

**Schoolcraft Community Schools**

**Annual Financial Statements  
and  
Auditors' Report**

**June 30, 2010**

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**Schoolcraft Community Schools**  
**Members of the Board of Education and Administration**  
**June 30, 2010**

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**Members of the Board of Education**

Michael Rochholz – President

Skip Fox – Vice President

Matt DeVoe – Treasurer

Darby Fetzer – Secretary

David Krum – Trustee

Kathy Mastenbrook - Trustee

Janette Gabel-Goes - Trustee

**Administration**

Douglas Knobloch - Superintendent

## Independent Auditors' Report

To the Board of Education  
Schoolcraft Community Schools  
Schoolcraft, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Schoolcraft Community Schools as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Schoolcraft Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 Schoolcraft Community Schools as of June 30, 2010, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 2010 on our consideration of the Schoolcraft Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Schoolcraft Community Schools' basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Yeo & Yeo, P.C.*

Kalamazoo, Michigan  
October 29, 2010

## **Schoolcraft Community Schools Management's Discussion and Analysis For the Year Ended June 30, 2010**

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This section of the Schoolcraft Community Schools annual financial report presents a discussion and analysis of the School District's financial performance during the year ended June 30, 2010. It is to be read in conjunction with the School District's financial statements, which immediately follow this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Schoolcraft Community Schools financially as a whole. The District-wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the School District-wide financial statements by providing information about the School District's most significant funds - the General Fund, the 2009 Debt Fund, and the Capital Projects Fund with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

### **Reporting the School District as a Whole - District-wide Financial Statements**

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps one answer this question. Statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, debt service, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

**Schoolcraft Community Schools  
Management's Discussion and Analysis  
For the Year Ended June 30, 2010**

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***Reporting the School District's Most Significant Funds - Fund Financial Statements***

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help the School District to control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that the School District is meeting legal responsibilities for using certain taxes, grants, and other money (i.e. construction bond funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental Funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on demonstrating how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. The relationship between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds are described in a reconciliation.

***The School District as Trustee - Reporting the School District's Fiduciary Responsibilities***

The School District is the trustee, or fiduciary, for student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. These activities are excluded from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Schoolcraft Community Schools  
Management's Discussion and Analysis  
For the Year Ended June 30, 2010**

**The School District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2010:

|                                | Year Ended<br>June 30,<br>2010 | Year Ended<br>June 30,<br>2009 |  | Year Ended<br>June 30,<br>2010 | Year Ended<br>June 30,<br>2009 |
|--------------------------------|--------------------------------|--------------------------------|--|--------------------------------|--------------------------------|
| <b>Assets</b>                  |                                |                                | <b>Liabilities</b>                                 |                                |                                |
| Current assets                 | \$ 4,290,719                   | \$ 3,785,988                   | Current liabilities                                | \$ 2,565,850                   | \$ 1,914,149                   |
| Capital assets                 | 25,761,333                     | 25,715,072                     | Long-term liabilities                              | 13,608,286                     | 15,364,845                     |
| Less: accumulated depreciation | <u>(10,611,300)</u>            | <u>(10,183,861)</u>            | Total liabilities                                  | <u>16,174,136</u>              | <u>17,278,994</u>              |
| Capital assets, net book value | <u>15,150,033</u>              | <u>15,531,211</u>              | <b>Net Assets</b>                                  |                                |                                |
|                                |                                |                                | Invested in capital assets,<br>net of related debt | 318,388                        | (343,846)                      |
|                                |                                |                                | Restricted for debt service                        | 411,212                        | 287,111                        |
|                                |                                |                                | Unrestricted                                       | <u>2,537,016</u>               | <u>2,094,940</u>               |
|                                |                                |                                | Total net assets (liabilities)                     | <u>3,266,616</u>               | <u>2,038,205</u>               |
| Total assets                   | <u>\$ 19,440,752</u>           | <u>\$ 19,317,199</u>           | Total liabilities and net assets                   | <u>\$ 19,440,752</u>           | <u>\$ 19,317,199</u>           |

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$3,266,616 and \$2,038,205 at June 30, 2010 and June 30, 2009, respectively. Capital assets (net of related debt totaling \$318,388 and (\$343,846) at June 30, 2010 and June 30, 2009, respectively) compares the original cost, less depreciation, of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Debt repayments are outpacing the investment in additional capital assets as expected. All major renovations and building projects were completed prior to June 30, 2005 and maintenance plans have been put in place to care for the existing facilities so the School District anticipates the continuation of this trend. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$2,336,951 was unrestricted.

The \$2,537,016 and \$2,094,940 at June 30, 2010 and June 30, 2009, respectively, in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year. See below for further discussion on the change in unrestricted net assets.

**Schoolcraft Community Schools  
Management's Discussion and Analysis  
For the Year Ended June 30, 2010**

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal years 2010 and 2009 respectively.

**Table 2 - Statement of Activities**

|   | Year Ended<br>June 30,<br>2010 | Year Ended<br>June 30,<br>2009 |                            | Year Ended<br>June 30,<br>2010 | Year Ended<br>June 30,<br>2009 |
|---|--------------------------------|--------------------------------|----------------------------|--------------------------------|--------------------------------|
| <b>Program revenue:</b>                     |                                |                                | <b>Expenses:</b>           |                                |                                |
| Charges for services                        | \$ 285,012                     | \$ 340,873                     | Instruction                | \$ 6,175,756                   | \$ 6,552,877                   |
| Operating grants                            | <u>1,413,972</u>               | <u>1,463,680</u>               | Supporting Services        | 3,461,622                      | 3,701,585                      |
| Total program revenue                       | 1,698,984                      | 1,804,553                      | Food services              | 325,146                        | 331,991                        |
| <b>General revenue:</b>                     |                                |                                | Athletics                  | 217,158                        | 216,774                        |
| Property taxes, levied for general purposes | 1,141,328                      | 1,130,205                      | Interest on long-term debt | <u>659,523</u>                 | <u>727,264</u>                 |
| Property taxes, levied for debt service     | 1,898,406                      | 1,906,811                      |                            |                                |                                |
| State aid, unrestricted                     | 7,173,508                      | 7,307,832                      |                            |                                |                                |
| Interest and investment earnings            | 15,236                         | 31,960                         |                            |                                |                                |
| Other                                       | <u>140,154</u>                 | <u>148,989</u>                 |                            |                                |                                |
| Total general revenue                       | <u>10,368,632</u>              | <u>10,525,797</u>              | Total expenses             | <b>\$ 10,839,205</b>           | <b>\$ 11,530,491</b>           |
| Total revenue                               | <b>\$ <u>12,067,616</u></b>    | <b>\$ <u>12,330,350</u></b>    | Increase in net assets     | <b>\$ <u>1,228,411</u></b>     | <b>\$ <u>799,859</u></b>       |

As reported in the statement of activities, the cost of all governmental activities for 2009-10 was \$10,839,205. Some activities were partially funded by those who benefited from the programs (\$285,012) or by subsidies from other governments and organizations (\$1,413,972). The remaining "public benefit" portion of governmental activities was paid for with \$3,039,734 in taxes, \$7,173,508 in state foundation allowance, and with other revenues (i.e. interest and general entitlements). The decrease in operating grants and the increase in property taxes, levied for general purposes, and state aid unrestricted, when combined is a net decrease of \$172,909. The decrease in revenue is primarily attributable to the decrease in enrollment (15 students or \$110,000). The decrease in instruction services expenses can primarily be attributed to the retirement and/or resignation of 4 professional staff that were not replaced (\$370,000). The decrease in supporting services can primarily be attributed to the Board of Education's decision to not transfer rent revenues to the Capital Project Fund (\$97,000) and the District's ongoing energy management program that resulted in a savings in utilities over the prior year of \$82,000.

The School District experienced an increase in net assets of \$1,228,411.

**Schoolcraft Community Schools  
Management's Discussion and Analysis  
For the Year Ended June 30, 2010**

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As discussed above, the net cost indicates the financial burden that was placed on the state and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

**The School District's Funds**

As noted earlier, the School District uses funds to help control and manage money for particular purposes. Examining funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed the 2009-10 fiscal year, the governmental funds reported a combined fund balance of \$2,991,184, which is an increase of \$354,609 from the previous year. The primary reasons for the increase are as follows:

The General Fund's fund balance increased \$163,711 to \$1,211,151. The net change is primarily the result of 4 fewer professional staff. General Fund fund balance is available to fund costs related to allowable school operating purposes.

The 1996 / 2009 Debt Service Fund remained stable from the prior year. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. During the year the School District issued serial refunding bonds to refinance the outstanding debt resulting in a combined net present value of \$667,000. Durant debt obligations are funded by annual state appropriations, and no fund balance exists at year end. Debt Service Funds fund balances are reserved and can only be used to pay debt service obligations.

The Capital Projects Fund increased \$62,238 to \$1,363,062. This is the fund that the School District uses to manage the district wide capital asset replacement and maintenance plans. The 1.5 % county wide regional enhancement millage revenues fund these plans. The School District's asset replacement and maintenance plan is a long-term plan.

Special Revenue Funds remained stable from the prior year, maintaining a total fund balance of \$5,759.

**General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget as it attempts to manage unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were revisions made to the 2010-11 General Fund original budget. Budgeted revenues were reallocated to better reflect their sources without a significant change in total revenue budgeted. The most significant revision of this type (\$326,000) related to the receipt of the American Reinvestment and Recovery Act (ARRA) monies instead of foundation allowance as originally budgeted.

**Schoolcraft Community Schools  
Management's Discussion and Analysis  
For the Year Ended June 30, 2010**

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**Capital Assets and Debt Administration**

**Capital Assets**

As of June 30, 2010, the School District had \$15.15 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture and equipment. This amount represents a net decrease from the previous year primarily due to depreciation, as the only major additions to capital assets were the purchase of vehicles (\$125,586), the acquisition of computer equipment (\$95,770), energy consortium fees (\$56,552) and various facility and operational improvements that were individually insignificant (\$79.961).

The only major expenditure in the capital project fund budgeted for the 2010-11 fiscal year is the payment of energy consortium fees (\$56,000). Total expenditures budgeted of \$161,400 are expected to be funded primarily through the regional enhancement millage receipts that are projected to generate \$385,000 in revenue for the School District.

**Debt**

At the end of this year, the School District had \$15.2 million in bonds outstanding versus \$12.25 million in the previous year - an increase of 24.4% percent. See below for details related to the refunding of the School District debt. Those bonds consisted of the following:

|                          | <u>2010</u>          | <u>2009</u>          |
|--------------------------|----------------------|----------------------|
| General Obligation Bonds | <u>\$ 15,245,000</u> | <u>\$ 12,250,000</u> |

The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "Qualified Debt," (i.e., debt backed by the State of Michigan), such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$15.2 million is significantly below the statutorily imposed limit.

The School District's general obligation bond rating is AA-. On September 16, 2009 and October 6, 2009 the District refunded (refinanced) both its general obligation bonds in the amount of \$12,420,000 and its bonds in the school loan revolving fund in the amount of \$4,010,000 respectively. The first transaction resulted in a net present value of \$500,000. The second transaction resulted in a net present value of \$167,000 and will allow the debt millage to be lowered to approximately 7.50 from 9.05 in December 2010 which will result in a savings in 2011 for the District's taxpayers. Other obligations include accrued compensated absences. More detailed information about our long-term liabilities is presented in the notes to the financial statements.

**Schoolcraft Community Schools  
Management's Discussion and Analysis  
For the Year Ended June 30, 2010**

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**Economic Factors and Next Year's Budgets and Rates**

The School District's elected officials and administration consider many factors when setting the School District's 2010-11 fiscal year budget. One of the most important factors affecting the budget is student enrollment count. The state foundation revenue is determined by multiplying the blended student count by the state foundation allowance per pupil. The 2010-11 budget was adopted in June 2010, based on an estimate of students that will be enrolled in September 2010. Approximately 80 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot access additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2010-11 school year, it is anticipated that the fall student count will be similar to the estimates used in creating the 2010-11 budget. The related per pupil funding that was adopted by the State is complicated. The School District assumed that the \$165 per pupil deduction in the foundation from 2008-09 would continue and an additional decrease of \$268 per pupil would occur. The October state foundation revenue payment shows a combined per pupil reduction of \$271, which is \$162 per pupil more than the original budget. The state is also expected to receive \$246 million federal Education Jobs money of which an amount not to exceed \$65,700,300 is to be distributed to school districts. According to the State Fiscal Agency the School District is expected to receive \$220 per pupil. This is one time money. The State again used American Reinvestment and Recovery Act dollars to back fill the 2010-11 budget so that the decrease was offset by \$117 per pupil. The state economy continues to remain down and has not recovered at the pace forecasted for the sixth year in a row. While the District has made many budget and staffing cuts over the past several years while maintaining solid programming the inability of the State to adequately fund education will undoubtedly result in deeper cuts going forward. In 2009-10 the School District convened a cross functional community and district committee to facilitate the discussion of next steps to take to remain solvent. As a result of those discussions, the School District's administration continues to work under a zero basis budgeting approach, purchasing needs only, as they wait to see how the state budget crisis is handled. Any questions related to the School District can be directed verbally to either the Superintendent or Finance Director at 269-488-7390 or in writing to the same at 629 East Clay St. MI Schoolcraft, MI 49087.

**Schoolcraft Community Schools**  
**Statement of Net Assets**  
**June 30, 2010**

|  | Governmental<br>Activities |
|--|----------------------------|
| <b>Assets</b>                                    |                            |
| Cash   | \$ 2,470,231               |
| Taxes receivable                                 | 27,957                     |
| Accounts receivable                              | 135,346                    |
| Due from other governmental units                | 1,426,140                  |
| Inventory  | 6,632                      |
| Investments                                      | 10,070                     |
| Prepaid items                                    | 15,238                     |
| Other assets                                     | 199,105                    |
| Capital assets not being depreciated             | 148,000                    |
| Capital assets - net of accumulated depreciation | 15,002,033                 |
| Total assets                                     | 19,440,752                 |
| <b>Liabilities</b>                               |                            |
| Accounts payable                                 | 335,754                    |
| Due to other governmental units                  | 179,558                    |
| Payroll deductions and withholdings              | 109,973                    |
| Accrued expenditures                             | 101,037                    |
| Accrued salaries payable                         | 440,991                    |
| Deferred revenue                                 | 9,355                      |
| Noncurrent liabilities                           |                            |
| Due within one year                              | 1,389,182                  |
| Due in more than one year                        | 13,608,286                 |
| Total liabilities                                | 16,174,136                 |
| <b>Net Assets</b>                                |                            |
| Invested in capital assets, net of related debt  | 318,388                    |
| Restricted for:                                  |                            |
| Debt service                                     | 411,212                    |
| Unrestricted                                     | 2,537,016                  |
| Total net assets                                 | \$ 3,266,616               |

See Accompanying Notes to Financial Statements

**Schoolcraft Community Schools**  
**Statement of Activities**  
**For the Year Ended June 30, 2010**

|   | Program Revenues        |  | Net (Expense)                           |                |
|---|-------------------------|--|---|----------------|
| Expenses                                    | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Revenue and<br>Changes in<br>Net Assets |                |
| <b>Functions/Programs</b>                   |                         |  |   |                |
| Governmental activities                     |                         |  |   |                |
| Instruction                                 | \$ 6,175,756            | \$ 36,273                                | \$ 1,299,322                            | \$ (4,840,161) |
| Supporting services                         | 3,461,622               | -  | -                                       | (3,461,622)    |
| Food services                               | 325,146                 | 196,979                                  | 114,650                                 | (13,517)       |
| Athletic activities                         | 217,158                 | 51,760                                   | -                                       | (165,398)      |
| Interest on long-term debt                  | 659,523                 | -  | -                                       | (659,523)      |
| Total governmental activities               | \$ 10,839,205           | \$ 285,012                               | \$ 1,413,972                            | (9,140,221)    |
| General revenues                            |                         |  |   |                |
| Property taxes, levied for general purposes |                         |  |   | 1,141,328      |
| Property taxes, levied for debt service     |                         |  |   | 1,898,406      |
| State aid - unrestricted                    |                         |  |   | 7,173,508      |
| Interest and investment earnings            |                         |  |   | 15,236         |
| Other                                       |                         |  |   | 140,154        |
| Total general revenues                      |                         |  |   | 10,368,632     |
| Change in net assets                        |                         |  |   | 1,228,411      |
| Net assets - beginning                      |                         |  |   | 2,038,205      |
| Net assets - ending                         |                         |  |   | \$ 3,266,616   |

See Accompanying Notes to Financial Statements

**Schoolcraft Community Schools**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2010**

|                                   | <u>General<br/>Fund</u> | <u>2009 Debt<br/>Service Fund</u> | <u>Capital<br/>Projects Fund</u> | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|-----------------------------------|-------------------------|-----------------------------------|----------------------------------|--|---|
| <b>Assets</b>                     |                         |                                   |                                  |  |   |
| Cash                              | \$ 23,643               | \$ 409,886                        | \$ 2,034,078                     | \$ 2,624                                   | \$ 2,470,231                            |
| Taxes receivable                  | 6,558                   | 21,399                            | -                                | -  | 27,957                                  |
| Accounts receivable               | 130,789                 | -                                 | -                                | 4,557                                      | 135,346                                 |
| Due from other funds              | 674,624                 | -                                 | -                                | -  | 674,624                                 |
| Due from other governmental units | 1,426,140               | -                                 | -                                | -  | 1,426,140                               |
| Inventory                         | 1,000                   | -                                 | -                                | 5,632                                      | 6,632                                   |
| Investments                       | 10,070                  | -                                 | -                                | -  | 10,070                                  |
| Prepaid items                     | 15,238                  | -                                 | -                                | -  | 15,238                                  |
|                                   | <u>          </u>       | <u>          </u>                 | <u>          </u>                | <u>          </u>                          | <u>          </u>                       |
| Total assets                      | <u>\$ 2,288,062</u>     | <u>\$ 431,285</u>                 | <u>\$ 2,034,078</u>              | <u>\$ 12,813</u>                           | <u>\$ 4,766,238</u>                     |

See Accompanying Notes to Financial Statements

**Schoolcraft Community Schools**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2010**

|   | <u>General<br/>Fund</u> | <u>2009 Debt<br/>Service Fund</u> | <u>Capital<br/>Projects Fund</u> | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|-------------------------|-----------------------------------|----------------------------------|--|---|
| <b>Liabilities and Fund Balance</b>       |                         |                                   |                                  |  |   |
| Liabilities                               |                         |                                   |                                  |  |   |
| Accounts payable                          | \$ 335,754              | \$ -                              | \$ -                             | \$ -                                       | \$ 335,754                              |
| Due to other funds                        | -                       | -                                 | 671,016                          | 3,608                                      | 674,624                                 |
| Due to other governmental units           | 179,558                 | -                                 | -                                | -  | 179,558                                 |
| Payroll deductions and withholdings       | 109,973                 | -                                 | -                                | -  | 109,973                                 |
| Accrued salaries payable                  | 440,991                 | -                                 | -                                | -  | 440,991                                 |
| Deferred revenue                          | 10,635                  | 20,073                            | -                                | 3,446                                      | 34,154                                  |
| <b>Total liabilities</b>                  | <u>1,076,911</u>        | <u>20,073</u>                     | <u>671,016</u>                   | <u>7,054</u>                               | <u>1,775,054</u>                        |
| Fund Balance                              |                         |                                   |                                  |  |   |
| Reserved for inventory                    | 1,000                   | -                                 | -                                | 5,632                                      | 6,632                                   |
| Reserved for prepaid items                | 15,238                  | -                                 | -                                | -  | 15,238                                  |
| Reserved for debt service                 | -                       | 411,212                           | -                                | -  | 411,212                                 |
| Reserved for capital projects             | -                       | -                                 | 1,363,062                        | -  | 1,363,062                               |
| Other undesignated                        | 1,194,913               | -                                 | -                                | 127  | 1,195,040                               |
| <b>Total fund balance</b>                 | <u>1,211,151</u>        | <u>411,212</u>                    | <u>1,363,062</u>                 | <u>5,759</u>                               | <u>2,991,184</u>                        |
| <b>Total liabilities and fund balance</b> | <u>\$ 2,288,062</u>     | <u>\$ 431,285</u>                 | <u>\$ 2,034,078</u>              | <u>\$ 12,813</u>                           | <u>\$ 4,766,238</u>                     |

See Accompanying Notes to Financial Statements

**Schoolcraft Community Schools**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets**  
**June 30, 2010**

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|   |                            |
|---|----------------------------|
| <b>Total fund balances for governmental funds</b>   | <b>\$ 2,991,184</b>        |
| Total net assets for governmental activities in the statement of net assets is different because:   |                            |
| Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.   |                            |
| Property taxes  | 24,799                     |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.   |                            |
| Capital assets not being depreciated  | 148,000                    |
| Capital assets - net of accumulated depreciation  | 15,002,033                 |
| Other long-term assets are not deferred in the governmental funds.  |                            |
| Bond issuance costs   | 199,105                    |
| Certain liabilities are not due and payable in the current period and are not reported in the funds.  |                            |
| Accrued interest  | (101,037)                  |
| Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. |                            |
| Compensated absences  | (165,823)                  |
| Bonds payable   | (14,787,989)               |
| Other loans payable and liabilities   | <u>(43,656)</u>            |
| <b>Net assets of governmental activities</b>  | <b><u>\$ 3,266,616</u></b> |

See Accompanying Notes to Financial Statements

**Schoolcraft Community Schools**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2010**

|   | General<br>Fund   | 2009 Debt<br>Service Fund | Capital<br>Projects Fund | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|-------------------|---------------------------|--------------------------|-----------------------------------|--------------------------------|
| <b>Revenues</b>                                   |                   |                           |                          |                                   |                                |
| Local sources                                     | \$ 910,323        | \$ 1,899,943              | \$ 13,391                | \$ 248,739                        | \$ 3,072,396                   |
| State sources                                     | 7,506,314         | 9,795                     | -                        | 13,370                            | 7,529,479                      |
| Federal sources                                   | 528,889           | -                         | -                        | 101,280                           | 630,169                        |
| Intermediate sources                              | 834,548           | -                         | -                        | -                                 | 834,548                        |
| <br>  |                   |                           |                          |                                   |                                |
| Total revenues                                    | <u>9,780,074</u>  | <u>1,909,738</u>          | <u>13,391</u>            | <u>363,389</u>                    | <u>12,066,592</u>              |
| <br>  |                   |                           |                          |                                   |                                |
| <b>Expenditures</b>                               |                   |                           |                          |                                   |                                |
| Current   |                   |                           |                          |                                   |                                |
| Education   |                   |                           |                          |                                   |                                |
| Instruction                                       | 5,662,799         | -                         | -                        | -                                 | 5,662,799                      |
| Supporting services                               | 3,348,228         | -                         | -                        | -                                 | 3,348,228                      |
| Food services                                     | -                 | -                         | -                        | 322,566                           | 322,566                        |
| Athletic activities                               | -                 | -                         | -                        | 205,976                           | 205,976                        |
| Capital outlay                                    | 28,908            | -                         | 357,869                  | -                                 | 386,777                        |
| Debt service                                      |                   |                           |                          |                                   |                                |
| Principal   | -                 | 1,193,132                 | -                        | -                                 | 1,193,132                      |
| Interest and other expenditures                   | -                 | 669,864                   | -                        | -                                 | 669,864                        |
| Bond issuance costs                               | -                 | 219,839                   | -                        | -                                 | 219,839                        |
| <br>  |                   |                           |                          |                                   |                                |
| Total expenditures                                | <u>9,039,935</u>  | <u>2,082,835</u>          | <u>357,869</u>           | <u>528,542</u>                    | <u>12,009,181</u>              |
| <br>  |                   |                           |                          |                                   |                                |
| Excess (deficiency) of revenues over expenditures | <u>\$ 740,139</u> | <u>\$ (173,097)</u>       | <u>\$ (344,478)</u>      | <u>\$ (165,153)</u>               | <u>\$ 57,411</u>               |

See Accompanying Notes to Financial Statements

**Schoolcraft Community Schools**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2010**

|  | <u>General<br/>Fund</u> | <u>2009 Debt<br/>Service Fund</u> | <u>Capital<br/>Projects Fund</u> | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|-------------------------|-----------------------------------|----------------------------------|--|---|
| <b>Other Financing Sources (Uses)</b>    |                         |                                   |                                  |  |   |
| Proceeds from refinancing debt           | \$ -                    | \$ 16,430,000                     | \$ -                             | \$ -                                       | \$ 16,430,000                           |
| Payment to bond refunding escrow agent   | -                       | (16,132,802)                      | -                                | -  | (16,132,802)                            |
| Transfers in                             | -                       | -                                 | 406,716                          | 169,712                                    | 576,428                                 |
| Transfers out                            | <u>(576,428)</u>        | <u>-</u>                          | <u>-</u>                         | <u>-</u>                                   | <u>(576,428)</u>                        |
| <br>Total other financing sources (uses) | <br><u>(576,428)</u>    | <br><u>297,198</u>                | <br><u>406,716</u>               | <br><u>169,712</u>                         | <br><u>297,198</u>                      |
| <br>Net change in fund balance           | <br>163,711             | <br>124,101                       | <br>62,238                       | <br>4,559                                  | <br>354,609                             |
| <br>Fund balance - beginning             | <br><u>1,047,440</u>    | <br><u>287,111</u>                | <br><u>1,300,824</u>             | <br><u>1,200</u>                           | <br><u>2,636,575</u>                    |
| <br>Fund balance - ending                | <br><u>\$ 1,211,151</u> | <br><u>\$ 411,212</u>             | <br><u>\$ 1,363,062</u>          | <br><u>\$ 5,759</u>                        | <br><u>\$ 2,991,184</u>                 |

See Accompanying Notes to Financial Statements

**Schoolcraft Community Schools**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2010**

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|   |           |                         |
|---|-----------|-------------------------|
| <b>Net change in fund balances - total governmental funds</b>   | \$        | 354,609                 |
| Total change in net assets reported for governmental activities in the statement of activities is different because:  |           |                         |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.   |           |                         |
| Property taxes  |           | 1,024                   |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.  |           |                         |
| Depreciation expense  |           | (600,962)               |
| Capital outlay  |           | 235,811                 |
| Sale of capital assets (net book value)   |           | (16,027)                |
| Expenses are recorded when incurred in the statement of activities.   |           |                         |
| Interest  |           | 10,341                  |
| Compensated absences  |           | 1,098                   |
| Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. |           |                         |
| Debt issued - bonds   |           | (16,430,000)            |
| Repayments of long-term debt  |           | 17,339,935              |
| Deferred bond issuance costs  |           | 219,839                 |
| Amortization bond issuance costs  |           | 112,743                 |
|   |           | 112,743                 |
| <b>Change in net assets of governmental activities</b>  | <b>\$</b> | <b><u>1,228,411</u></b> |

See Accompanying Notes to Financial Statements

**Schoolcraft Community Schools**  
**Fiduciary Funds**  
**Statement of Assets and Liabilities**  
**June 30, 2010**

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|                               | <u>Agency<br/>Funds</u> |
|-------------------------------|-------------------------|
| <b>Assets</b>                 |                         |
| Cash                          | \$ <u>108,672</u>       |
| <b>Liabilities</b>            |                         |
| Due to agency fund activities | \$ <u>108,672</u>       |

See Accompanying Notes to Financial Statements

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2010**

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

The accounting policies of the Schoolcraft Community Schools (the "School District") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

**District-wide Financial Statements**

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

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The School District first utilizes restricted resources to finance qualifying activities.

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

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

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

**Fund Financial Statements**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2010**

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to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

*General Fund* – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

*2009 Debt Service Funds* – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt. The School District is not required to establish budgets for debt service funds and so no budget is provided for in this major fund.

*Capital Projects Fund* – The Building and Site Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, building, equipment, and for remodeling and repairs. The fund is kept open until the purpose for which the fund was created has been accomplished. The School District is not required to establish budgets for capital projects funds and so no budget is provided for in this major fund.

Additionally, the School District reports the following fund types:

*Special Revenue Funds* – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District’s Special Revenue Funds include Food Service and Athletic Funds. Operating deficits generated by these activities are generally transferred from the General Fund.

*Fiduciary Funds* – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

**Assets, Liabilities and Equity**

*Receivables and Payables* – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2010, the rates are as follows per \$1,000 of assessed value.

|                                   |          |
|-----------------------------------|----------|
| General Fund                      |          |
| Non principal residence exemption | 18.00000 |
| Commercial personal property      | 6.00000  |
| Debt Service Funds                | 9.05000  |

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2010**

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School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by Kalamazoo County and should be remitted to the School District by May 15.

*Investments* – Investments are stated at fair value based on a quoted market price. Certificates of deposit are stated at cost which approximates fair value.

*Inventories and Prepaid Items* – Food service inventories are valued at cost, on a first-in, first-out basis and recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

*Capital Assets* – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

|                          |             |
|--------------------------|-------------|
| Buildings and additions  | 20-50 years |
| Equipment and furniture  | 5-10 years  |
| Buses and other vehicles | 5-10 years  |

*Compensated Absences* – Employees are provided with sick days each year. If not used, sick days may be carried forward into the next fiscal year. Once ninety (90) days of sick leave have been accumulated, teachers are paid \$25/day for unused sick leave accumulated over the ninety days. The monies will be paid at the end of the school year. Upon retirement, teachers will be paid \$25 for each day of unused sick leave accumulated up to 100 days. Employees that leave the School District's employ with accumulated sick days forfeit the right to receive payment thereof.

Support staff follows the same policy as teachers except that the accumulated sick days are paid on a graduated rate from \$5 to \$20 per day based on the normal number of hours in their workday.

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

In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

*Fund Equity* – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2010**

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**Comparative Data**

Comparative data is not included in the School District's financial statements.

**Eliminations and Reclassifications**

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

**Upcoming Accounting and Reporting Change**

The Government Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The new standard changes fund balance classifications to depict the relative strength of the spending constraints and clarifies the definitions of various governmental fund types. The new definition of special revenue funds will affect which activities the District will report in special revenue funds, as the Athletics Fund may no longer meet the definition for a special revenue fund. This statement is effective for the year ending June 30, 2011.

**Note 2 - Stewardship, Compliance, Accountability**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby cancel all encumbrances. These appropriations are reestablished at the beginning of the year.

The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. State law requires the School District to have its budget in place by July 1. A district is not considered in

violation of the Act if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

**Excess of Expenditures over Appropriations**

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

| <u>Function</u>       | <u>Final Budget</u> | <u>Amount of Expenditures</u> | <u>Budget Variances</u> |
|-----------------------|---------------------|-------------------------------|-------------------------|
| General Fund          |                     |                               |                         |
| School administration | \$ 590,700          | \$ 592,556                    | \$ 1,856                |

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2010**

**Note 3 - Deposits and Investments**

The School District's deposits and investments were reported in the basic financial statements in the following categories:

|             | Governmental<br>Activities | Fiduciary<br>Funds | Total<br>Primary<br>Government |
|-------------|----------------------------|--------------------|--------------------------------|
| Cash        | \$ 2,470,231               | \$ 108,672         | \$ 2,578,903                   |
| Investments | 10,070                     | -                  | 10,070                         |
|             | <u>\$ 2,480,301</u>        | <u>\$ 108,672</u>  | <u>\$ 2,588,973</u>            |

As of yearend, investments shown on the School District's Statement of Financial Position are treated as deposits for the purpose of this disclosure. The breakdown between deposits and investments for the School District is as follows:

|   |                     |
|---|---------------------|
| Deposits (checking, savings accounts,<br>certificates of deposit) | \$ 2,575,403        |
| Investments in securities, money markets,<br>and similar vehicles | 10,070              |
| Petty cash and cash on hand                                       | <u>3,500</u>        |
| Total   | <u>\$ 2,588,973</u> |

*Interest rate risk* – The District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

*Credit risk* – State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances,

commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

*Concentration of credit risk* – The District has no policy that would limit the amount that may be invested with any one issuer.

*Custodial credit risk – deposits* – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of year end, \$2,421,850 of the District's bank balance of \$2,690,269 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk - Investments* - For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Consistent with the District's investment policy, the District's investments in a municipal investment fund are held by a counterparty and not insured.

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2010**

**Note 4 - Capital Assets**

A summary of the changes in governmental capital assets is as follows:

|  | Beginning<br>Balance | Increases           | Decreases        | Ending<br>Balance    |
|--|----------------------|---------------------|------------------|----------------------|
| <b>Governmental activities</b>         |                      |                     |                  |                      |
| Capital assets not being depreciated   |                      |                     |                  |                      |
| Land                                   | \$ 148,000           | \$ -                | \$ -             | \$ 148,000           |
| Capital assets being depreciated       |                      |                     |                  |                      |
| Buildings and additions                | 22,873,217           | -                   | -                | 22,873,217           |
| Equipment and furniture                | 1,852,996            | 110,225             | 73,494           | 1,889,727            |
| Buses and other vehicles               | 840,859              | 125,586             | 116,056          | 850,389              |
| Total capital assets being depreciated | <u>25,567,072</u>    | <u>235,811</u>      | <u>189,550</u>   | <u>25,613,333</u>    |
| Less accumulated depreciation for      |                      |                     |                  |                      |
| Buildings and additions                | 8,124,179            | 427,838             | -                | 8,552,017            |
| Equipment and furniture                | 1,541,147            | 113,835             | 67,081           | 1,587,901            |
| Buses and other vehicles               | 518,535              | 59,289              | 106,442          | 471,382              |
| Total accumulated depreciation         | <u>10,183,861</u>    | <u>600,962</u>      | <u>173,523</u>   | <u>10,611,300</u>    |
| Net capital assets being depreciated   | <u>15,383,211</u>    | <u>(365,151)</u>    | <u>16,027</u>    | <u>15,002,033</u>    |
| Net capital assets                     | <u>\$ 15,531,211</u> | <u>\$ (365,151)</u> | <u>\$ 16,027</u> | <u>\$ 15,150,033</u> |

Depreciation expense was charged to activities of the School District as follows:

|                                |                   |
|--------------------------------|-------------------|
| <b>Governmental activities</b> |                   |
| Instruction                    | \$ 420,039        |
| Support services               | 167,161           |
| Food services                  | 2,580             |
| Athletic activities            | 11,182            |
| Total governmental activities  | <u>\$ 600,962</u> |

**Note 5 - Interfund Receivables, Payables, Transfers**

Individual interfund receivable and payable balances at year end were:

| Due From Fund    | Due to Fund | Amount            |
|------------------|-------------|-------------------|
| Athletics        | General     | \$ 377            |
| Food Service     | General     | 3,231             |
| Capital Projects | General     | 671,016           |
|                  |             | <u>\$ 674,624</u> |

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers were made during the year from the General Fund to the Capital Projects Fund, Athletic Fund and the Lunch Fund in the amount of \$406,717, \$154,215 and \$15,496 respectively. The transfers to the Athletics and Lunch Funds were made to cover the costs of the School District's programs that were in excess of revenues generated from those activities. The transfer to the Capital Projects Fund consisted of the Countywide Enhancement millage revenue received by the School District during the year. The Board of Education elected to earmark these funds to offset future costs related to the technology and capital improvements.

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2010**

**Note 6 - Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

|                           | <u>Unavailable</u> | <u>Unearned</u>   |
|---------------------------|--------------------|-------------------|
| Delinquent property taxes | \$ 24,799          | \$ -              |
| Advance rental payments   | -                  | 574               |
| Advance participant fees  | -                  | 5,335             |
| Lunch monies on account   | -                  | 3,446             |
|                           | <u>          </u>  | <u>          </u> |
| Total                     | <u>\$ 24,799</u>   | <u>\$ 9,355</u>   |

**Note 7 - Long-Term Debt**

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include a capital lease payable, compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

|                                 | <u>Beginning<br/>Balance</u> | <u>Additions</u>    | <u>Reductions</u>   | <u>Ending<br/>Balance</u> | <u>Amount Due<br/>Within One<br/>Year</u> |
|---------------------------------|------------------------------|---------------------|---------------------|---------------------------|---|
| Government obligation bonds     | \$12,250,000                 | \$16,430,000        | \$13,435,000        | \$15,245,000              | \$1,365,000                               |
| Durant resolution package bonds | 74,598                       | -                   | 8,132               | 66,466                    | 8,519                                     |
| School Bond Loan                | 3,882,802                    | -                   | 3,882,802           | -                         | -   |
| Capital lease                   | 57,657                       | -                   | 14,001              | 43,656                    | 15,663                                    |
| Compensated absences            | 166,921                      | 165,823             | 166,921             | 165,823                   | -   |
| Deferred amount on refunding    | (390,000)                    | (560,000)           | (426,523)           | (523,477)                 | -   |
|                                 | <u>          </u>            | <u>          </u>   | <u>          </u>   | <u>          </u>         | <u>          </u>                         |
| Total                           | <u>\$16,041,978</u>          | <u>\$16,035,823</u> | <u>\$17,080,333</u> | <u>\$14,997,468</u>       | <u>\$1,389,182</u>                        |

For governmental activities, compensated absences are primarily liquidated by the general fund.

Interest expenditures for the fiscal year in the General and Debt Service Funds were \$4,877 and \$669,714, respectively.

General obligation bonds payable at yearend, consists of the following:

|  |                      |
|--|----------------------|
| \$12,420,000 serial bond due in annual installments of \$665,000 to \$795,000 through May 2026, interest at 2.50% to 4.75% | \$ 11,755,000        |
| \$4,010,000 serial bond due in annual installments of \$520,000 to \$740,000 through May 2015, interest at 1.25% to 3.75%  | <u>3,490,000</u>     |
| Total general obligation bonded debt   | <u>\$ 15,245,000</u> |

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2010**

Future principal and interest requirements for bonded debt are as follows:

| Year Ending<br>June 30, | Principal                  | Interest                   | Total                      |
|-------------------------|----------------------------|----------------------------|----------------------------|
| 2011                    | \$ 1,365,000               | \$ 508,168                 | \$ 1,873,168               |
| 2012                    | 1,425,000                  | 479,398                    | 1,904,398                  |
| 2013                    | 1,495,000                  | 445,113                    | 1,940,113                  |
| 2014                    | 1,525,000                  | 407,018                    | 1,932,018                  |
| 2015                    | 1,525,000                  | 363,783                    | 1,888,783                  |
| 2016-2020               | 3,680,000                  | 1,321,003                  | 5,001,003                  |
| 2021-2025               | 3,525,000                  | 618,656                    | 4,143,656                  |
| 2026                    | 705,000                    | 30,844                     | 735,844                    |
| <b>Total</b>            | <b><u>\$15,245,000</u></b> | <b><u>\$ 4,173,983</u></b> | <b><u>\$19,418,983</u></b> |

The general obligation bonds are payable from the Debt Service Funds. As of yearend, the fund had a balance of \$ 411,212 to pay this debt. Future debt and interest will be payable from future tax levies.

Other bonds consist of the following:

|   |                  |
|---|------------------|
| \$139,487 Durant Refunding serial bonds due in annual installments through 5/15/2013; interest 4.76% due annually | <u>\$ 66,466</u> |
|---|------------------|

These bond obligations issued by PA 142 are payable solely from and are secured solely by an assignment by each School District of certain categorical State School Aid payments. The State Legislature has no obligation to make such appropriations. In the event the Legislature fails to appropriate funds, the School District is under no obligation for repayment of the debt obligation issued by PA 142.

Future principal and interest requirements are as follows:

| Year Ending<br>June 30, | Principal               | Interest                | Total                   |
|-------------------------|-------------------------|-------------------------|-------------------------|
| 2011                    | \$ 8,519                | \$ 1,276                | \$ 9,795                |
| 2012                    | 8,925                   | 870                     | 9,795                   |
| 2013                    | 49,022                  | 16,789                  | 65,811                  |
| <b>Total</b>            | <b><u>\$ 66,466</u></b> | <b><u>\$ 18,935</u></b> | <b><u>\$ 85,401</u></b> |

**State School Bond Loan**

The State School Bond Loan consists of a borrowing agreement with the State of Michigan for the purpose of meeting the financing of current debt maturities on the School District's bond issues. In prior years, the School District issued bonds to renovate School District facilities. The bond election, as passed by the voters, specified that the School District debt millage would not exceed the pre-bond vote millage of 9.05 mills, but instead the election permitted the School District to extend this levy through the year 2026. Since the monies generated by the 9.05 mills were not sufficient to cover the entire debt service requirements of the School District in prior years, it was necessary for the School District to borrow a total of \$ 4,364,848 to meet debt service requirements. Management of the School District anticipates that as the other bonds mature, the revenues provided by the debt millage will be sufficient to satisfy the future debt service requirements of the bonds issued and all necessary borrowing from the State School Bond Loan Fund. During the year, the School District issued serial refunding bonds to repay the outstanding balances of \$58,766 in accrued interest and \$3,882,802 of principal to the State School Bond Loan Fund.

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2010**

**Capital Leases Payable**

The School District entered into agreements to lease office equipment beginning September 2007 and June 2009. The leases are classified as capital leases based on the terms of the agreements. The future minimum lease payments are as follows:

| Year Ending June 30,                    | 2007<br>Lease    | 2009<br>Lease    | Total            |
|---|------------------|------------------|------------------|
| 2011                                    | \$ 14,808        | \$ 4,440         | \$ 19,248        |
| 2012                                    | 14,808           | 4,440            | 19,248           |
| 2013                                    | 2,468            | 4,440            | 6,908            |
| 2014                                    | -                | 4,440            | 4,440            |
| 2015                                    | -                | 370              | 370              |
| Total minimum lease payments            | 32,084           | 18,130           | 50,214           |
| Less amount representing interest       | 3,214            | 3,344            | 6,558            |
| Present value of minimum lease payments | <u>\$ 28,870</u> | <u>\$ 14,786</u> | <u>\$ 43,656</u> |

The assets acquired through capital lease are as follows:

|                               |                  |                  |                  |
|-------------------------------|------------------|------------------|------------------|
| Assets                        |                  |                  |                  |
| Machinery and equipment       | \$ 58,650        | \$ 17,346        | \$ 75,996        |
| Less accumulated depreciation | 32,583           | 3,469            | 36,052           |
| Total                         | <u>\$ 26,067</u> | <u>\$ 13,877</u> | <u>\$ 39,944</u> |

**Compensated Absences**

Accrued compensated absences, including payroll taxes on these benefits at year end is \$165,823. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

**Current Refunding**

On September 16, 2009, the School District issued \$12,420,000 in general obligation bonds with interest rates of 2.50% to 4.75% to refund \$12,250,000 of outstanding 1998 and 1999 Series bonds with interest rates of 4.35% to 4.875%. The refunding bonds were issued at a net discount of \$26,025 and after paying issuance costs of \$130,763, the net proceeds were \$12,263,212.

On October 6, 2009, the School District issued \$4,010,000 in General Obligation bonds with interest rates of 1.25% to 3.75% to refund \$3,882,802 in School Bond Loan Fund borrowings with indeterminate future interest rates. The refunding bonds were issued at a net discount of \$27,068 and after paying issuance costs of \$35,983, the net proceeds were \$3,946,949.

As a result of these refundings, the School District increased its total debt service by \$297,000 but achieved an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$667,000.

The bond issuance costs have been capitalized and are being amortized over the life of the related bonds.

**Defeased Debt**

In prior years, the School District has defeased various bonds issued by creating separate irrevocable trust funds. The new debt was issued and the net proceeds of each refunding were placed in separate special escrow accounts and invested in securities of the U.S. Government and its agencies. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded bonds are considered to be defeased. Accordingly, the trust account assets and liability for the defeased bonds are not included in the School District's financial statements.

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2010**

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The final payment date is May 2026. As of yearend, the amount of defeased debt outstanding but removed from the School District's financial statements is as follows:

|                     |               |
|---------------------|---------------|
| 1996 Issue refunded | \$ 11,280,000 |
|---------------------|---------------|

**Note 8 - Risk Management**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District's unemployment compensation expense for the year was \$9,445. At June 30, 2010, the School District has recorded a \$16,915 unemployment compensation liability.

**Note 9 - Defined Benefit Pension Plan**

**Plan Description**

The School District has a defined benefit pension plan covering substantially all employees. The plan is operated by the State of Michigan's Public School Employees Retirement System (MPERS), which is a cost-sharing multiple-employer public employee retirement system (PERS).

The pension plan provides retirement, survivor and disability benefits to plan members and their beneficiaries.

MPERS operates within the Michigan Department of Management and Budget, Office of Retirement Systems who has the authority to establish and amend benefit provisions. The Michigan Department of Management and Budget issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report provides information for the plan as a whole and information helpful for understanding the scale of the information presented relative to the School. That report may be obtained by writing Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671 or calling 800-381-5111 or on the web at <http://www.michigan.gov/orsschools>.

**Funding Policy**

The School is required by the School Finance Reform Act to contribute to MPERS an actuarially determined percentage of payroll for all participating employees. The School's actual contributions match the required contributions. Additionally, employees participating in the Member Investment Plan contributed 3% to 6.4% of their covered wages through payroll deduction. In addition to retirement benefits, a portion of the total MPERS contribution is allocated to cover health, dental and vision benefits. The following table discloses pertinent information relative to MPERS pension funding for the three-year period beginning July 1, 2007 through June 30, 2010.

|                              | 2010          | 2009          | 2008           |
|------------------------------|---------------|---------------|----------------|
| Funding percentage range     | 9.73 - 10.13% | 9.73 - 10.17% | 10.17 - 11.19% |
| Total payroll                | 5,622,582     | 5,833,724     | 5,728,022      |
| Total covered payroll        | 5,555,544     | 5,719,941     | 5,634,148      |
| School pension contributions | 560,315       | 569,989       | 594,351        |
| Employee MIP contributions   | 166,822       | 170,470       | 166,555        |
| Tax deferred payment program | 41,690        | 45,718        | 50,955         |

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2010**

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**Trend Information**

Ten-year historical trend information is presented in the September 30, 2009, PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. The total benefit obligations and net assets available for benefits as of September 30, 2009, the latest date for which information is available, approximates \$ 41.8 billion and \$ 35.2 billion, respectively. The School's share of the total current actuarially determined employer contribution requirement under MPSERS was less than 1% for the year ended September 30, 2009.

**Post Employment Benefits**

In addition to the pension benefits described above, the School Finance Reform Act requires the School District to provide post-retirement health care, dental, and vision benefits for retirees and beneficiaries through Michigan Public School Employees Retirement System (MPSERS). Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health care, dental and vision coverage at the time of receiving the benefits. The School's actual contributions match the required contributions.

The following table discloses pertinent information relative to MPSERS post employment benefits funding for the three-year period beginning July 1, 2007 through June 30, 2010.

|   | 2010    | 2009         | 2008    |
|---|---------|--------------|---------|
| Funding percentage range                      | 6.81%   | 6.55 - 6.81% | 6.55%   |
| School post employment benefits contributions | 380,433 | 378,183      | 359,132 |

**Note 10 - Contingent Liabilities**

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

**Schoolcraft Community Schools**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2010**

|                                      | <u>Budgeted Amounts</u> |                   | <u>Actual</u>     | <u>Over<br/>(Under)<br/>Budget</u> |
|--------------------------------------|-------------------------|-------------------|-------------------|------------------------------------|
|                                      | <u>Original</u>         | <u>Final</u>      |                   |                                    |
| <b>Revenues</b>                      |                         |                   |                   |                                    |
| Local sources                        | \$ 1,038,600            | \$ 893,500        | \$ 910,323        | \$ 16,823                          |
| State sources                        | 7,673,500               | 7,462,000         | 7,506,314         | 44,314                             |
| Federal sources                      | 110,600                 | 486,600           | 528,889           | 42,289                             |
| Intermediate sources                 | <u>840,000</u>          | <u>858,000</u>    | <u>834,548</u>    | <u>(23,452)</u>                    |
| Total revenues                       | <u>9,662,700</u>        | <u>9,700,100</u>  | <u>9,780,074</u>  | <u>79,974</u>                      |
| <b>Expenditures</b>                  |                         |                   |                   |                                    |
| Instruction                          |                         |                   |                   |                                    |
| Basic programs                       | 4,876,650               | 4,889,150         | 4,753,298         | (135,852)                          |
| Added needs                          | 1,020,790               | 947,265           | 909,501           | (37,764)                           |
| Supporting services                  |                         |                   |                   |                                    |
| Pupil                                | 337,450                 | 337,150           | 315,376           | (21,774)                           |
| Instructional staff                  | 313,000                 | 407,800           | 360,605           | (47,195)                           |
| General administration               | 228,305                 | 220,305           | 216,194           | (4,111)                            |
| School administration                | 582,700                 | 590,700           | 592,556           | 1,856                              |
| Business                             | 230,900                 | 217,500           | 213,791           | (3,709)                            |
| Operations and maintenance           | 1,182,300               | 1,178,700         | 1,016,302         | (162,398)                          |
| Pupil transportation services        | 543,800                 | 541,100           | 495,485           | (45,615)                           |
| Central                              | 154,300                 | 146,600           | 137,919           | (8,681)                            |
| Capital outlay                       | <u>36,000</u>           | <u>33,000</u>     | <u>28,908</u>     | <u>(4,092)</u>                     |
| Total expenditures                   | <u>9,506,195</u>        | <u>9,509,270</u>  | <u>9,039,935</u>  | <u>(469,335)</u>                   |
| Excess of revenues over expenditures | <u>\$ 156,505</u>       | <u>\$ 190,830</u> | <u>\$ 740,139</u> | <u>\$ 549,309</u>                  |

**Schoolcraft Community Schools**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2010**

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|                                       | <u>Budgeted Amounts</u> |                   | <u>Actual</u>       | <u>Over<br/>(Under)<br/>Budget</u> |
|---------------------------------------|-------------------------|-------------------|---------------------|------------------------------------|
|                                       | <u>Original</u>         | <u>Final</u>      |                     |                                    |
| <b>Other Financing Sources (Uses)</b> |                         |                   |                     |                                    |
| Transfers out                         | \$ (578,850)            | \$ (578,850)      | \$ (576,428)        | \$ 2,422                           |
| Net change in fund balance            | (422,345)               | (388,020)         | 163,711             | 551,731                            |
| Fund balance - beginning              | <u>1,047,440</u>        | <u>1,047,440</u>  | <u>1,047,440</u>    | <u>-</u>                           |
| Fund balance - ending                 | <u>\$ 625,095</u>       | <u>\$ 659,420</u> | <u>\$ 1,211,151</u> | <u>\$ 551,731</u>                  |

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2010**

|                                     | <u>Special Revenue Funds</u> |                  | Total                             |
|-------------------------------------|------------------------------|------------------|-----------------------------------|
|                                     | <u>Food<br/>Service</u>      | <u>Athletics</u> | Nonmajor<br>Governmental<br>Funds |
| <b>Assets</b>                       |                              |                  |                                   |
| Cash                                | \$ 1,047                     | \$ 1,577         | \$ 2,624                          |
| Accounts receivable                 | 4,557                        | -                | 4,557                             |
| Inventory                           | <u>5,632</u>                 | <u>-</u>         | <u>5,632</u>                      |
| Total assets                        | <u>\$ 11,236</u>             | <u>\$ 1,577</u>  | <u>\$ 12,813</u>                  |
| <b>Liabilities and Fund Balance</b> |                              |                  |                                   |
| <b>Liabilities</b>                  |                              |                  |                                   |
| Due to other funds                  | \$ 3,231                     | \$ 377           | \$ 3,608                          |
| Deferred revenue                    | <u>3,446</u>                 | <u>-</u>         | <u>3,446</u>                      |
| Total liabilities                   | <u>6,677</u>                 | <u>377</u>       | <u>7,054</u>                      |
| <b>Fund Balance</b>                 |                              |                  |                                   |
| Other undesignated                  | <u>4,559</u>                 | <u>1,200</u>     | <u>5,759</u>                      |
| Total liabilities and fund balance  | <u>\$ 11,236</u>             | <u>\$ 1,577</u>  | <u>\$ 12,813</u>                  |

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2010**

|  | <u>Special Revenue Funds</u> |                  | Total                             |
|--|------------------------------|------------------|-----------------------------------|
|  | <u>Food<br/>Service</u>      | <u>Athletics</u> | Nonmajor<br>Governmental<br>Funds |
| <b>Revenues</b>                          |                              |                  |                                   |
| Local sources                            | \$ 196,979                   | \$ 51,760        | \$ 248,739                        |
| State sources                            | 13,370                       | -                | 13,370                            |
| Federal sources                          | <u>101,280</u>               | <u>-</u>         | <u>101,280</u>                    |
| Total revenues                           | <u>311,629</u>               | <u>51,760</u>    | <u>363,389</u>                    |
| <b>Expenditures</b>                      |                              |                  |                                   |
| Current                                  |                              |                  |                                   |
| Education                                |                              |                  |                                   |
| Food services                            | 322,566                      | -                | 322,566                           |
| Athletic activities                      | <u>-</u>                     | <u>205,976</u>   | <u>205,976</u>                    |
| Total expenditures                       | <u>322,566</u>               | <u>205,976</u>   | <u>528,542</u>                    |
| Deficiency of revenues over expenditures | <u>(10,937)</u>              | <u>(154,216)</u> | <u>(165,153)</u>                  |
| <b>Other Financing Sources</b>           |                              |                  |                                   |
| Transfers in                             | <u>15,496</u>                | <u>154,216</u>   | <u>169,712</u>                    |
| Net change in fund balance               | 4,559                        | -                | 4,559                             |
| Fund balance - beginning                 | <u>-</u>                     | <u>1,200</u>     | <u>1,200</u>                      |
| Fund balance - ending                    | <u>\$ 4,559</u>              | <u>\$ 1,200</u>  | <u>\$ 5,759</u>                   |

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**General Fund**  
**Comparative Balance Sheet**  
**June 30, 2010**

|                                     | 2010         | 2009         |
|-------------------------------------|--------------|--------------|
| <b>Assets</b>                       |              |              |
| Cash                                | \$ 23,643    | \$ 635,798   |
| Taxes receivable                    | 6,558        | 10,880       |
| Accounts receivable                 | 130,789      | 2,419        |
| Due from other funds                | 674,624      | 2,901        |
| Due from other governmental units   | 1,426,140    | 1,515,989    |
| Inventory                           | 1,000        | 1,000        |
| Investments                         | 10,070       | 113,760      |
| Prepaid items                       | 15,238       | 9,005        |
| Total assets                        | \$ 2,288,062 | \$ 2,291,752 |
| <b>Liabilities and Fund Balance</b> |              |              |
| <b>Liabilities</b>                  |              |              |
| Accounts payable                    | \$ 335,754   | \$ 381,645   |
| Due to other funds                  | -            | 111,009      |
| Due to other governmental units     | 179,558      | 179,558      |
| Payroll deductions and withholdings | 109,973      | 84,962       |
| Accrued salaries payable            | 440,991      | 476,258      |
| Deferred revenue                    | 10,635       | 10,880       |
| Total liabilities                   | 1,076,911    | 1,244,312    |
| <b>Fund Balance</b>                 |              |              |
| Reserved for inventory              | 1,000        | 1,000        |
| Reserved for prepaid items          | 15,238       | 9,005        |
| Other undesignated                  | 1,194,913    | 1,037,435    |
| Total fund balance                  | 1,211,151    | 1,047,440    |
| Total liabilities and fund balance  | \$ 2,288,062 | \$ 2,291,752 |

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**General Fund**  
**Schedule of Revenues Compared to Budget**  
**For the Year Ended June 30, 2010**

|   | Original<br>Budget  | Final<br>Budget     | Actual              | Over<br>(Under)<br>Final Budget |
|---|---------------------|---------------------|---------------------|---------------------------------|
| <b>Revenues from local sources</b>        |                     |                     |                     |                                 |
| Property tax levy                         | \$ 862,700          | \$ 712,600          | \$ 733,588          | \$ 20,988                       |
| Earnings on investments                   | 5,000               | 5,000               | 308                 | (4,692)                         |
| Community service activities              | 42,200              | 42,200              | 36,273              | (5,927)                         |
| Other local revenues                      | <u>128,700</u>      | <u>133,700</u>      | <u>140,154</u>      | <u>6,454</u>                    |
| Total revenues from local sources         | <u>1,038,600</u>    | <u>893,500</u>      | <u>910,323</u>      | <u>16,823</u>                   |
| <b>Revenues from state sources</b>        |                     |                     |                     |                                 |
| Grants - unrestricted                     | 7,301,000           | 7,090,500           | 7,163,713           | 73,213                          |
| Grants - restricted                       | 371,000             | 371,500             | 342,601             | (28,899)                        |
| State payments in lieu of taxes           | <u>1,500</u>        | <u>-</u>            | <u>-</u>            | <u>-</u>                        |
| Total revenues from state sources         | <u>7,673,500</u>    | <u>7,462,000</u>    | <u>7,506,314</u>    | <u>44,314</u>                   |
| <b>Revenues from federal sources</b>      |                     |                     |                     |                                 |
| Grants                                    | <u>110,600</u>      | <u>486,600</u>      | <u>528,889</u>      | <u>42,289</u>                   |
| <b>Intermediate sources</b>               |                     |                     |                     |                                 |
| ISD collected millage                     | 840,000             | 840,000             | 817,336             | (22,664)                        |
| Cooperative education                     | <u>-</u>            | <u>18,000</u>       | <u>17,212</u>       | <u>(788)</u>                    |
| Total intermediate sources                | <u>840,000</u>      | <u>858,000</u>      | <u>834,548</u>      | <u>(23,452)</u>                 |
| Total revenue and other financing sources | <u>\$ 9,662,700</u> | <u>\$ 9,700,100</u> | <u>\$ 9,780,074</u> | <u>\$ 79,974</u>                |

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**General Fund**  
**Schedule of Expenditures Compared to Budget**  
**For the Year Ended June 30, 2010**

|                                      | Original<br>Budget | Final<br>Budget  | Actual           | Over<br>(Under)<br>Final Budget |
|--------------------------------------|--------------------|------------------|------------------|---------------------------------|
| <b>Basic program - elementary</b>    |                    |                  |                  |                                 |
| Salaries                             | \$ 1,405,500       | \$ 1,475,500     | \$ 1,490,980     | \$ 15,480                       |
| Employee benefits                    | 744,300            | 721,050          | 714,784          | (6,266)                         |
| Purchased services                   | 29,600             | 30,400           | 34,487           | 4,087                           |
| Supplies and materials               | 48,900             | 67,600           | 51,545           | (16,055)                        |
| Total elementary                     | <u>2,228,300</u>   | <u>2,294,550</u> | <u>2,291,796</u> | <u>(2,754)</u>                  |
| <b>Basic program - middle school</b> |                    |                  |                  |                                 |
| Salaries                             | 736,300            | 706,000          | 644,971          | (61,029)                        |
| Employee benefits                    | 400,550            | 360,500          | 349,978          | (10,522)                        |
| Purchased services                   | 15,200             | 15,200           | 6,015            | (9,185)                         |
| Supplies and materials               | 38,300             | 29,500           | 21,017           | (8,483)                         |
| Total middle school                  | <u>1,190,350</u>   | <u>1,111,200</u> | <u>1,021,981</u> | <u>(89,219)</u>                 |
| <b>Basic program - high school</b>   |                    |                  |                  |                                 |
| Salaries                             | 845,900            | 873,400          | 866,207          | (7,193)                         |
| Employee benefits                    | 484,500            | 481,400          | 478,066          | (3,334)                         |
| Purchased services                   | 18,600             | 18,600           | 15,441           | (3,159)                         |
| Supplies and materials               | 104,700            | 105,700          | 75,967           | (29,733)                        |
| Other                                | 1,800              | 1,800            | 1,500            | (300)                           |
| Total high school                    | <u>1,455,500</u>   | <u>1,480,900</u> | <u>1,437,181</u> | <u>(43,719)</u>                 |
| <b>Basic program - pre-school</b>    |                    |                  |                  |                                 |
| Other                                | <u>2,500</u>       | <u>2,500</u>     | <u>2,340</u>     | <u>(160)</u>                    |

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**General Fund**  
**Schedule of Expenditures Compared to Budget**  
**For the Year Ended June 30, 2010**

|   | Original<br>Budget | Final<br>Budget | Actual         | Over<br>(Under)<br>Final Budget |
|---|--------------------|-----------------|----------------|---------------------------------|
| <b>Added needs - special education</b>              |                    |                 |                |                                 |
| Salaries  | \$ 413,500         | \$ 380,000      | \$ 378,193     | \$ (1,807)                      |
| Employee benefits                                   | 240,200            | 215,700         | 208,961        | (6,739)                         |
| Purchased services                                  | 5,900              | 5,900           | 2,548          | (3,352)                         |
| Supplies and materials                              | 4,250              | 29,450          | 28,504         | (946)                           |
| Other   | 500                | 500             | -              | (500)                           |
| Total special education                             | <u>664,350</u>     | <u>631,550</u>  | <u>618,206</u> | <u>(13,344)</u>                 |
| <b>Added needs - compensatory education</b>         |                    |                 |                |                                 |
| Salaries  | 81,200             | 54,900          | 52,113         | (2,787)                         |
| Employee benefits                                   | 23,400             | 15,200          | 12,811         | (2,389)                         |
| Supplies and materials                              | 1,000              | 1,000           | 1,000          | -                               |
| Total compensatory education                        | <u>105,600</u>     | <u>71,100</u>   | <u>65,924</u>  | <u>(5,176)</u>                  |
| <b>Added needs - career and technical education</b> |                    |                 |                |                                 |
| Salaries  | 119,800            | 121,900         | 121,405        | (495)                           |
| Employee benefits                                   | 64,500             | 61,800          | 61,182         | (618)                           |
| Purchased services                                  | 500                | 500             | 503            | 3                               |
| Supplies and materials                              | 11,040             | 10,415          | 6,393          | (4,022)                         |
| Other   | 55,000             | 50,000          | 35,888         | (14,112)                        |
| Total career and technical education                | <u>250,840</u>     | <u>244,615</u>  | <u>225,371</u> | <u>(19,244)</u>                 |
| <b>Pupil - guidance services</b>                    |                    |                 |                |                                 |
| Salaries  | 95,900             | 97,900          | 85,338         | (12,562)                        |
| Employee benefits                                   | 33,700             | 32,500          | 29,036         | (3,464)                         |
| Supplies and materials                              | 3,000              | 3,000           | 2,479          | (521)                           |
| Other   | 2,500              | 2,500           | 1,429          | (1,071)                         |
| Total guidance services                             | <u>135,100</u>     | <u>135,900</u>  | <u>118,282</u> | <u>(17,618)</u>                 |

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**General Fund**  
**Schedule of Expenditures Compared to Budget**  
**For the Year Ended June 30, 2010**

|   | Original<br>Budget | Final<br>Budget | Actual        | Over<br>(Under)<br>Final Budget |
|---|--------------------|-----------------|---------------|---------------------------------|
| <b>Pupil - health services</b>                        |                    |                 |               |                                 |
| Purchased services                                    | \$ 5,000           | \$ 5,000        | \$ 2,863      | \$ (2,137)                      |
| Supplies and materials                                | 750                | 750             | 202           | (548)                           |
| Total health services                                 | <u>5,750</u>       | <u>5,750</u>    | <u>3,065</u>  | <u>(2,685)</u>                  |
| <b>Pupil - psychological services</b>                 |                    |                 |               |                                 |
| Salaries  | 62,400             | 63,300          | 63,222        | (78)                            |
| Employee benefits                                     | 33,000             | 31,600          | 31,341        | (259)                           |
| Supplies and materials                                | 700                | 700             | 646           | (54)                            |
| Other   | 550                | 550             | 400           | (150)                           |
| Total psychological services                          | <u>96,650</u>      | <u>96,150</u>   | <u>95,609</u> | <u>(541)</u>                    |
| <b>Pupil - speech services</b>                        |                    |                 |               |                                 |
| Salaries  | 64,000             | 64,900          | 64,814        | (86)                            |
| Employee benefits                                     | 33,400             | 31,900          | 31,732        | (168)                           |
| Supplies and materials                                | 500                | 500             | 130           | (370)                           |
| Other   | 550                | 550             | 407           | (143)                           |
| Total speech services                                 | <u>98,450</u>      | <u>97,850</u>   | <u>97,083</u> | <u>(767)</u>                    |
| <b>Pupil - other support services</b>                 |                    |                 |               |                                 |
| Other   | <u>1,500</u>       | <u>1,500</u>    | <u>1,337</u>  | <u>(163)</u>                    |
| <b>Instructional staff - improvement of education</b> |                    |                 |               |                                 |
| Salaries  | 16,500             | 16,600          | 17,466        | 866                             |
| Employee benefits                                     | 3,100              | 3,100           | 2,354         | (746)                           |
| Total improvement of education                        | <u>19,600</u>      | <u>19,700</u>   | <u>19,820</u> | <u>120</u>                      |

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**General Fund**  
**Schedule of Expenditures Compared to Budget**  
**For the Year Ended June 30, 2010**

|   | Original<br>Budget | Final<br>Budget | Actual         | Over<br>(Under)<br>Final Budget |
|---|--------------------|-----------------|----------------|---------------------------------|
| <b>Instructional staff - educational media services</b>                       |                    |                 |                |                                 |
| Salaries  | \$ 75,900          | \$ 76,500       | \$ 68,502      | \$ (7,998)                      |
| Employee benefits   | 27,800             | 27,700          | 25,065         | (2,635)                         |
| Supplies and materials  | 20,000             | 19,100          | 18,164         | (936)                           |
| Other   | 3,200              | 3,200           | 2,178          | (1,022)                         |
| Total educational media services  | <u>126,900</u>     | <u>126,500</u>  | <u>113,909</u> | <u>(12,591)</u>                 |
| <b>Instructional staff - supervision and direction of instructional staff</b> |                    |                 |                |                                 |
| Purchased services  | <u>30,500</u>      | <u>32,200</u>   | <u>31,300</u>  | <u>(900)</u>                    |
| <b>Instructional staff - other services</b>                                   |                    |                 |                |                                 |
| Salaries  | 83,000             | 83,000          | 70,473         | (12,527)                        |
| Employee benefits   | 20,600             | 51,900          | 45,099         | (6,801)                         |
| Purchased services  | 25,000             | 87,100          | 73,602         | (13,498)                        |
| Supplies and materials  | 3,000              | 3,000           | 2,002          | (998)                           |
| Other   | 4,400              | 4,400           | 4,400          | -                               |
| Total other instructional staff services                                      | <u>136,000</u>     | <u>229,400</u>  | <u>195,576</u> | <u>(33,824)</u>                 |
| <b>General administration - board of education</b>                            |                    |                 |                |                                 |
| Salaries  | 805                | 805             | 805            | -                               |
| Purchased services  | 31,900             | 29,500          | 22,949         | (6,551)                         |
| Other   | 3,000              | 2,800           | 2,795          | (5)                             |
| Total board of education  | <u>35,705</u>      | <u>33,105</u>   | <u>26,549</u>  | <u>(6,556)</u>                  |

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**General Fund**  
**Schedule of Expenditures Compared to Budget**  
**For the Year Ended June 30, 2010**

|  | Original<br>Budget | Final<br>Budget | Actual         | Over<br>(Under)<br>Final Budget |
|--|--------------------|-----------------|----------------|---------------------------------|
| <b>General administration - executive administration</b> |                    |                 |                |                                 |
| Salaries   | \$ 143,700         | \$ 143,700      | \$ 151,370     | \$ 7,670                        |
| Employee benefits  | 36,600             | 36,600          | 33,463         | (3,137)                         |
| Purchased services                                       | 2,200              | 1,800           | 901            | (899)                           |
| Supplies and materials                                   | 8,400              | 3,400           | 2,443          | (957)                           |
| Other  | 1,700              | 1,700           | 1,468          | (232)                           |
| Total executive administration                           | <u>192,600</u>     | <u>187,200</u>  | <u>189,645</u> | <u>2,445</u>                    |
| <b>School administration - office of the principal</b>   |                    |                 |                |                                 |
| Salaries   | 417,500            | 421,400         | 416,888        | (4,512)                         |
| Employee benefits  | 161,200            | 165,300         | 172,027        | 6,727                           |
| Other  | 1,000              | 1,000           | 957            | (43)                            |
| Total office of the principal                            | <u>579,700</u>     | <u>587,700</u>  | <u>589,872</u> | <u>2,172</u>                    |
| <b>School administration - other</b>                     |                    |                 |                |                                 |
| Supplies and materials                                   | <u>3,000</u>       | <u>3,000</u>    | <u>2,684</u>   | <u>(316)</u>                    |
| <b>Business - fiscal services</b>                        |                    |                 |                |                                 |
| Salaries   | 99,400             | 94,900          | 95,175         | 275                             |
| Employee benefits  | 50,400             | 40,400          | 36,374         | (4,026)                         |
| Purchased services                                       | 51,600             | 54,800          | 53,554         | (1,246)                         |
| Supplies and materials                                   | 3,000              | 1,800           | 1,530          | (270)                           |
| Other  | 500                | 500             | 348            | (152)                           |
| Total fiscal services                                    | <u>204,900</u>     | <u>192,400</u>  | <u>186,981</u> | <u>(5,419)</u>                  |

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**General Fund**  
**Schedule of Expenditures Compared to Budget**  
**For the Year Ended June 30, 2010**

|   | Original<br>Budget | Final<br>Budget  | Actual           | Over<br>(Under)<br>Final Budget |
|---|--------------------|------------------|------------------|---------------------------------|
| <b>Business - other</b>   |                    |                  |                  |                                 |
| Purchased services  | \$ 6,000           | \$ 5,100         | \$ 5,059         | \$ (41)                         |
| Other   | 20,000             | 20,000           | 21,751           | 1,751                           |
| Total other business  | <u>26,000</u>      | <u>25,100</u>    | <u>26,810</u>    | <u>1,710</u>                    |
| <b>Operations and maintenance - operating building services</b> |                    |                  |                  |                                 |
| Salaries  | 404,600            | 410,800          | 396,836          | (13,964)                        |
| Employee benefits   | 174,700            | 167,300          | 161,257          | (6,043)                         |
| Purchased services  | 472,000            | 469,600          | 350,991          | (118,609)                       |
| Supplies and materials  | 131,000            | 131,000          | 107,218          | (23,782)                        |
| Total operating building services                               | <u>1,182,300</u>   | <u>1,178,700</u> | <u>1,016,302</u> | <u>(162,398)</u>                |
| <b>Pupil transportation services</b>                            |                    |                  |                  |                                 |
| Salaries  | 281,200            | 282,900          | 272,294          | (10,606)                        |
| Employee benefits   | 114,600            | 111,100          | 104,128          | (6,972)                         |
| Purchased services  | 92,400             | 91,500           | 78,029           | (13,471)                        |
| Supplies and materials  | 55,600             | 55,600           | 41,034           | (14,566)                        |
| Total transportation services                                   | <u>543,800</u>     | <u>541,100</u>   | <u>495,485</u>   | <u>(45,615)</u>                 |
| <b>Central - staff/personnel and communication services</b>     |                    |                  |                  |                                 |
| Purchased services  | 1,500              | 1,500            | 620              | (880)                           |
| Supplies and materials  | 5,000              | 3,500            | 1,944            | (1,556)                         |
| Total staff/personnel and communication services                | <u>6,500</u>       | <u>5,000</u>     | <u>2,564</u>     | <u>(2,436)</u>                  |

**Schoolcraft Community Schools**  
**Other Supplemental Information**  
**General Fund**  
**Schedule of Expenditures Compared to Budget**  
**For the Year Ended June 30, 2010**

|  | Original<br>Budget   | Final<br>Budget      | Actual              | Over<br>(Under)<br>Final Budget |
|--|----------------------|----------------------|---------------------|---------------------------------|
| <b>Central - support services technology</b> |                      |                      |                     |                                 |
| Salaries                                     | \$ 51,000            | \$ 51,000            | \$ 51,957           | \$ 957                          |
| Employee benefits                            | 29,200               | 27,800               | 27,597              | (203)                           |
| Purchased services                           | 53,500               | 53,500               | 50,738              | (2,762)                         |
| Supplies and materials                       | 13,500               | 9,000                | 5,063               | (3,937)                         |
| Other  | 600                  | 300                  | -                   | (300)                           |
| Total support services technology            | <u>147,800</u>       | <u>141,600</u>       | <u>135,355</u>      | <u>(6,245)</u>                  |
| <b>Capital outlay</b>                        |                      |                      |                     |                                 |
| Basic program - elementary                   | 500                  | 500                  | -                   | (500)                           |
| Added needs - career and technical education | 28,000               | 28,000               | 25,463              | (2,537)                         |
| Central - support services technology        | 7,500                | 4,500                | 3,445               | (1,055)                         |
| Total capital outlay                         | <u>36,000</u>        | <u>33,000</u>        | <u>28,908</u>       | <u>(4,092)</u>                  |
| <b>Other financing uses</b>                  |                      |                      |                     |                                 |
| Transfers out                                | <u>578,850</u>       | <u>578,850</u>       | <u>576,428</u>      | <u>(2,422)</u>                  |
| Total expenditures and financing uses        | <u>\$ 10,085,045</u> | <u>\$ 10,088,120</u> | <u>\$ 9,616,363</u> | <u>\$ (471,757)</u>             |



October 29, 2010

Management and the Board of Education  
Schoolcraft Community Schools  
Schoolcraft, Michigan

We have completed our audit of the financial statements of Schoolcraft Community Schools as of and for the year ended June 30, 2010 and have issued our report dated October 29, 2010. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

- I. Auditors' Communication of Significant Matters with Those Charged with Governance
- II. Other Information

We discussed these matters with various personnel in the District during the audit. We would also be pleased to meet with you to discuss these matters at your convenience

These communications are intended solely for the information and use of management, the Board of Education, and others within the District, and are not intended to be and should not be used by anyone other than those specified parties.

*Yeo & Yeo, P.C.*  
Kalamazoo, Michigan

## **Appendix I**

### **Auditor's Communication of Significant Matters with Those Charged with Governance**

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards* and Circular A-133 as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

#### **Significant Audit Findings**

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

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies are described in Note 1 of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

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

Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

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

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

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

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

##### **Disagreements with Management**

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

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

**Management's Consultations with Other Accountants**

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

**Other Audit Findings or Issues**

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

**Other Reports**

Other information that is required to be reported to you is included in the 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, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

## Appendix II Other Information

### **GASB 54 Changes Fund Balance Reporting**

The Governmental Accounting Standards Board (GASB) is at it again. *Fund Balance Reporting and Governmental Fund Type Definitions* includes new fund balance classifications and additional note disclosures. GASB 54 will mean a new look for your governmental funds balance sheet. However, it will not change the total amount of the fund balance.

### **Why was GASB 54 Created?**

There has been inconsistency reporting fund balances. There is widespread confusion about terminology. Restrictions are being placed on the use of some resources, but it is unclear at what level the restrictions have been imposed, and by what authority. Users of the financial statements misunderstand the fund balance components. It is often unclear if any of the reserved or designated fund balances are available or not to help balance a school district's budget.

The purpose of GASB 54 is to improve transparency and eliminate inconsistency. It is intended to eliminate the mismatch between what governments are reporting about fund balance and what the users of the financial statements really need.

### **Definitions**

GASB 54 requires fund balance classifications in a hierarchy that shows the extent to which the school is bound to honor constraints on the specific purposes for which each amount can be spent. **Fund balances are required to be presented based on the most restricted (non-spendable) to the least restricted (unassigned) classification.**

**Non-spendable** – assets that are not available in a spendable form such as inventory, pre-paid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

**Restricted** – amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or legislation. Examples include bonded capital projects, debt service funds established for voter approved debt millage, school food service revenues associated with national school lunch programs and special education millage.

**Committed** – amounts constrained on use imposed by the school district itself using its highest level of decision making authority. Resources should be constrained before the school's fiscal year-end, although the exact amount may be determined at a later time. A committed amount can be reversed only by the same manner as it was initiated, and it should be done before the end of the fiscal year. Two examples of this are a school board resolution to move a certain percentage of general fund balance into a capital project fund or a board resolution to maintain a general fund balance of 10% of current expenditures.

**Assigned** – amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or an authorized school official. Residual amounts in governmental funds other than the general fund are assigned. An appropriation of the existing fund balance to cover current year expenditures is considered an assignment of fund balance.

**Unassigned** – all other resources; the remaining fund balance after non-spendable, restrictions, commitments and assignments. This class only occurs in the general fund, except for cases of negative fund balances. Those are always reported as Unassigned, no matter which fund.

### **Note Disclosures**

Schools will be required to disclose more information about amounts reported in fund balance, including the following:

1. Description of authority and actions that lead to committed and assigned fund balance.
2. The district's policy regarding order of spending of:
  - a. Restricted vs. unrestricted
  - b. Committed, assigned and unassigned
  - c. Multiple policies
  - d. The "default" policy
  - e. Negative balances – general fund and others
3. Restricted and unrestricted fund balances
4. Committed, assigned and unassigned
5. Encumbrances, if significant, are reported in conjunction with other disclosures of significant commitments.
6. Description of any formally adopted minimum fund balance policies.
  - a. Appropriate level of unrestricted fund balance to be maintained in the general fund
  - b. Circumstances in which unrestricted fund balances can be "spent down"
  - c. Policy for replenishing deficiencies (source of funding and time period)
  - d. Circumstances under which contingencies may be spent should be as specific as possible.
7. The purpose of each major special revenue fund and which revenues or other sources are reported in each of those funds.

### **Fund Balance Policies**

If a school establishes a minimum fund balance policy, it needs to look at their operations and determine what they want their fund balance limits to be. Determining the components of fund balance will be an exercise to perform each year as part of the year-end financial reporting. Consider the following variables when setting the minimum amount of general fund unrestricted fund balance:

- Volatility of operating revenues (state and federal sources)
- Exposure to natural disasters
- Concentration of revenue sources (state and federal funded)
- Timing differences between revenue collections and expenditures

**The Next Step**

Schools should review their current policies and procedures to determine if resources will meet the definition of committed or assigned, and consider policy changes as they approach adoption of this statement. Additional policies may need to be adopted or revised to be consistent with the new definitions.

GASB 54 will improve the reporting of the fund balance and will help those who use the financial statements. Disaggregating the fund balance into non-spendable, restricted, committed, assigned and unassigned categories will greatly facilitate the understanding of a school's commitment of financial resources. It means we will have to get used to changes in the familiar fund accounting terminology before the end of the 2010-11 school year.