
Other governmental funds:		
Food Service Fund	<u>22,597</u>	<u>-</u>
	<u>\$ 22,597</u>	<u>\$ 22,597</u>

Transfers and Payments

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

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

<u>Transfer in</u>	<u>Amount</u>	<u>Transfer out</u>	<u>Amount</u>
Major Governmental Funds		Major Governmental Funds	
General Fund	\$ 15,000	General Fund	\$ 83,761
Other Governmental Funds		Other Governmental Funds	
2005 QZAB Bond Fund	<u>83,761</u>	Food Service Fund	<u>15,000</u>
	<u>\$ 98,761</u>		<u>\$ 98,761</u>

NOTE J - PENSION PLAN

The School District contributes to the Michigan Public School Employees' Retirement Systems ("MPSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget ("DMB"). MPSERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPSERS, P.O. Box 30171, Lansing, MI 48909-7671, or by calling (517) 322-5103 or on the State of Michigan's website at www.Michigan.gov.

Funding Policy

Plan members who participate in MIP are required to contribute 3% to 6.4% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the Plan; and the School District is required to contribute at an actuarially determined rate. The rate was 16.94% and 15.44%, dependent upon the entrance date, for the period July 1, 2010 to September 30, 2010, and 20.66% and 19.16%, dependent upon the entrance date, for the period October 1, 2010 to June 30, 2011 of annual covered payroll. The contribution requirements of plan members and the School District are established and may be amended by the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2011, 2010 and 2009, were \$1,229,337, \$1,118,388 and \$1,063,558, respectively, which is equal to the required contribution for each year.

Post Employment Benefits

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

NOTE K - COMMITMENTS AND CONTINGENCIES

The 2010 Capital Projects Funds account for activity related to construction, equipping and furnishing additions to and remodeling, re-equipping and refurbishing School District buildings, including educational technology improvements. For these capital projects, the School District has complied with the applicable provisions of Section 1351a of the Revised School Code. The project for which the 2010 School Building Bonds were issued has not been completed as of June 30, 2011. The remaining fund balance in the 2010 Series A QSCB and 2010 Series B QZAB Capital Project Funds as of June 30, 2011 was \$9,285,699 and \$2,653,651, respectively.

NOTES TO FINANCIAL STATEMENTS - Continued

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Northern Michigan Education Association. The Board of Education and the Northern Michigan Education Association have a contract for the period June 2, 2010 through August 31, 2012.

The support personnel at the School District are organized under the Northern Michigan Education Association. The Board of Education and the Northern Michigan Education Association have a contract for the period November 5, 2010 through August 27, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

Kalkaska Public Schools

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Favorable (Unfavorable)	
	Original	Final		Original to Final Budget	Final Budget to Actual
	Revenues				
Local and intermediate sources	\$ 6,047,331	\$ 6,170,692	\$ 5,863,406	\$ 123,361	\$ (307,286)
State revenues	5,780,746	5,924,471	5,923,657	143,725	(814)
Federal revenues	1,242,583	1,837,155	1,609,294	594,572	(227,861)
Other	<u>168,000</u>	<u>384,844</u>	<u>610,962</u>	<u>216,844</u>	<u>226,118</u>
Total revenues	<u>13,238,660</u>	<u>14,317,162</u>	<u>14,007,319</u>	<u>1,078,502</u>	<u>(309,843)</u>
Expenditures					
Instruction	8,521,891	8,435,785	7,886,955	86,106	548,830
Supporting Services	5,361,001	5,675,759	5,204,889	(314,758)	470,870
Community Services	63,370	71,781	54,492	(8,411)	17,289
Other	<u>59,000</u>	<u>152,000</u>	<u>3,356</u>	<u>(93,000)</u>	<u>148,644</u>
Total expenditures	<u>14,005,262</u>	<u>14,335,325</u>	<u>13,149,692</u>	<u>(330,063)</u>	<u>1,185,633</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(766,602)</u>	<u>(18,163)</u>	<u>857,627</u>	<u>748,439</u>	<u>875,790</u>
Other financing sources (uses)					
Operating transfers in	-	-	15,000	-	15,000
Operating transfers out	<u>(233,761)</u>	<u>(83,761)</u>	<u>(83,761)</u>	<u>150,000</u>	<u>-</u>
Total other financing sources (uses)	<u>(233,761)</u>	<u>(83,761)</u>	<u>(68,761)</u>	<u>150,000</u>	<u>15,000</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>(1,000,363)</u>	<u>(101,924)</u>	<u>788,866</u>	<u>898,439</u>	<u>890,790</u>
Fund balance, beginning of year	<u>2,741,679</u>	<u>3,682,311</u>	<u>3,776,992</u>	<u>940,632</u>	<u>94,681</u>
Fund balance, end of year	<u><u>\$ 1,741,316</u></u>	<u><u>\$ 3,580,387</u></u>	<u><u>\$ 4,565,858</u></u>	<u><u>\$ 1,839,071</u></u>	<u><u>\$ 985,471</u></u>

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

Kalkaska Public Schools

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2011

	Special Revenue Fund	Debt Service Funds						Total Non-Major Governmental
	Food Service	1991 Capital Bonds	2005 QZAB Bond	2008 School Building Bonds	1998 Durant Bonds	2010 QSCB	2010 QZAB	
ASSETS								
Cash and cash equivalents	\$ 220,456	\$ 112,826	\$ 517,339	\$ 45,479	\$ -	\$763,940	\$147,378	\$ 1,807,418
Due from other governments	5,179	-	-	-	-	-	-	5,179
Due from other funds	22,597	-	-	-	-	-	-	22,597
Inventory	28,007	-	-	-	-	-	-	28,007
Total assets	<u>\$ 276,239</u>	<u>\$ 112,826</u>	<u>\$ 517,339</u>	<u>\$ 45,479</u>	<u>\$ -</u>	<u>\$ 763,940</u>	<u>\$ 147,378</u>	<u>\$ 1,863,201</u>
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts payable and accrued expenses	\$ 6,035	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,035
Deferred revenue	26,170	-	-	-	-	-	-	26,170
Total liabilities	<u>32,205</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,205</u>
FUND BALANCES								
Nonspendable - inventory	28,007	-	-	-	-	-	-	28,007
Restricted - Debt Service	-	112,826	517,339	45,479	-	763,940	147,378	1,586,962
Restricted - Food Service	216,027	-	-	-	-	-	-	216,027
Total fund balances	<u>244,034</u>	<u>112,826</u>	<u>517,339</u>	<u>45,479</u>	<u>-</u>	<u>763,940</u>	<u>147,378</u>	<u>1,830,996</u>
Total liabilities and fund balances	<u>\$ 276,239</u>	<u>\$ 112,826</u>	<u>\$ 517,339</u>	<u>\$ 45,479</u>	<u>\$ -</u>	<u>\$ 763,940</u>	<u>\$ 147,378</u>	<u>\$ 1,863,201</u>

Kalkaska Public Schools

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

Year Ended June 30, 2011

	Special Revenue Fund	Debt Service Funds					Total Non-Major Governmental	
	Food Service	1991 Capital Bonds	2005 QZAB Bond	2008 School Building Bonds	1998 Durant Bond	2010 QSCB		2010 QZAB
Revenues								
Property taxes	\$ -	\$ 908,490	\$ -	\$ 144,498	\$ -	\$ 845,718	\$ 165,001	\$ 2,063,707
Interest	820	779	906	17	-	1,952	249	4,723
State revenues	35,131	-	-	-	18,838	-	-	53,969
Federal revenues	564,895	-	-	-	-	-	-	564,895
Other	192,386	11	-	2	-	681,781	121,628	995,808
Total revenues	<u>793,232</u>	<u>909,280</u>	<u>906</u>	<u>144,517</u>	<u>18,838</u>	<u>1,529,451</u>	<u>286,878</u>	<u>3,683,102</u>
Expenditures								
Food Service	755,956	-	-	-	-	-	-	755,956
Debt Service								
Principal	-	840,000	-	110,000	16,384	-	-	966,384
Interest	-	42,000	-	20,740	2,454	758,711	132,700	956,605
Other	-	500	-	150	-	6,800	6,800	14,250
Capital outlay	47,441	-	-	-	-	-	-	47,441
Total expenditures	<u>803,397</u>	<u>882,500</u>	<u>-</u>	<u>130,890</u>	<u>18,838</u>	<u>765,511</u>	<u>139,500</u>	<u>2,740,636</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(10,165)</u>	<u>26,780</u>	<u>906</u>	<u>13,627</u>	<u>-</u>	<u>763,940</u>	<u>147,378</u>	<u>942,466</u>
Other financing sources (uses)								
Operating transfers in	-	-	83,761	-	-	-	-	83,761
Operating transfers out	(15,000)	-	-	-	-	-	-	(15,000)
Total other financing sources (uses)	<u>(15,000)</u>	<u>-</u>	<u>83,761</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,761</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>(25,165)</u>	<u>26,780</u>	<u>84,667</u>	<u>13,627</u>	<u>-</u>	<u>763,940</u>	<u>147,378</u>	<u>1,011,227</u>
Fund balance, beginning of year	<u>269,199</u>	<u>86,046</u>	<u>432,672</u>	<u>31,852</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>819,769</u>
Fund balance, end of year	<u>\$ 244,034</u>	<u>\$ 112,826</u>	<u>\$ 517,339</u>	<u>\$ 45,479</u>	<u>\$ -</u>	<u>\$ 763,940</u>	<u>\$ 147,378</u>	<u>\$ 1,830,996</u>

FEDERAL PROGRAMS

Kalkaska Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Receivable June 30, 2010	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Receivable June 30, 2011
United States Department of Education							
Passed through Michigan Department of Education							
Title I Part A Cluster Grants - Educationally Deprived							
101530-0910	84.010	\$ 606,615	\$ 72,552	\$ 579,236	\$ 72,552	\$ -	\$ -
111530-1011		<u>580,295</u>	<u>-</u>	<u>-</u>	<u>311,991</u>	<u>395,297</u>	<u>83,306</u>
		<u>1,186,910</u>	<u>72,552</u>	<u>579,236</u>	<u>384,543</u>	<u>395,297</u>	<u>83,306</u>
ARRA 101535-0910	84.389	288,991	9,946	39,214	9,946	-	-
ARRA 111535-1011	84.389	<u>249,777</u>	<u>-</u>	<u>-</u>	<u>182,780</u>	<u>228,804</u>	<u>46,024</u>
		<u>538,768</u>	<u>9,946</u>	<u>39,214</u>	<u>192,726</u>	<u>228,804</u>	<u>46,024</u>
Total Title I Part A Cluster - Educationally Deprived		<u>1,725,678</u>	<u>82,498</u>	<u>618,450</u>	<u>577,269</u>	<u>624,101</u>	<u>129,330</u>
Education Jobs Fund	84.410A	<u>348,783</u>	<u>-</u>	<u>-</u>	<u>304,958</u>	<u>348,783</u>	<u>43,825</u>
Title IIA - Improving Teacher Quality	84.394						
100520-0910		145,503	23,249	129,039	23,249	-	-
110520-1011		<u>151,861</u>	<u>-</u>	<u>-</u>	<u>120,413</u>	<u>167,296</u>	<u>46,883</u>
Total Improving Teacher Quality		<u>297,364</u>	<u>23,249</u>	<u>129,039</u>	<u>143,662</u>	<u>167,296</u>	<u>46,883</u>
Title VIB -Teach/Principal	84.358B						
100660-0910		39,591	7,400	39,591	7,400	-	-
110660-1011		<u>37,965</u>	<u>-</u>	<u>-</u>	<u>8,374</u>	<u>8,374</u>	<u>-</u>
Total Teach/Principal		<u>77,556</u>	<u>7,400</u>	<u>39,591</u>	<u>15,774</u>	<u>8,374</u>	<u>-</u>
ARRA Stabilization Funds							
102525-0910	84.394	437,821	-	437,821	-	-	-
112525-1011		<u>181,817</u>	<u>-</u>	<u>-</u>	<u>156,002</u>	<u>181,817</u>	<u>25,815</u>
Total ARRA Stabilization Funds		<u>619,638</u>	<u>-</u>	<u>437,821</u>	<u>156,002</u>	<u>181,817</u>	<u>25,815</u>
Total Passed Through Michigan Department of Education		<u>3,069,019</u>	<u>113,147</u>	<u>1,224,901</u>	<u>1,197,665</u>	<u>1,330,371</u>	<u>245,853</u>

-30- The accompanying notes are an integral part of this schedule.

Kalkaska Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Receivable June 30, 2010	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Receivable June 30, 2011
Special Education Cluster							
Passed through Traverse Bay Area ISD							
Preschool	84.173A	\$ 10,064	\$ -	\$ 21,177	\$ 10,064	\$ 10,064	\$ -
ARRA IDEA Flowthrough	84.391	237,138	-	108,004	216,714	237,138	20,424
ARRA Pre-school	84.392	28,747	-	-	28,747	28,747	-
Transition Grant	84.027	<u>862</u>	<u>-</u>	<u>862</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Special Education Cluster Passed Through Traverse Bay Area ISD		<u>276,811</u>	<u>-</u>	<u>130,043</u>	<u>255,525</u>	<u>275,949</u>	<u>20,424</u>
Total U.S. Department of Education		<u>3,345,830</u>	<u>113,147</u>	<u>1,354,944</u>	<u>1,453,190</u>	<u>1,606,320</u>	<u>266,277</u>
United States Department of Agriculture							
Nutrition Cluster							
Passed Through Michigan Department of Education							
National School Lunch Program							
0900 Summer Food Service	10.559	<u>14,873</u>	<u>-</u>	<u>13,594</u>	<u>14,873</u>	<u>14,873</u>	<u>-</u>
1950 All Lunches	10.553	<u>55,065</u>	<u>-</u>	<u>51,338</u>	<u>55,065</u>	<u>55,065</u>	<u>-</u>
1960 Free and Reduced Commodities	10.555	319,582	-	307,683	319,582	319,582	-
Entitlement	10.555	48,342	-	37,708	48,342	48,342	-
Bonus	10.555	<u>2,506</u>	<u>-</u>	<u>4,681</u>	<u>2,506</u>	<u>2,506</u>	<u>-</u>
		<u>370,430</u>	<u>-</u>	<u>350,072</u>	<u>370,430</u>	<u>370,430</u>	<u>-</u>
1970 Breakfast	10.553	<u>115,252</u>	<u>-</u>	<u>111,643</u>	<u>115,252</u>	<u>115,252</u>	<u>-</u>
1980 Snacks	10.553	<u>9,275</u>	<u>-</u>	<u>7,536</u>	<u>9,275</u>	<u>9,275</u>	<u>-</u>
Total Nutrition Cluster		<u>564,895</u>	<u>-</u>	<u>534,183</u>	<u>564,895</u>	<u>564,895</u>	<u>-</u>
United States Department of Health and Human Services							
Passed Through Traverse Bay Area ISD							
Medicaid - School Based Services	93.778	2,891	-	55,671	2,891	2,891	-
Learn and serve	94.001	<u>83</u>	<u>-</u>	<u>-</u>	<u>83</u>	<u>83</u>	<u>-</u>
Total Passed Through Traverse Bay Area ISD		<u>2,974</u>	<u>-</u>	<u>55,671</u>	<u>2,974</u>	<u>2,974</u>	<u>-</u>
Total Federal Financial Assistance		<u>\$ 3,913,699</u>	<u>\$ 113,147</u>	<u>\$ 1,944,798</u>	<u>\$ 2,021,059</u>	<u>\$ 2,174,189</u>	<u>\$ 266,277</u>

-31- The accompanying notes are an integral part of this schedule.

Kalkaska Public Schools

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2011

- Note 1** The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting.
- Note 2** Management has reported that expenditures in this Schedule of Expenditures of Federal Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3** The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete, accurate and contain information that is supported by the books and records from which the basic financial statements have been prepared. Grant receipts reported on the Schedule of Expenditures of Federal Awards, as passed through the Michigan Department of Education, reconcile to the Grant Section Auditor's Report (R7120). Unreconciled differences have been disclosed to the auditor.
- Note 4** A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards with Federal sources reported on the financial statements are as follows:

Federal expenditures per Schedule of Expenditures of Federal Awards	\$ <u>2,174,189</u>
Federal sources per financial statements	\$ <u>2,174,189</u>



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Kalkaska Public Schools

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Kalkaska Public Schools* (the "School District") as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2011-1 and 2011-2 to be material weaknesses.

Compliance and Other Matters

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

The School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the School District's response and, accordingly, we express no opinion on it.

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

Dennis, Gartland & Niergarth

October 27, 2011



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**REPORT OF COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Kalkaska Public Schools

Compliance

We have audited the compliance of the ***Kalkaska Public Schools*** (the "School District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011. The School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, Kalkaska Public Schools complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

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

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

Dennis, Gartland & Niergarth

October 27, 2011

Kalkaska Public Schools

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2011

PRIOR YEAR

See current year findings in section 2 for a repeat of all prior year findings.

CURRENT YEAR

Section 1 - Summary of Auditors' Results

1. The auditor's report represents an unqualified opinion on the basic financial statements of Kalkaska Public Schools.
2. There were two material weakness in internal control reported as a result of the audit of the financial statements. See section 2 - Findings in Accordance with Governmental Auditing Standards.
3. There were no compliance findings disclosed that were material to the School District's financial statements.
4. The auditor's report does not disclose any reportable conditions in internal control over major programs.
5. The report over compliance for major programs was unqualified.
6. There were no audit findings relative to major programs that are required to be reported.
7. The School District's major programs were the Nutrition Cluster (CFDA 10.553, 10.555 and 10.559), Educational Jobs Fund (CFDA 84.410A), and Title I Part A Cluster (CFDA 84.010 and 84.389).
8. The dollar threshold for distinguishing between Type A and Type B programs was \$300,000.
9. Kalkaska Public Schools does not qualify as a low risk auditee.

Section 2 - Findings in Accordance with Governmental Auditing Standards

Finding Number 2011-1

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the School District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records) and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Section 2 - Findings in Accordance with Governmental Auditing Standards - Continued

Condition: As is the case with many smaller and medium-sized entities, the School District has historically relied on its independent external auditors to assist in the preparation of the basic financial statements as part of its external financial reporting process. Accordingly, the School District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the School District's internal controls.

Cause: This condition was caused by the School District's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary resources required for the School District to perform this task internally.

Effect: As a result of this condition, the School District lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

Management's Response: The School District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the School District to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Finding Number 2011-2

Criteria: Adequate segregation of duties for the School District is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

Condition: The School District has not achieved a complete segregation of duties among employees who have access to assets and those with accounting responsibilities.

Cause: The small size of the business office staff creates an inherent lack of segregation of duties.

Effect: As a result of this condition, the School District lacks proper segregation of duties and is exposed to the risk of material misstatement of its financial statements.

Management's Response: The School District has evaluated the manner in which they segregate duties and has implemented measures such as Board review of all expenditures. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

Section 3 - Findings and Questioned Costs in Accordance with OMB Circular A-133

No findings or questioned costs.