

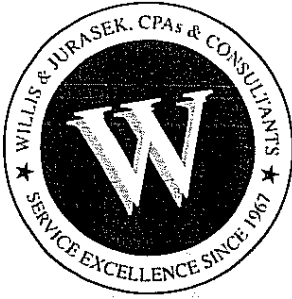
**Tekonsha Community Schools**

Financial Report  
With Supplemental Information

Year Ended June 30, 2011

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## Independent Auditors' Report

Board of Education  
Tekonsha Community Schools  
Tekonsha, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tekonsha Community Schools, as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Tekonsha 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 Tekonsha Community Schools as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated September 30, 2011, on our consideration of the School District's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

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### WILLIS & JURASEK, P.C.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tekonsha Community Schools' financial statements as a whole. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements. The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects, in relation to the financial statements taken as a whole.

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

September 30, 2011

**Tekonsha Community Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2011

As administration of Tekonsha Community Schools, Counties of Branch and Calhoun, State of Michigan, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2011.

**Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$1,806,062 (net assets). Of this amount, \$464,116 (unrestricted net assets) may be used to meet the District's ongoing obligations to taxpayers, students, and creditors.
- The District's total net assets decreased by \$5,533
- As of the close of the current fiscal year, the District's aggregated fund balance for the District's governmental funds was \$513,266 or 16.8 percent of the total expenditures of these funds.
- The General Fund had a net change in fund balance of \$(113,867). At the end of the year, the total fund balance for the General Fund was \$456,070 or 17.2% of the total General Fund expenditures and outgoing transfers.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District 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 financial statements then proceed to provide an increasingly detailed look at specific financial activities included in the fund financial statements. 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 provide information about the School District's most significant fund – the General Fund.

**Reporting the District as a Whole**

**The Statement of Net Assets and Statement of Activities** – One of the most important questions asked about the District's finances is, "Is the District better off or worse off 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 about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by private-sector corporations. However, the School District's goal is to provide services to our students, not to generate profits, as private-sector corporations do. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The Statement of Net Assets and Statement of Activities present information about the following:

**Governmental Activities** – All of the District's basic services are considered to be governmental activities, including instruction, support services, community services, athletics, food services, and transfers to other local districts. Property taxes, intergovernmental revenues, (unrestricted and restricted State Aid), and charges for services finance most of these activities.

**Tekonsha Community Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2011

These two statements report the District's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, political conditions at the State Capitol, student enrollment growth, birth rates, and facility conditions in arriving at their conclusion regarding the overall health of the District.

The district-wide financial statements can be found on pages 1- 2 of this report.

**Reporting the District's Most Significant Funds**

**Fund Financial Statements** – The fund financial statements provide detailed information about the most significant funds – not the District as a whole. The fund financial statements begin on page 3 and provide detailed information about the most significant funds. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's *Accounting Manual*. The District's two types of funds: governmental funds and fiduciary funds use different accounting approaches as further discussed in the Notes to Financial Statements.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

**Governmental Funds** – Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

**Fiduciary Funds** – The District is the fiduciary for various student group activities. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets.

The basic fiduciary fund financial statements can be found on page 7 of this report.

**Additional Information** – The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to Financial Statements can be found on pages 8 – 18 of this report.

**Government-Wide Financial Analysis**

The government-wide financial analysis focuses on the net assets and changes in net assets of the District's governmental activities. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

**Tekonsha Community Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2011

The following is a summary of the School District's net assets as of June 30, 2011 and 2010:

	<b>Governmental Activities</b>	
	<b>2011</b>	<b>2010</b>
<b>Assets:</b>		
Current assets	\$ 1,328,262	\$ 1,414,666
Non-current assets	<u>2,284,636</u>	<u>2,395,032</u>
Total assets	<u>3,612,898</u>	<u>3,809,698</u>
<b>Liabilities:</b>		
Current liabilities	814,996	779,972
Non-current liabilities	<u>991,840</u>	<u>1,218,132</u>
Total liabilities	<u>1,806,836</u>	<u>1,998,104</u>
<b>Net Assets:</b>		
Invested in capital assets – net of related debt	1,284,750	1,182,950
Restricted	57,196	37,796
Unrestricted	<u>464,116</u>	<u>590,848</u>
Total net assets	<u>\$ 1,806,062</u>	<u>\$ 1,811,594</u>

The above analysis focuses on the net assets. The change in net assets of the School District's governmental activities is discussed below. The net assets differ from fund balances and reconciliation appears on page 4.

By far the largest portion of the District's net assets reflects its investment in capital assets (i.e. land, buildings, vehicles, and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets of \$57,196 represent resources that are subject to external restrictions on how they may be used. In the case of the School District, these included amounts restricted for food service, debt service and capital projects. The remaining balance of \$464,116, which is *unrestricted* net assets, may be used to meet the District's ongoing obligations to citizens and creditors.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities which shows the change in net assets for fiscal year 2011.

**Tekonsha Community Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2011

The following is a summary of the changes in net assets for the years ended June 30, 2011 and 2010:

	<b>Governmental Activities</b>	
	<b>2011</b>	<b>2010</b>
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 44,670	\$ 38,836
Operating grants	539,006	392,457
General revenues:		
Property taxes – general purposes	243,413	243,544
Property taxes – debt service and sinking fund	196,710	201,583
Unrestricted federal and State aid	1,887,054	2,168,968
Other	12,921	33,932
Total revenues	2,923,774	3,079,491
<b>Functions/Program Expenses:</b>		
Instruction	1,554,524	1,572,056
Support services	1,020,648	1,062,425
Food service activities	136,118	100,997
Community service	-	490
Capital outlay	3,200	-
Interest	52,094	60,014
Depreciation (unallocated)	162,723	136,723
Total expenses	2,929,307	2,932,705
Increase (decrease) in net assets	\$ (5,533)	\$ 146,786

The District's net assets decreased by \$5,533 during the current fiscal year. The increase in net assets differs from the change in fund balances and reconciliation appears on page 6.

The net cost shows 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 the School District's 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.

**General Fund Budgeting and Operating Highlights**

The School District's budgets are prepared according to Michigan Law. The most significant budgeted funds are the General Fund and the non-major governmental fund for Food Service.

During the fiscal year ended June 30, 2011, the School District amended the budgets of these governmental funds two times. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's General Fund original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

The General Fund actual revenue and other financing sources was \$2,599,657. That amount is below the amended budget estimate of \$2,671,379. The \$71,722 variance (2.7%), considered immaterial by management, can be attributed to Federal sources as not all of the Grants budgeted expenditures were completely drawn down.

**Tekonsha Community Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2011

The actual expenditures and other financing uses of the general fund were \$2,713,524, which is below the amended budget estimate of \$2,880,360. The \$166,836 variance (5.8%), can be attributed to three main areas, Salaries, Benefits, and Supplies. The budget variance in salaries and salary related benefits (retirement, social security, etc) were mainly attributed to the Federal programs (Grants), which weren't completely drawn down during the fiscal year. Expenses for health insurance came in better than budgeted for the fiscal year as well. And the area of supplies was much better than budgeted due to the districts cost containment and utilization of supplies on hand as well as close scrutiny by administrators and supervisors of purchases.

The General Fund had total revenues of \$2,599,657 and total expenditures and transfers out of \$2,713,524 with a net change in fund balance of \$(113,867) and an ending fund balance of \$456,070. The current year planned decrease was less than expected due to cost containment. The Board and Administration is still keenly aware of the low fund balance at the end of the fiscal year and is continuing plans to increase the District's fund balance to be able to offset unexpected situations as they may arise. These items are explained in greater detail later in this discussion and analysis.

There were no significant differences between the final budget and actual amounts.

**Capital Asset and Debt Administration**

**Capital Assets** – At the end of the fiscal year 2011, the School District had \$5,474,677 invested in land and buildings, furniture and equipment, and buses. Of this amount, \$3,209,415 in depreciation has been taken over the years. We currently have a net book value of \$2,265,262.

<b><u>Governmental Activities</u></b>		
	<b><u>2011</u></b>	<b><u>2010</u></b>
Land	\$ 40,000	\$ 40,000
Buildings and improvements	3,924,774	3,923,314
Furniture and equipment	1,210,145	1,155,403
Buses	<u>299,758</u>	<u>299,758</u>
Total capital assets	5,474,677	5,418,475
Less accumulated depreciation	<u>3,209,415</u>	<u>3,046,692</u>
Net capital assets	<u>\$ 2,265,262</u>	<u>\$ 2,371,783</u>

**Long-Term Debt** – At June 30, 2011, the District had total notes and bonded debt outstanding of \$980,512, of which \$5,512 is Durant Resolution Bonds that are a legal obligation of the School District, but an annual State of Michigan appropriation is the only revenue source making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the District is under no obligation for payment. The remainder of the debt is \$975,000 which is the 2006 Energy Conservation Bonds and 2005 Refunding Bonds.

<b><u>Governmental Activities</u></b>		
	<b><u>2011</u></b>	<b><u>2010</u></b>
2006 Energy Fund Bonds	\$ 380,000	\$ 480,000
2005 Refunding Bonds	595,000	705,000
1998 School Improvement Bonds (Durant)	5,512	8,082
School Bus Note	<u>-</u>	<u>19,000</u>
Total	<u>\$ 980,512</u>	<u>\$ 1,212,082</u>

The District's total bonded debt decreased by \$231,570 during the current fiscal year.

**Tekonsha Community Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2011

State statutes limit the amount of general obligation debt that a school district may issue to 15 percent of its total assessed valuation (State Equalized Value). The current outstanding general obligation debt for Tekonsha Community Schools is significantly below the current debt limitation.

Additional information on the District's long-term debt can be found in Note 8 on page 15 of this report.

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

Our elected officials and administration considered many factors when setting the School District's 2011-2012 fiscal year budget. The 2011-2012 budget was adopted in June 2011.

The following factors were considered in preparing the School District's budgets for the 2011-2012 fiscal year:

- The School District receives a "foundation allowance" from the State of Michigan for each student it educates. Due to Michigan's economy and uncertainty, there is concern that there will be another proration in the foundation amount from the State which will need to be addressed with a budget amendment.
- One of the important factors affecting the budget is student count. It is being anticipated that the student count will remain the same in 2011-2012.
- We have incurred an increase from the current 20.66% in our retirement costs for employees in the 2011-2012. Healthcare costs have also increased. These two costs will continue to be problem areas where containment is needed.
- Future cuts, cost containment, and revenue sources will be needed to be explored to bring future budgets into balance.

**Requests for Information**

This financial report is designed to provide a general overview of the Tekonsha Community Schools' finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be directed to the Superintendent's office at 245 South Elm Street, Tekonsha, Michigan 49092 or call (517) 767-4121.

**Tekonsha Community Schools**  
Statement of Net Assets  
June 30, 2011

	<b>Governmental Activities</b>
<b>Assets:</b>	
Cash and investments	\$ 699,986
Investments - restricted for State Aid Loan	87,426
Receivables	14,263
Due from other governmental units	522,460
Inventories	1,814
Prepaid expenditures	2,313
Bond refinancing costs	19,374
Capital assets:	
Cost of capital assets	5,474,677
Less: accumulated depreciation	<u>(3,209,415)</u>
Net capital assets	<u>2,265,262</u>
Total assets	<u>3,612,898</u>
<b>Liabilities:</b>	
Accounts payable and accrued expenses	299,902
State aid anticipation notes	450,000
Deferred revenue	65,094
Long-term liabilities:	
Due within one year	
Bonds, capital leases and contracts	222,692
Accrued interest	6,778
Compensated Absences	4,550
Due in more than one year	
Bonds, capital leases and contracts	<u>757,820</u>
Total liabilities	<u>1,806,836</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	1,284,750
Restricted	57,196
Unrestricted	464,116
Total net assets	<u>\$ 1,806,062</u>

**Tekonsha Community Schools**  
Statement of Activities  
Year Ended June 30, 2011

<u>Functions/Programs</u>	<u>Program Revenue</u>			<u>Governmental</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
		<u>Services</u>	<u>Grants and</u>	<u>Net (Expenses)</u>
			<u>Contributions</u>	<u>Revenues and</u>
				<u>Change in</u>
				<u>Net Assets</u>
<b>Primary Government</b>				
Governmental activities:				
Instruction	\$ 1,554,524	\$ 5,674	\$ 428,989	\$ (1,119,861)
Support services	1,020,648	15,554	6,268	(998,826)
Food service activities	136,118	23,442	100,794	(11,882)
Interest on long-term debt	52,094	-	2,955	(49,139)
Capital outlay	3,200	-	-	(3,200)
Depreciation (unallocated)	162,723	-	-	(162,723)
Total governmental activities	<u>\$ 2,929,307</u>	<u>\$ 44,670</u>	<u>\$ 539,006</u>	<u>(2,345,631)</u>
<b>General Revenues:</b>				
Taxes:				
Property taxes, levied for general purposes				243,413
Property taxes, levied for debt service				196,710
State aid not restricted to specific purposes				1,785,390
Federal grants not restricted to specific purposes				101,664
Unrestricted investment earnings				752
Other				12,169
Total general revenues				<u>2,340,098</u>
<b>Change in Net Assets</b>				(5,533)
<b>Net Assets - Beginning of Year</b>				<u>1,811,595</u>
<b>Net Assets - End of Year</b>				<u>\$ 1,806,062</u>

**Tekonsha Community Schools**  
 Balance Sheet  
 Governmental Funds  
 June 30, 2011

<u>Assets</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and investments	\$ 631,240	\$ 68,746	\$ 699,986
Investments - restricted for State Aid Loan	87,426	-	87,426
Due from other funds	23,042	10,411	33,453
Receivable from other governments	521,586	874	522,460
Other receivables	-	14,263	14,263
Inventories	-	1,814	1,814
Prepaid expenditures	2,313	-	2,313
Total assets	<u>\$ 1,265,607</u>	<u>\$ 96,108</u>	<u>\$ 1,361,715</u>
 <b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities:</b>			
Accounts payable	\$ 41,590	\$ 4,471	\$ 46,061
Due to other funds	-	33,453	33,453
State aid anticipation notes	450,000	-	450,000
Deferred revenue	64,106	988	65,094
Salaries payable	247,658	-	247,658
Accrued expenditures	6,183	-	6,183
Total liabilities	<u>809,537</u>	<u>38,912</u>	<u>848,449</u>
<b>Fund Balances:</b>			
Nonspendable:			
Inventories	-	1,814	1,814
Prepaid expenses	2,313	-	2,313
Restricted	-	55,382	55,382
Unassigned	453,757	-	453,757
Total fund balances	<u>456,070</u>	<u>57,196</u>	<u>513,266</u>
Total liabilities and fund balances	<u>\$ 1,265,607</u>	<u>\$ 96,108</u>	<u>\$ 1,361,715</u>

**Tekonsha Community Schools**  
 Reconciliation of Balance Sheet of Governmental Funds to Net Assets  
 Governmental Funds  
 June 30, 2011

<b>Total Fund Balances - Governmental Funds</b>	\$	513,266
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		
The cost of the capital assets is	\$ 5,474,677	
Accumulated depreciation is	<u>(3,209,415)</u>	
		2,265,262
Amortized assets such as bond issuance costs used in governmental activities are not financial resources and are not reported in the funds.		
		19,374
Long-term liabilities not due and payable in the current period and not reported in the funds:		
Bonds payable		(980,512)
Compensated absences		(4,550)
Accrued interest payable is not included as a liability in governmental activities.		
		<u>(6,778)</u>
<b>Total Net Assets - Governmental Activities</b>	<b>\$</b>	<b><u>1,806,062</u></b>

See Notes to Financial Statements.

**Tekonsha Community Schools**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2011

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Local sources	\$ 290,231	\$ 220,369	\$ 510,600
State sources	1,945,651	8,029	1,953,680
Federal sources	231,251	95,720	326,971
Interdistrict and other	132,524	-	132,524
Total revenues	<u>2,599,657</u>	<u>324,118</u>	<u>2,923,775</u>
<b>Expenditures:</b>			
Instruction	1,556,024	-	1,556,024
Support services	1,076,850	-	1,076,850
Food service activities	-	136,118	136,118
Debt service	19,000	262,225	281,225
Capital outlay	-	3,200	3,200
Total expenditures	<u>2,651,874</u>	<u>401,543</u>	<u>3,053,417</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(52,217)</u>	<u>(77,425)</u>	<u>(129,642)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	124,450	124,450
Transfers out	(61,650)	(62,800)	(124,450)
Total other financing sources (uses)	<u>(61,650)</u>	<u>61,650</u>	<u>-</u>
<b>Net Changes in Fund Balance</b>	(113,867)	(15,775)	(129,642)
<b>Fund Balances - Beginning of Year</b>	<u>569,937</u>	<u>72,971</u>	<u>642,908</u>
<b>Fund Balances - End of Year</b>	<u>\$ 456,070</u>	<u>\$ 57,196</u>	<u>\$ 513,266</u>

**Tekonsha Community Schools**  
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
 of Governmental Funds to the Statement of Activities  
 Governmental Funds  
 Year Ended June 30, 2011

**Net Change in Fund Balances - Total Governmental Funds** \$ (129,642)

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

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	\$	(162,723)	
Capital outlay		<u>56,202</u>	
			(106,521)

Accrued interest is recorded in the Statement of Activities when incurred; it is not reported in governmental funds until paid.			1,435
---	--	--	-------

Bond proceeds are reported as financing sources in 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.

Principal repayments			231,570
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Compensated absences are not reported in governmental funds.			1,500
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Bond issuance costs are capitalized and amortized over the life of the refinanced debt.			<u>(3,875)</u>
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**Change in Net Assets of Governmental Activities** \$ (5,533)

**Tekonsha Community Schools**  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2011

	<u><b>Agency Fund</b></u>
<b>Assets:</b>	
Cash and cash equivalents	\$       49,312
<b>Liabilities:</b>	
Due to student groups	\$       49,312

# **Tekonsha Community Schools**

## **Notes to Financial Statements**

### **Note 1 – Summary of Significant Accounting Policies**

The basic financial statements of the Tekonsha Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

#### **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. Based on the application of the criteria, the District does not contain any component units.

#### **District-Wide and Fund Financial Statements**

The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

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

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**District-Wide Statements** – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

**Tekonsha Community Schools**  
Notes to Financial Statements

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

**District-Wide Statements (Continued)** – Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

**Fund-Based 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 government 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 to compensated absences, severance pay, claims, and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, and intergovernmental grants 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 government.

The fiduciary fund statement is also 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 the School District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Additionally, the government 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 Special Revenue Fund maintained by the District is the Food Service Fund.

**Debt Funds** – Debt Funds are used to record tax, interest, and other revenue for payment of principal and other expenditures thereof on a particular bond issue. The District maintains one debt fund that services the 2006 Energy Bonds, the 2005 Refunding Bonds and the Durant Bonds.

**Capital Projects Fund** – Capital Project Funds are used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The District maintains the Sinking Fund.

**Fiduciary Funds** – Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held in trust for the students and parents.

**Tekonsha Community Schools**  
Notes to Financial Statements

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

**Assets, Liabilities, and Net Assets or Equity**

**Deposits and Investments** – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**Receivables and Payables** – In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with State law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**Tekonsha Community Schools**  
Notes to Financial Statements

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

**Assets, Liabilities, and Net Assets or Equity (Continued)**

**Inventories and Prepaid Items** – Inventories are valued at cost (purchase price) on a first-in, first-out basis. Inventories of governmental funds are 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** - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The government defines capital assets as assets with an initial individual cost of \$1,000 or greater for technology items, and \$5,000 or greater for all others, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. 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 type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

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

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

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** – The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are now categorized according to five defined categories of fund balance. These categories consist of nonspendable amounts which are legally or contractually required to be maintained intact, restricted amounts that are constrained for specific purposes set by external parties or law, committed amounts that are constraints set by the highest decision making authority and may only be removed by those individuals, assigned amounts that have an intended but no formal specific purpose, and unassigned amounts which are the residual of the other categories and have no specific purpose. It is the District's policy to generally use fund balance in order according to the hierarchy of fund balance categories from restricted down to unassigned.

**Tekonsha Community Schools**  
Notes to Financial Statements

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

**Property Taxes** - Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2011, the District levied the following amounts per \$1,000 of assessed taxable valuation:

General Fund – Non-principal residence	18.0000
General Fund – Commercial personal property	6.0000
Debt Funds – All taxable values	2.3500
Sinking Fund – All taxable values	0.9925

**Use of Estimates** - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Note 2 – Stewardship, Compliance, and Accountability**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplemental information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any, for the General Fund, are noted in the required supplemental information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2011. The District does not consider these amendments to be significant.

**Tekonsha Community Schools**  
Notes to Financial Statements

**Note 3 – Deposits and Investments**

At year-end, the District's deposits and investments were reported in the basic financial statements in the following categories:

	<b>Governmental Activities</b>	<b>Fiduciary Funds</b>	<b>Total Primary Government</b>
Cash and investments	\$ <u>699,986</u>	\$ <u>49,312</u>	\$ <u>749,298</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 336,455
Investments in MILAF investment fund	<u>412,843</u>
Total	<u>\$ 749,298</u>

**Investment and Deposit Risk**

**Interest Rate Risk** – State law limits the allowable investments and the maturities of some of the allowable investments. The District's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment in the MILAF investment fund had an average maturity of less than 1 year.

**Credit Risk** – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The District's investments policy does not have specific limits in excess of State law on investment credit risk. The District's investment in the MILAF investment fund was rated AAAm by Standard & Poor's.

**Custodial Credit Risk – Deposits** – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, \$109,282 of the District's bank balance of \$359,282 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Note 4 – Receivables**

Receivables at year-end consisted of the following:

State Aid and other grants	\$ 522,460
Other receivables	<u>14,263</u>
	<u>\$ 536,723</u>

**Tekonsha Community Schools**  
Notes to Financial Statements

**Note 5 – Capital Assets**

Capital asset activity of the School District's governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Year-End Balance</u>
Assets not being depreciated:				
Land	\$ 40,000	\$ -	\$ -	\$ 40,000
Subtotal	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>
Capital assets being depreciated:				
Building and improvements	3,923,314	1,460	-	3,924,774
Buses and other vehicles	299,758	-	-	299,758
Furniture and equipment	<u>1,155,403</u>	<u>54,742</u>	<u>-</u>	<u>1,210,145</u>
Subtotal	<u>5,378,475</u>	<u>56,202</u>	<u>-</u>	<u>5,434,677</u>
Accumulated depreciation:				
Building and improvements	1,926,018	99,421	-	2,025,439
Buses and other vehicles	168,169	25,397	-	193,566
Furniture and equipment	<u>952,505</u>	<u>37,905</u>	<u>-</u>	<u>990,410</u>
Subtotal	<u>3,046,692</u>	<u>162,723</u>	<u>-</u>	<u>3,209,415</u>
Net capital assets being depreciated	<u>2,331,783</u>	<u>(106,521)</u>	<u>-</u>	<u>2,225,262</u>
Net capital assets	<u>\$ 2,371,783</u>	<u>\$ (106,521)</u>	<u>\$ -</u>	<u>\$ 2,265,262</u>

Depreciation for the fiscal year ended June 30, 2011 totaled \$162,723. The District has determined it is impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

**Note 6 – Interfund Receivables, Payables and Transfers**

The District reports interfund balances between some of its funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The composition of interfund balances is as follows:

	<u>Due To:</u>	
	<u>General Fund</u>	<u>Non-Major Funds</u>
Due From:		
Non-major funds	<u>\$ 23,042</u>	<u>\$ 10,411</u>
	<u>\$ 23,042</u>	<u>\$ 10,411</u>

During the current fiscal year, the General Fund and Sinking Fund transferred \$60,000 and \$62,800 respectively to the debt fund to subsidize the principal and interest payments on related debt. The General Fund also transferred \$1,650 to the Food Service Fund.

**Tekonsha Community Schools**  
Notes to Financial Statements

**Note 7 – Note Payable**

During the year, the District issued State Aid Anticipation Notes dated August, 2010 maturing August, 2011 in the amount of \$100,000 and \$192,500, and \$157,500 with interest rates of 0.80%, 0.40%, and 0.40%, respectively. Debt was issued to meet short-term cash flow needs. The notes were renewed in August, 2011 for a total of \$450,000.

<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2011</u>
\$ <u>425,000</u>	\$ <u>450,000</u>	\$ <u>425,000</u>	\$ <u>450,000</u>

The District has \$87,426 of funds on deposit with a financial institution, which are included in investments on the General Fund balance sheet, to be applied against the outstanding balance. The notes are secured by the full faith and credit of the District.

**Note 8 – 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. Long-term obligations can be summarized as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts Due</u> <u>Within One</u> <u>Year</u>
Governmental activities:					
Bond agreements:					
General obligation bonds	\$ 1,185,000	\$ -	\$ 210,000	\$ 975,000	\$ 220,000
Durant debt	8,082	-	2,570	5,512	2,692
Installment purchases:					
School bus loans	19,000	-	19,000	-	-
Compensated absences	<u>6,050</u>	<u>-</u>	<u>1,500</u>	<u>4,550</u>	<u>-</u>
Total governmental activities	<u>\$ 1,218,132</u>	<u>\$ -</u>	<u>\$ 233,070</u>	<u>\$ 985,062</u>	<u>\$ 222,692</u>

Annual debt service requirements to maturity on the above governmental obligations (excluding compensated absences) are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 222,692	\$ 40,932	\$ 263,624
2013	232,820	31,677	264,497
2014	235,000	21,878	256,878
2015	170,000	11,855	181,855
2016	<u>120,000</u>	<u>4,800</u>	<u>124,800</u>
Total	<u>\$ 980,512</u>	<u>\$ 111,142</u>	<u>\$ 1,091,654</u>

**Tekonsha Community Schools**  
Notes to Financial Statements

**Note 8 – Long-Term Debt (Continued)**

General obligation bonds consist of:	
\$1,095,000 – 2005 refunding bonds due in annual installments of \$115,000 - \$120,000 through May, 2016; interest at 3.600% to 4.000%	\$ 595,000
\$950,000 – 2006 energy improvement bonds due in annual installments of \$50,000 - \$115,000 through May 1, 2015; interest at 4.75%.	380,000
\$42,076 – Durant Non-Plaintiff serial bonds due in annual installments of \$2,955 through May 15, 2013; including interest at 4.76%.	<u>5,512</u>
Total bonded long-term debt	<u>\$ 980,512</u>

**Durant Non-Plaintiff Bond** - Included in Governmental Activities General Obligation Bonds is the Durant Non-Plaintiff Bond. Annual payments of both principal and interest associated with this bond are funded by the State of Michigan via specifically appropriated State Aid and will not require any District debt levy or utilization of any other District financial resources. In the current year, a total of \$2,955 of principal and interest payments were made.

**Note 9 – Risk Management**

The School District is exposed to various risks of loss-related torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The School District has purchased commercial insurance for other risks of loss, including property and casualty, errors and omissions, fleet, and employee health and accident insurance.

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits**

**Plan Description** – The District participates in the Michigan Public School Employees' Retirement System (MPERS), a state-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan and administered by the twelve-member board of the MPERS. The MPERS provides retirement, survivor and disability benefits and postretirement benefits options for health, dental and vision coverage for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, MI 48909-7671 or by calling (517) 322-5103.

**Tekonsha Community Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Funding Policy** – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 through June 30, 2008 and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members hired July 1, 2008 and thereafter contribute to Member Investment Plan Plus (MIPP) at the rate of 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1<sup>st</sup> on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, in any, are refundable.

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus member. The Pension Plus Plan pairs a guaranteed retirement income (defined benefit pension) with a flexible and transferable retirement savings (defined contribution) account.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate totals 16.94% for the period from July 1, 2010 through September 30, 2010 and increased to 19.41% for the base plan and 17.91% for pension plus members effective for the period October 1, 2010 through October 31, 2010. The rate increased to 20.66% for basic plan members and 19.16% for pension plus members for the period November 1, 2010 through June 30, 2011. In addition, the District is required to match 50% up to 1% of the employee contributions in the pension plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The School District's contributions to the MPSERS plan for the years ended June 30, 2011, 2010, and 2009 were approximately \$249,000, \$227,000, and \$262,000, respectively. The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

**Post-Employment Benefits** – Retirees have the option of health coverage, which is currently funded on a cash disbursement basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees. For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit and were paid less than \$18,000 in the prior school fiscal year and members who were hired on or after July 1, 2010, with a starting salary less than \$18,000 are required to contribute 1.5% of the member's compensation. For each school fiscal year that begins on or after July 1, 2011, members shall contribute 3% of compensation into the health care funding account. The District is not responsible for the payment of post-employment benefits which is the responsibility of the State of Michigan.

**Note 11 – Federal and State Grants**

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

**Tekonsha Community Schools**  
Notes to Financial Statements

**Note 12 - Sinking Funds**

The Building and Site Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

**Note 13 – Restatement of Beginning Fund Balance**

To comply with new guidance that became effective during the current year, the Athletic Fund, which was previously reported as a special revenue fund, has been combined with the General Fund. Beginning fund balance of the General Fund was increased by \$3,500 to include the fund balance of the Athletic Fund as of July 1, 2010.

## **Required Supplemental Information**

**Tekonsha Community Schools**  
 Budgetary Comparison Schedule - General Fund  
 Year Ended June 30, 2011

	<b>Budgeted Amounts</b>		<b>Actual</b>
	<b>Original</b>	<b>Final</b>	
<b>Revenues:</b>			
Local sources	\$ 307,903	\$ 311,676	\$ 290,231
State sources	2,038,006	1,953,240	1,945,651
Federal sources	183,555	277,712	231,251
Interdistrict and other	127,732	128,751	132,524
Total revenues	<u>2,657,196</u>	<u>2,671,379</u>	<u>2,599,657</u>
<b>Expenditures:</b>			
Instruction:			
Basic programs	1,343,885	1,325,010	1,282,019
Added needs	296,269	319,214	274,005
Support services:			
Pupil	86,985	87,649	86,521
Instructional staff	112,474	89,062	69,669
General administration	171,173	176,192	160,953
School administration	113,680	78,727	78,186
Business	136,072	109,855	100,411
Operation & maintenance	231,931	234,096	233,931
Pupil transportation	157,702	166,683	156,164
Central services	65,746	88,275	88,179
Athletic activities	111,641	124,947	102,836
Debt service	19,000	19,000	19,000
Total expenditures	<u>2,846,558</u>	<u>2,818,710</u>	<u>2,651,874</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(189,362)</u>	<u>(147,331)</u>	<u>(52,217)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	-	-
Transfers out	(60,000)	(61,650)	(61,650)
Total other financing sources (uses)	<u>(60,000)</u>	<u>(61,650)</u>	<u>(61,650)</u>
<b>Net Changes in Fund Balances</b>	(249,362)	(208,981)	(113,867)
<b>Fund Balances - Beginning of Year</b>	<u>569,937</u>	<u>569,937</u>	<u>569,937</u>
<b>Fund Balances - End of Year</b>	<u>\$ 320,575</u>	<u>\$ 360,956</u>	<u>\$ 456,070</u>

## **Other Supplemental Information**

**Tekonsha Community Schools**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2011**

	<u>Food Service</u> <u>Fund</u>	<u>Capital Projects</u> <u>Fund</u>	<u>Debt Service</u> <u>Fund</u>	<u>Total Nonmajor</u> <u>Governmental</u> <u>Funds</u>
<b><u>Assets</u></b>				
Cash and investments	\$ 36,494	\$ 16,986	\$ 15,266	\$ 68,746
Due from other funds	-	-	10,411	10,411
Receivable from other governments	874	-	-	874
Other receivables	14,263	-	-	14,263
Inventories	1,814	-	-	1,814
Total assets	<u>\$ 53,445</u>	<u>\$ 16,986</u>	<u>\$ 25,677</u>	<u>\$ 96,108</u>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities:</b>				
Accounts payable	\$ 4,471	\$ -	\$ -	\$ 4,471
Due to other funds	23,042	10,411	-	33,453
Deferred revenue	988	-	-	988
Total liabilities	<u>28,501</u>	<u>10,411</u>	<u>-</u>	<u>38,912</u>
<b>Fund balances:</b>				
Nonspendable:				
Inventories	1,814	-	-	1,814
Restricted	23,130	6,575	25,677	55,382
Total fund balances	<u>24,944</u>	<u>6,575</u>	<u>25,677</u>	<u>57,196</u>
Total liabilities and fund balances	<u>\$ 53,445</u>	<u>\$ 16,986</u>	<u>\$ 25,677</u>	<u>\$ 96,108</u>

**Tekonsha Community Schools**  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended June 30, 2011

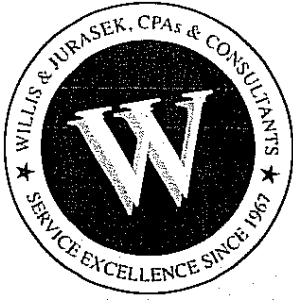
	<b>Food Service Fund</b>	<b>Capital Projects Fund</b>	<b>Debt Service Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Revenues:</b>				
Local sources	\$ 23,442	\$ 58,209	\$ 138,718	\$ 220,369
State sources	5,074	-	2,955	8,029
Federal sources	95,720	-	-	95,720
Total revenues	<u>124,236</u>	<u>58,209</u>	<u>141,673</u>	<u>324,118</u>
<b>Expenditures:</b>				
Food service activities	136,118	-	-	136,118
Debt service:				
Principal	-	-	212,570	212,570
Interest and other charges	-	-	49,655	49,655
Capital outlay	-	3,200	-	3,200
Total expenditures	<u>136,118</u>	<u>3,200</u>	<u>262,225</u>	<u>401,543</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(11,882)</u>	<u>55,009</u>	<u>(120,552)</u>	<u>(77,425)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	1,650	-	122,800	124,450
Transfers out	-	(62,800)	-	(62,800)
Net other financing sources (uses)	<u>1,650</u>	<u>(62,800)</u>	<u>122,800</u>	<u>61,650</u>
<b>Net Changes in Fund Balance</b>	(10,232)	(7,791)	2,248	(15,775)
<b>Fund Balances - Beginning of Year</b>	<u>35,176</u>	<u>14,366</u>	<u>23,429</u>	<u>72,971</u>
<b>Fund Balances - End of Year</b>	<u>\$ 24,944</u>	<u>\$ 6,575</u>	<u>\$ 25,677</u>	<u>\$ 57,196</u>

**Tekonsha Community Schools**  
Schedule of Bonded Indebtedness  
June 30, 2011

	<b>Date of Issue</b>	<b>Amount of Issue</b>	<b>Interest Rate</b>	<b>Date of Maturity</b>	<b>Fiscal Year Interest Requirements</b>	<b>Amount of Annual Maturity</b>	<b>Bonds Outstanding June 30, 2011</b>
2006 Energy Conservation Improvement Bond	November 14, 2006	\$ 950,000	4.750%	5/1/2012	\$ 18,050	\$ 105,000	\$ 105,000
				5/1/2013	13,063	110,000	110,000
				5/1/2014	7,838	115,000	115,000
				5/1/2015	2,375	50,000	50,000
							<u>\$ 380,000</u>

	<b>Date of Issue</b>	<b>Amount of Issue</b>	<b>Interest Rate</b>	<b>Date of Maturity</b>	<b>Fiscal Year Interest Requirements</b>	<b>Amount of Annual Maturity</b>	<b>Bonds Outstanding June 30, 2011</b>
Durant Bonds	September 14, 1998	\$ 42,076	4.76%	5/15/2012	\$ 262	\$ 2,692	\$ 2,692
				5/15/2013	134	2,820	2,820
							<u>\$ 5,512</u>

	<b>Date of Issue</b>	<b>Amount of Issue</b>	<b>Interest Rate</b>	<b>Date of Maturity</b>	<b>Fiscal Year Interest Requirements</b>	<b>Amount of Annual Maturity</b>	<b>Bonds Outstanding June 30, 2010</b>
2005 Refunding Bonds	May 24, 2005	\$ 1,095,000	3.600%	5/1/2012	\$ 22,620	\$ 115,000	\$ 115,000
			3.700%	5/1/2013	18,480	120,000	120,000
			3.800%	5/1/2014	14,040	120,000	120,000
			3.900%	5/1/2015	9,480	120,000	120,000
			4.000%	5/1/2016	4,800	120,000	120,000
							<u>\$ 595,000</u>



**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements  
Performed in Accordance with  
Government Auditing Standards**

Board of Education  
Tekonsha Community Schools  
Tekonsha, Michigan

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

**Internal Control Over Financial Reporting**

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

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

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

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**WILLIS & JURASEK, P.C.**

2545 Spring Arbor Road  
Suite 200  
Jackson, MI 49203-3690

Board of Education  
Tekonsha Community Schools  
Tekonsha, Michigan

**Compliance and Other Matters**

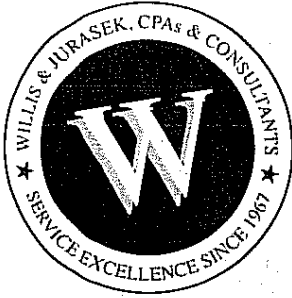
As part of obtaining reasonable assurance about whether Tekonsha Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct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

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

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

September 30, 2011



September 30, 2011

To the Board of Education  
Tekonsha Community Schools  
Tekonsha, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tekonsha Community Schools for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. 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 used by Tekonsha Community Schools are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the District changed accounting policies related to fund balance categories by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the governmental fund financial statements.

We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements 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. The most sensitive estimates, affecting the government-wide financial statements, were:

Management's estimate of the capitalized assets and the estimate of related accumulated depreciation. The bulk of the capitalized costs are based upon an asset appraisal done in a prior year. Related depreciation is based upon estimated lives and methods to formulate net book value. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the vested sick time. This estimate is based on accumulated sick days and earnings rates in effect at the time of the estimate. Actual payout of sick time may not equate to the estimate. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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

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

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#### **WILLIS & JURASEK, P.C.**

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### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. There were no significant audit adjustments recorded at year-end.

### *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 auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 30, 2011.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us 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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Education and management of Tekonsha Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.