

Big Rapids  Public Schools

BIG RAPIDS, MICHIGAN

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

BIG RAPIDS PUBLIC SCHOOLS

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**BIG RAPIDS PUBLIC SCHOOLS
ADMINISTRATIVE PERSONNEL
YEAR ENDED JUNE 30, 2009**

SCHOOL BOARD MEMBERS

Kathy Bouwman	President
Suzanne Hosking	Vice President
John Thomas	Treasurer
Michael Wyman	Secretary
Peter Peterson	Trustee
Michael Mekaru	Trustee
Suzette Compton	Trustee

SUPERINTENDENT

Dr. Thomas Langdon

FINANCE DIRECTOR

Nick Scheible

CURRICULUM/HUMAN RESOURCES DIRECTOR

Deb Tyson

PRINCIPALS

Tim Haist	High School
Russ Greenleaf	Middle School
Renee Kent	Elementary School
Tim Buckingham	Elementary School/ Early Childhood Center

INDEPENDENT AUDITORS' REPORT

November 11, 2009

Board of Education
Big Rapids Public Schools
Big Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of ***Big Rapids Public Schools***, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Big Rapids Public 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 Big Rapids Public Schools as of June 30, 2009, and the respective changes in financial position, where applicable, thereof and the budgetary comparisons of the general fund and food service special revenue fund 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 separately issued our report dated November 11, 2009 on our consideration of the Big Rapids Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Big Rapids Public Schools' basic financial statements. The combining and individual nonmajor fund financial statements and schedules, are presented for purposes of additional analysis and are not a required part of the Big Rapids Public Schools' 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 presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson".

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of Big Rapids Public Schools (the "District"), 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, 2009.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$5,469,628 (*net assets*). This represents the amount that may be used to meet the District's ongoing obligations for general district programs.
- The District's total net assets increased by \$2,172,327.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,094,531, an increase of \$395,198 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$312,926, or 1.9 percent of total general fund expenditures and transfers out.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The activities of the District include instruction, supporting services, community services, food services, and athletics.

The government-wide financial statements can be found on pages 10-11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District fall within the governmental and fiduciary fund type categories.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *government activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the general fund and 2009 debt service fund which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 12-16 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for the government wide financial statements. The fiduciary funds statement of fiduciary assets and liabilities can be found on page 17 of this report.

Notes to the financial statements. The notes 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 the financial statements can be found on pages 18-30 of this report.

Other information. The combining and individual fund financial statements and schedules referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. They can be found on pages 31-39 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$5,469,628 at the close of the most recent fiscal year.

Big Rapids Public Schools' Net Assets

	2009	2008
Assets		
Current and other assets	\$ 4,652,920	\$ 6,281,661
Capital assets, net	24,923,818	25,528,094
Total assets	29,576,738	31,809,755
Liabilities		
Long-term liabilities	20,639,306	22,932,852
Other liabilities	3,467,804	5,579,602
Total liabilities	24,107,110	28,512,454
Net assets		
Invested in capital assets, net of related debt	4,821,939	3,233,453
Restricted	512,895	450,435
Unrestricted (deficit)	134,794	(386,587)
Total net assets	\$ 5,469,628	\$ 3,297,301

At the end of the current fiscal year, the District was able to report a positive balance in net assets for the District as a whole, as well as for each of the individual categories.

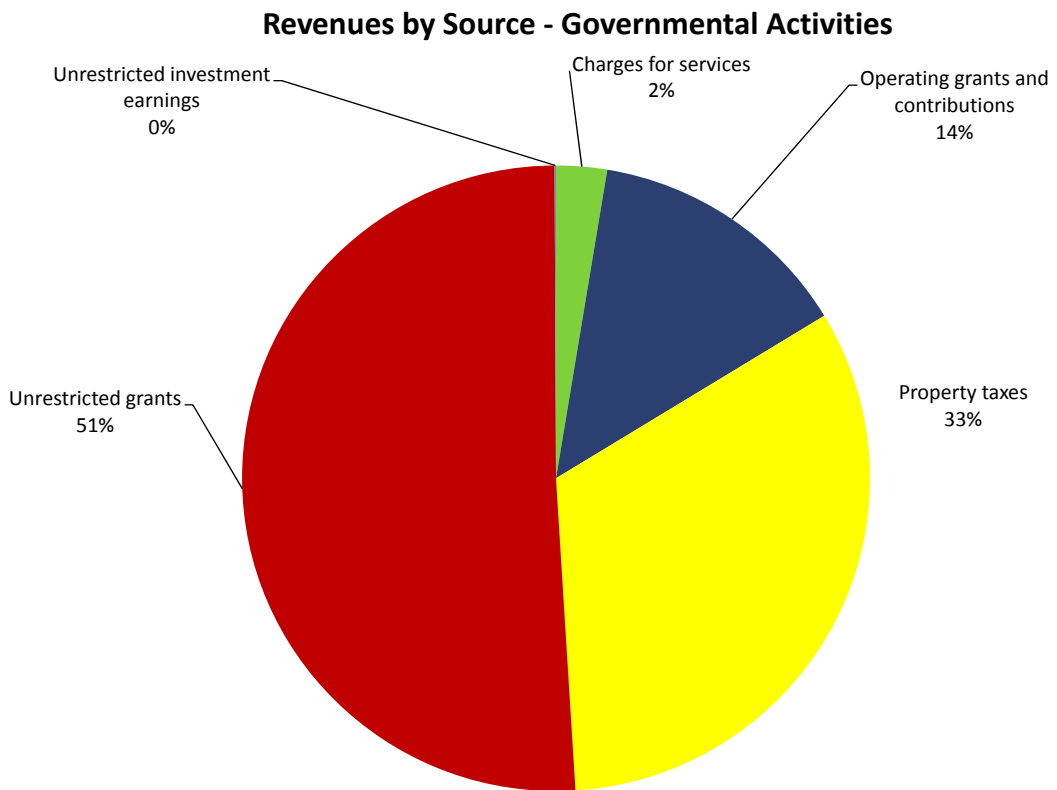
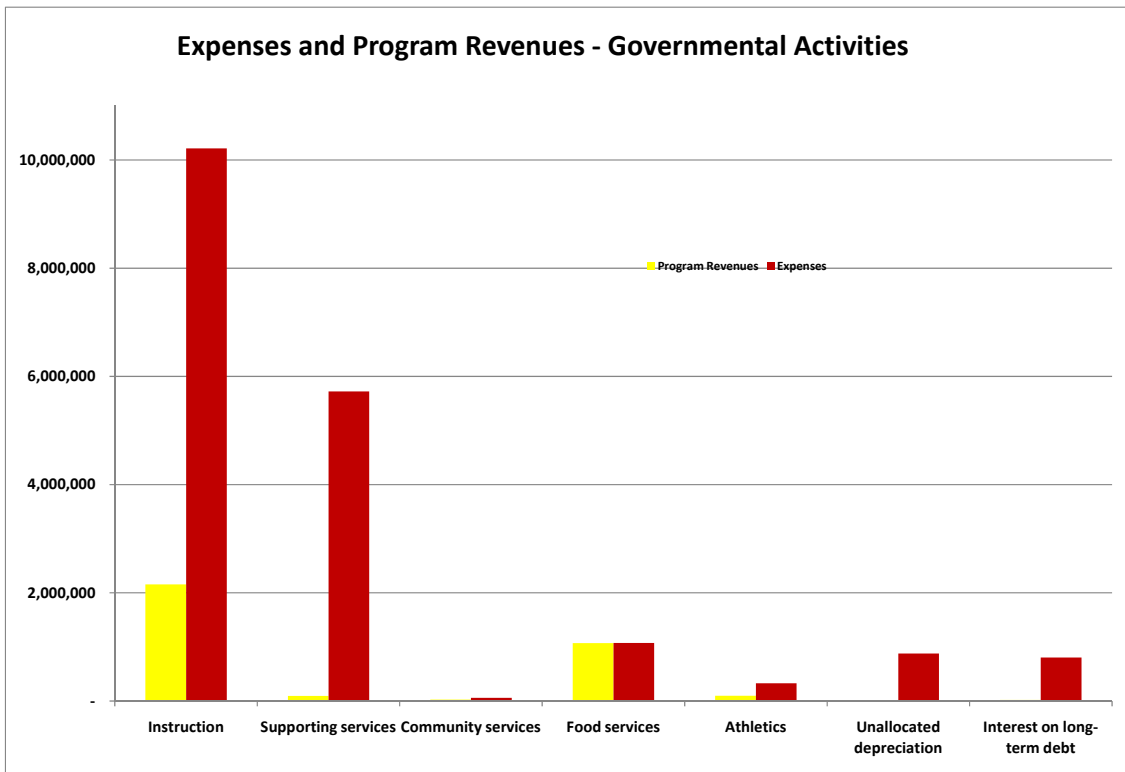
The District's net assets were \$5,469,628 at June 30, 2009. Capital assets, net of related debt totaling \$4,821,939, compares the original cost, less depreciation of the District's capital assets, to long-term debt used to finance the acquisition of these assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. The remaining amount of net assets was an unrestricted \$134,794.

The \$386,587 deficit in unrestricted net assets of governmental activities at June 30, 2008 represents the accumulated results of all past years' operations. The operating results of the general fund will have a significant impact on the change in unrestricted net assets from year to year.

Big Rapids Public Schools' Changes in Net Assets

	2009	2008
Revenues		
Program revenues:		
Charges for services	\$ 555,709	\$ 552,224
Operating grants and contributions	2,909,822	2,389,197
General revenues:		
Property taxes	6,949,320	7,550,982
Grants and contributions not restricted to specific programs	10,820,595	10,271,040
Unrestricted investment earnings	15,388	86,867
Total revenues	21,250,834	20,850,310
Expenses		
Instruction	10,216,368	10,579,543
Supporting services	5,724,504	5,819,905
Community services	57,661	27,988
Food services	1,072,281	1,152,312
Athletics	327,209	326,236
Depreciation - unallocated	877,637	848,579
Interest on long-term debt	802,847	1,256,549
Total expenses	19,078,507	20,011,112
Change in net assets	2,172,327	839,198
Net assets, beginning of year	3,297,301	2,458,103
Net assets, end of year	\$ 5,469,628	\$ 3,297,301

The increase in net assets of governmental activities is primarily due to principal payments and capital outlay being recorded as expenditures in the fund statements, but as a reduction in liabilities and long-term assets, respectively, in the government-wide statement of net assets.



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance was \$312,926 and total fund balance of the general fund was \$362,186. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent approximately 1.9 percent and 2.2 percent of total general fund expenditures and transfers out, respectively

The fund balance of the District's general fund increased by \$278,178 during the current fiscal year. This was mainly due to an increase in State and local revenue, which was not accompanied by a corresponding increase in expenditures. The largest revenue source in this fund is state revenue which includes primarily state aid. Expenditures consist primarily of costs associated with supporting the District's instructional and supporting services operations.

The 2009 debt fund, reported as a major fund, accounts for the activity of a general obligation bond refunded, described in further detail in Note 8.

General Fund Budgetary Highlights

Differences between the original and final amended budgets were relatively minor and were reflections of additional information becoming available regarding grant funding, and related expenditures.

Differences between the final amended budget and the actual results were a result of:

- State school aid was replaced with federal ARRA funds, which was not budgeted.
- Instruction expenditures were over budget by slightly less than \$100,000 because the District had been inadvertently expense a teacher salary to the library department during the year, which was not identified and corrected until year-end.
- Supporting services expenditures were under budget as a result of various oversights in which function to charge certain teachers and administrators, which were not identified and corrected until after year-end (and therefore, after the budget could be legally amended).
- Interest expense related to the School Bond Loan Fund (paid off in FY 2009) is incurred at a variable rate, which was lower than expected.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2009 amounted to \$24,923,818 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment.

Major capital asset additions during the year included ten new copy machines, several computers, and improvements to the high school parking lot and gym floor.

Big Rapids Public Schools
Capital Assets
(net of depreciation)

	2009	2008
Land	\$ 570,602	\$ 570,602
Buildings and improvements	23,871,590	24,550,692
Furniture and equipment	289,693	188,024
Buses and vehicles	191,933	218,776
Total	\$ 24,923,818	\$ 25,528,094

Additional information on the District’s capital assets can be found in Note 6 on pages 25-26 of this report.

Long-term debt. At the end of the current fiscal year, the District had long-term debt outstanding of \$20,639,306. This includes bonds, notes and capital leases as well as early retirement incentives and compensated absences.

The District’s total debt decreased by \$2,276,430 during the current fiscal year.

Additional information on the District’s long-term debt can be found in Note 8 on pages 27-29 of this report.

Factors Bearing on the District’s Future

The following factors were considered in preparing the District’s budget for the 2009-10 fiscal year:

- Revenue based on stagnant foundation allowance per pupil
- Decline in enrollment of 30 FTE’s.
- Union wages were projected to increase according to negotiated contracts.
- MPSERS rate of 16.94%.
- Slight increase in interest expense for cash flow borrowing, due to a larger principal amount.

Requests for Information

This financial report is designed to provide a general overview of the District’s 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 financial information should be addressed to the Finance Director, 21034 15 Mile Road, Big Rapids, Michigan, 49307.

BASIC FINANCIAL STATEMENTS

BIG RAPIDS PUBLIC SCHOOLS

Statement of Net Assets

June 30, 2009

	Governmental Activities
Assets	
Current assets:	
Cash and investments	\$ 1,994,550
Receivables	2,395,575
Inventories	10,353
Prepays	50,510
Total current assets	<u>4,450,988</u>
Noncurrent assets:	
Capital assets not being depreciated	570,602
Capital assets being depreciated, net	24,353,216
Deferred bond charges, net	201,932
Total noncurrent assets	<u>25,125,750</u>
Total assets	<u>29,576,738</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	1,735,801
Unearned revenue	32,003
State aid anticipation note payable	1,700,000
Current portion of compensated absences/early retirement incentive	114,219
Current portion of long-term debt	1,216,475
Total current liabilities	<u>4,798,498</u>
Noncurrent liabilities:	
Long-term portion of compensated absences/early retirement incentive	342,660
Non-current portion of long-term debt	18,965,952
Total noncurrent liabilities	<u>19,308,612</u>
Total liabilities	<u>24,107,110</u>
Net assets	
Invested in capital assets, net of related debt	4,821,939
Restricted for:	
Athletics	47,847
Food service	45,727
Debt service	419,321
Unrestricted	134,794
Total net assets	<u>\$ 5,469,628</u>

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

BIG RAPIDS PUBLIC SCHOOLS

Statement of Activities

For the Year Ended June 30, 2009

<u>Functions / Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction	\$ 10,216,368	\$ -	\$ 2,155,696	\$ (8,060,672)
Supporting services	5,724,504	20,547	73,336	(5,630,621)
Community services	57,661	26,020	-	(31,641)
Food services	1,072,281	411,268	659,723	(1,290)
Athletics	327,209	97,874	141	(229,194)
Depreciation - unallocated	877,637	-	-	(877,637)
Interest on long-term debt	802,847	-	20,926	(781,921)
Total governmental activities	\$ 19,078,507	\$ 555,709	\$ 2,909,822	(15,612,976)
General revenues:				
Property taxes - operations				3,782,886
Property taxes - debt service				3,166,434
Grants and contributions not restricted to specific programs				10,820,595
Unrestricted investment earnings				15,388
Total general revenues				17,785,303
Change in net assets				2,172,327
Net assets, beginning of year				3,297,301
Net assets, end of year				\$ 5,469,628

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

BIG RAPIDS PUBLIC SCHOOLS

Balance Sheet Governmental Funds

June 30, 2009

	General	2009 Refunding Debt	Nonmajor Governmental Funds	Total
Assets				
Cash and investments	\$ 1,219,051	\$ 633,080	\$ 142,419	\$ 1,994,550
Accounts receivable	37,867	5,691	1,500	45,058
Due from other governments	2,263,239	-	87,278	2,350,517
Due from other funds	66,590	-	11,962	78,552
Inventories	-	-	10,353	10,353
Prepays	49,260	-	1,250	50,510
Total assets	\$ 3,636,007	\$ 638,771	\$ 254,762	\$ 4,529,540
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 99,362	\$ -	\$ 3,195	\$ 102,557
Accrued expenditures	1,407,037	-	6,757	1,413,794
Due to other funds	11,962	-	66,590	78,552
Deferred revenue	55,460	-	84,646	140,106
State aid anticipation notes payable	1,700,000	-	-	1,700,000
Total liabilities	3,273,821	-	161,188	3,435,009
Fund balances				
Reserved for:				
Inventories	-	-	6,255	6,255
Prepays	49,260	-	1,250	50,510
Unreserved:				
Undesignated, reported in nonmajor special revenue funds	-	-	86,069	86,069
Undesignated	312,926	638,771	-	951,697
Total fund balances	362,186	638,771	93,574	1,094,531
Total liabilities and fund balances	\$ 3,636,007	\$ 638,771	\$ 254,762	\$ 4,529,540

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

BIG RAPIDS PUBLIC SCHOOLS

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2009

Fund balances - governmental funds	\$ 1,094,531
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets not being depreciated	570,602
Add - capital assets being depreciated, net	24,353,216
Long-term receivables are reported as an asset and revenue when earned on the statement of net assets while the governmental funds report these balances as an asset and deferred revenue until the availability criterion for revenue recognition is met.	
Add - deferred long-term receivables	108,103
Bond issuance costs are expensed in the fund statements, but are recorded as noncurrent assets in the statement of net assets and amortized over the life of the related bonds	
Add - deferred bond charges, net of accumulated amortization	201,932
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - bonds and installment notes payable	(20,119,475)
Deduct - premiums and discount on bonds payable, net	(360,718)
Add - deferred loss on issuance of refunding debt, net	297,766
Deduct - accrued interest on bonds payable	(219,450)
Deduct - compensated absences and early retirement incentive	<u>(456,879)</u>
Net assets of governmental activities	<u>\$ 5,469,628</u>

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

BIG RAPIDS PUBLIC SCHOOLS

Statement of Revenue, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2009

	2009 General	2009 Refunding Debt	Nonmajor Governmental Funds	Total
Revenue				
Local sources	\$ 4,318,294	\$ 3,185,165	\$ 510,561	\$ 8,014,020
State sources	11,093,618	-	65,635	11,159,253
Federal sources	1,491,593	-	603,387	2,094,980
Total revenue	16,903,505	3,185,165	1,179,583	21,268,253
Expenditures				
Current:				
Instruction	10,351,858	-	-	10,351,858
Supporting services	5,696,155	-	-	5,696,155
Community services	57,661	-	-	57,661
Athletics	-	-	327,209	327,209
Food services	-	-	1,072,281	1,072,281
Debt service:				
Principal	88,518	2,118,710	8,382	2,215,610
Interest	43,476	759,751	2,195	805,422
Bond issuance costs	-	193,504	-	193,504
Capital outlay	216,528	-	-	216,528
Total expenditures	16,454,196	3,071,965	1,410,067	20,936,228
Revenue over (under) expenditures	449,309	113,200	(230,484)	332,025
Other financing sources (uses)				
Transfers in	-	68,800	255,000	323,800
Transfers out	(323,800)	-	-	(323,800)
Issuance of long-term debt	152,669	13,560,000	-	13,712,669
Payment to refunded bond escrow agent	-	(14,057,580)	-	(14,057,580)
Premium on issuance of refunding debt	-	459,388	-	459,388
Discount on issuance of refunding debt	-	(51,304)	-	(51,304)
Total other financing sources (uses)	(171,131)	(20,696)	255,000	63,173
Net changes in fund balances	278,178	92,504	24,516	395,198
Fund balances, beginning of year	84,008	546,267	69,058	699,333
Fund balances, end of year	\$ 362,186	\$ 638,771	\$ 93,574	\$ 1,094,531

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

BIG RAPIDS PUBLIC SCHOOLS

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2009

Net changes in fund balances - governmental funds \$ 395,198

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

Long-term receivables are reported as revenue when earned on the statement of activities while the governmental funds report these balances as revenue when the availability criterion for revenue recognition is met.

Deduct - decrease in deferred long-term receivables (17,419)

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.

Add - capital outlay 273,361
Deduct - depreciation expense (877,637)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but is recorded as a reduction in bonds payable on the government-wide statements.

Add - principal payments on long-term liabilities 2,215,610
Add - net decrease in accrued interest payable on Michigan School Bond Loan Fund 68,249
Deduct - issuance of long-term debt (13,712,669)
Deduct - premium and discount on issuance of refunding debt (408,084)
Add - payment to refunded bond escrow agent 14,057,580
Add - refunding bond issuance costs 193,504
Deduct - amortization of bond issuance costs (16,550)
Deduct - amortization of deferred loss on bond refunding (24,814)
Add - amortization of premiums and discounts on bonds payable 30,250

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest payable on bonds (54,560)
Deduct - increase in the accrual for compensated absences and early retirement incentive 50,308

Change in net assets of governmental activities \$ 2,172,327

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

BIG RAPIDS PUBLIC SCHOOLS

Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual General Fund

For the Year Ended June 30, 2009

	Budget		Actual	Variance with Final Budget
	Original	Amended		
Revenue				
Local sources	\$ 4,360,071	\$ 4,343,795	\$ 4,318,294	\$ (25,501)
State sources	11,521,057	11,757,812	11,093,618	(664,194)
Federal sources	667,783	735,753	1,491,593	755,840
Total revenue	16,548,911	16,837,360	16,903,505	66,145
Expenditures				
Current:				
Instruction	10,239,929	10,250,928	10,351,858	100,930
Supporting services	5,770,462	6,039,595	5,696,155	(343,440)
Community services	57,827	31,979	57,661	25,682
Debt service:				
Principal	65,000	68,800	88,518	19,718
Interest	55,000	183,500	43,476	(140,024)
Capital outlay	55,000	74,000	216,528	142,528
Total expenditures	16,243,218	16,648,802	16,454,196	(194,606)
Revenue over expenditures	305,693	188,558	449,309	260,751
Other financing sources (uses)				
Transfers out	(324,788)	(255,988)	(323,800)	(67,812)
Issuance of long-term debt	78,000	-	152,669	152,669
Total other financing sources (uses)	(246,788)	(255,988)	(171,131)	84,857
Net changes in fund balance	58,905	(67,430)	278,178	345,608
Fund balance, beginning of year	84,008	84,008	84,008	-
Fund balance, end of year	\$ 142,913	\$ 16,578	\$ 362,186	\$ 345,608

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

BIG RAPIDS PUBLIC SCHOOLS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of Big Rapids Public Schools (the “District”) consistently applied in the preparation of the accompanying financial statements follows.

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the reporting entity of Big Rapids Public Schools. The criteria identified in GASB Statements 14 and 39, including financial accountability, have been utilized when identifying the District reporting entity which includes no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary 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. The District had no *business-type activities* during the year ended June 30, 2009.

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 or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Agency funds also use the accrual basis of accounting, but do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible 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, or one year for reimbursement-based grants. 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 and claims and judgments, are recorded only when payment is due.

BIG RAPIDS PUBLIC SCHOOLS

Notes to Financial Statements

Property taxes, expenditure driven grant revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the district.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *2009 refunding debt fund* accounts for the accumulation of resources which are restricted for the payment of principal and interest on the 2009 refunding bonds.

Additionally, the government reports the following fund types:

The *special revenue funds* account for assets which are restricted for specific purposes.

The *debt service fund* accounts for the accumulation of resources which are restricted for the payment of principal and interest on bonds.

The *fiduciary funds* account for resources held for student activities and payroll taxes and benefits.

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.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The effect of interfund activity has been eliminated from the government-wide financial statements.

Budgets and Budgetary Accounting

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

Budgets are adopted for general and special revenue funds as required by state law and are adopted on a basis consistent with generally accepted accounting principles (GAAP). The District considers the debt service schedule to be an adequate budgetary control for debt service funds. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.

BIG RAPIDS PUBLIC SCHOOLS

Notes to Financial Statements

4. Formal budgetary integration is employed as a management control device during the year for all governmental funds.
5. Adoption and amendments of all budgets used by the District are governed by Public Act 621, which was followed for the year ended June 30, 2009. Expenditures may not exceed appropriations at the function level. The appropriations resolutions are based on the projected expenditures budget of the department heads of the District. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures at the functional level must be approved by the District Board.

Appropriations lapse at year-end and amounts may be reappropriated for expenditures to be incurred in the following fiscal year.

Property Taxes

Property taxes are recognized as revenue in the General and Debt Service funds on a levy year basis. The 2008 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within sixty days after year end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues. Property taxes are levied July 1 on the assessed valuation of property located in the District as of the preceding December 31, the lien date. Assessed values are established annually by the various governmental units within the District and are equalized by the State of Michigan.

Cash and Cash Equivalents

The District considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

Investments

The District's investments consist of money market mutual funds and certificates of deposit with local financial institutions. Investments are stated at fair value.

Michigan law authorizes the District to deposit and invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposits issued by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

BIG RAPIDS PUBLIC SCHOOLS
Notes to Financial Statements

- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

Inventories and Prepaids

Inventories consist of office and food service supplies. Inventories are stated at cost (first-in, first-out). United States Department of Agriculture Commodities inventory received by the food service fund is recorded as inventory and liabilities until used.

Payments to vendors for services that will benefit periods beyond a fund's fiscal year-end are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Furniture and equipment	5-20
Buses and other vehicles	5-10

Salaries Payable and Accrued Employee Benefits

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The District pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

BIG RAPIDS PUBLIC SCHOOLS

Notes to Financial Statements

Compensated Absences

Most employees of the District are compensated for leaves of absences chargeable to sick days. Each school year, the covered employees are credited with a number of sick days and any unused portion of such allowances can accumulate. Upon retirement, those employees who meet certain age and years of service requirements will be paid for a portion of sick days accumulated to a maximum number of days and at a rate determined by their job category.

The liability for the sick leave has been computed using the vesting method in accordance with Governmental Accounting Standards Board Statement No. 16, 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. This liability is shown on the statement of net assets.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

In the fund financial statements, governmental funds types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Reserves and Designations of Fund Balance/Restricted Net Assets

Reservations of fund balance are established to identify (1) third party claims against resources of the entity that have not materialized as liabilities at the balance sheet date, or (2) the existence of assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure, or (3) the existence of assets that are legally restricted to a future use.

Restricted net assets represent assets which are legally restricted by outside parties or enabling legislation.

Durant Related Issues

Under Public Act 142 of 1997, enacted in November 1997 as part of the *Durant* Resolution Package, school districts and intermediate school districts were offered settlement amounts to settle, compromise, and resolve, in their entirety, any potential claims they may have asserted for violations of section 29, Article IX, of the constitution through September 30, 1997, which were similar to the claims asserted by the plaintiffs in the *Durant v. State of Michigan* case. To be eligible to receive its offer of settlement amount, the non-plaintiff district needed to adopt and submit to the State Treasurer a waiver resolution, in the form set forth in Public Act 142 of 1997, waiving any potential claims through September 30, 1997.

Settlement amounts were based on the formula used to determine amounts owed to *Durant* plaintiffs. Half the settlement amount was to be received in ten annual payments; *the other half was received in a lump sum by participating in a special bonding program offered through the Michigan Municipal Bond Authority (MMBA) or in fifteen annual payments.* Big Rapids Public Schools elected to participate in the special bonding program.

BIG RAPIDS PUBLIC SCHOOLS
Notes to Financial Statements

Districts electing to bond under the Durant settlement received a lump sum amount (bond proceeds) on November 24, 1998. This created a liability which will be reduced each year with an annual state appropriation made for debt service on the bonds. The annual State of Michigan appropriation is the only revenue source for making the annual debt service payment on the bonds. If the legislature fails to appropriate the funds, the district is under no obligation for payment. Additionally, the bond documentation states specifically that the Bonds shall not be in any way a debt or liability of the State of Michigan. This liability and a related asset has been booked on the statement of net assets. Annual appropriations from the State are recorded in the Durant Debt Service Fund along with the payment of the interest and principal of the bonds.

The original bond proceeds were recorded in the Durant Construction Fund and expended for purposes specified in Section 1351a of the Revised School Code.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the District.

Subsequent Events

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2009, the most recent statement of net assets presented herein, through the auditors' report date, the date these financial statements were available to be issued. No significant such events or transactions were identified, other than those matters disclosed in Note 13 labeled "Subsequent Event."

2. STATE OF MICHIGAN SCHOOL AID

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan School aid appropriation acts. State funding provided 66% of general fund revenue to the District during the 2009 fiscal year.

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2009 the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General fund:			
Instruction	\$10,250,928	\$10,351,858	\$ 100,930
Community services	31,979	57,661	25,552
Principal	68,800	88,518	19,718
Capital outlay	74,000	216,528	142,528
Transfers out	255,988	323,800	67,812

BIG RAPIDS PUBLIC SCHOOLS
Notes to Financial Statements

4. CASH AND INVESTMENTS

Following is a reconciliation of deposits and investments as of June 30, 2009:

	Governmental Activities	Fiduciary Funds	Total
Cash and investments	\$ 1,994,550	\$ 208,267	\$2,202,817

Cash and investments are comprised of the following at year-end:

Checking and savings accounts	\$2,109,969
Certificates of deposit (due within one year)	79,382
Investments	12,396
Cash on hand	1,070
	\$2,202,817

These deposits are in four (4) financial institutions located in Michigan. State policy limits the District's investing options to financial institutions located in Michigan. All accounts are in the name of the District and a specific fund or common account. They are recorded in District records at fair value.

The District chooses to disclose its investments by specifically identifying each. As of year-end, the District had the following investment:

Investment	Maturity	Fair Value	Rating
Mutual fund:			
MILAF Plus – Cash Management Funds	N/A	\$ 12,396	S&P AAAM

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. 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 maturity dates for each investment are identified above for investments held at year end.

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 the District's specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1 (summary of significant accounting policies). The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

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 minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the District's investment policy. As of year-end, \$1,878,599 of the District's bank balance of \$2,348,160 was exposed to custodial credit risk because it was uninsured and uncollateralized.

BIG RAPIDS PUBLIC SCHOOLS
Notes to Financial Statements

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. Of the above mutual fund investments, the District’s custodial credit risk exposure cannot be determined because the mutual funds do not consist of specifically identifiable securities.

5. RECEIVABLES AND PAYABLES

Receivables are comprised of the following at year-end:

	Governmental Activities
Accounts	\$ 45,058
Due from other governments	2,350,517
	\$ 2,395,575

Payables are comprised of the following at year-end:

	Governmental Activities
Accounts	\$ 102,557
Accrued expenditures	1,633,244
	\$ 1,735,801

6. CAPITAL ASSETS

A summary of capital assets activity for the year ended June 30, 2009 is as follows:

	Balance July 1, 2008	Additions	Dispositions	Balance June 30, 2009
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 570,602	\$ -	\$ -	\$ 570,602
Depreciable capital assets:				
Buildings and improvements	32,409,117	68,551	-	32,477,668
Furniture and equipment	890,514	184,935	-	1,075,449
Buses and vehicles	1,285,426	19,875	-	1,305,301
Total depreciable capital assets	34,585,057	273,361	-	34,858,418

BIG RAPIDS PUBLIC SCHOOLS
Notes to Financial Statements

	Balance July 1, 2008	Additions	Dispositions	Balance June 30, 2009
Governmental activities (concluded)				
Buildings and improvements	\$ 7,858,425	\$ 747,653	\$ -	\$ 8,606,078
Furniture and equipment	702,490	83,266	-	785,756
Buses and vehicles	1,066,650	46,718	-	1,113,368
Total accumulated depreciation	9,627,565	877,637	-	10,505,202
Total capital assets being depreciated, net	24,957,492	604,276	-	24,353,216
Governmental activities capital assets, net	\$ 25,528,094	\$ 604,276	\$ -	\$ 24,923,818

Depreciation for the fiscal year ended June 30, 2009 amounted to \$877,637. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Of the amounts reported above, \$168,690 was acquired through a capital lease. Accumulated depreciation on this asset at June 30, 2009 was \$29,380.

7. INTERFUND BALANCES AND TRANSFERS

Interfund balances primarily reflect balances utilized to facilitate appropriate cash flow for operations. Interfund balances at year-end are summarized as follows:

	Due To Other Funds	Due From Other Funds
Interfund Balances		
General fund	\$ 11,962	\$ 66,590
Nonmajor governmental funds	66,590	11,962
Total	\$ 78,552	\$ 78,552

Transfers primarily reflect subsidies allocated from the general fund.

	Transfers in		
Transfers out	2009 Refunding Debt	Nonmajor Governmental Funds	Total
General fund	\$ 68,800	\$ 255,000	\$ 323,800

BIG RAPIDS PUBLIC SCHOOLS
Notes to Financial Statements

8. LONG-TERM DEBT

The following is a summary of debt transactions of the District for the year ended June 30, 2009:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 21,083,930	\$ 13,560,000	\$14,768,382	\$ 19,875,548	\$ 1,138,781
Installment purchase agreements	179,626	152,669	88,368	243,927	72,258
	<u>21,263,556</u>	<u>13,712,669</u>	<u>14,856,750</u>	<u>20,119,475</u>	<u>1,211,039</u>
Unamortized discounts/premiums on general obligation bonds	(17,116)	408,084	30,250	360,718	30,250
Deferred loss on bond refunding	-	(322,580)	(24,814)	(297,766)	(24,814)
School bond loan fund	1,162,109	45,244	1,207,353	-	-
Early retirement incentive	367,860	-	139,107	228,753	80,000
Compensated absences	139,327	140,772	51,973	228,126	34,219
	<u>\$ 22,915,736</u>	<u>\$ 13,984,189</u>	<u>\$ 16,260,619</u>	<u>\$ 20,639,306</u>	<u>\$ 1,330,694</u>

Bonds payable at June 30, 2009, are comprised of the following issues:

General obligation bonds:

2009 Refunding Bonds due in amounts ranging from \$1,055,000 through \$1,130,000 plus interest at 4.00 - 5.00 % through 2021 (unlimited tax, general obligation) \$ 13,560,000

2007 Energy Bonds due in amounts ranging from \$35,000 through \$165,000 plus interest at 4.00% through 2024 1,720,000

1999 Refunding Bonds due in amounts ranging from \$105,000 through \$1,100,000 plus interest at 3.15 - 4.75% through 2025 (unlimited tax, general obligation) 4,515,000

* 1998 School Improvement Bonds (Durant Settlement) due in amounts ranging from \$6,641 through \$15,438 plus interest at 4.76% through 2013 80,548

\$ 19,875,548

* The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

BIG RAPIDS PUBLIC SCHOOLS
Notes to Financial Statements

Installment purchase agreements at June 30, 2009, are comprised of the following:

Installment purchase agreements:	
2006 Installment purchase agreement due in installments of \$28,089 plus interest at 4.19% through 2011	\$ 56,179
2007 Installment purchase agreement due in installments of \$17,440 plus interest at 4.05% through 2012	63,230
2009 Installment purchase agreement due in monthly installments of \$2,812, including interest at 4.0% through 2013.	<u>124,518</u>
	<u>\$ 243,927</u>

Annual debt service requirements to maturity for general obligation bonds and installment purchase agreements are as follows:

Year Ended June 30	Principal	Interest	Total
2010	\$ 1,211,039	\$ 508,883	\$ 1,719,922
2011	1,218,255	505,491	1,723,746
2012	1,285,308	518,254	1,803,562
2013	1,294,873	496,806	1,791,679
2014	1,235,000	493,324	1,728,324
2015 – 2019	6,405,000	2,402,826	8,807,826
2020 – 2024	6,360,000	1,437,550	7,797,550
2025	1,110,000	52,725	1,162,725
	<u>\$20,119,475</u>	<u>\$ 6,415,859</u>	<u>\$ 26,535,334</u>

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the Debt Service requirements on the general obligation bonds. Changes to the School Bond Loan Fund for the year ended June 30, 2009, are as follows:

	Principal	Interest	Total
Beginning balance	\$ 1,093,860	\$ 68,249	\$ 1,162,109
Additions	-	45,244	45,244
Deletions	1,093,860	113,493	1,207,353
Ending balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Compensated absences and the early retirement incentives are expected to be liquidated by the general fund.

BIG RAPIDS PUBLIC SCHOOLS
Notes to Financial Statements

During fiscal year 2009, the District advance-refunded \$13,735,000 of 1999 general obligation refunding bonds to provide resources to purchase U.S. government securities that were placed in an escrow fund for the purpose of generating resources for all future debt service payments on \$13,735,000 of refunded debt. As a result, the bonds are considered defeased and the liability has been removed from the statement of net assets. The defeased bonds were then called prior to year-end. The refunding resulting in a savings of \$874,715 and an economic gain of \$674,706.

9. SHORT-TERM DEBT – NOTES PAYABLE

The District issues state aid notes in advance of state aid collections, depositing the proceeds in its general fund. These notes are necessary because the District must maintain cash on hand for operations, whereas collections from state aid are only received from October through August each year.

Short-term debt activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental activities				
State aid anticipation notes	\$3,800,000	\$ 1,700,000	\$ (3,800,000)	\$ 1,700,000

The state aid note outstanding at year-end was due on August 20, 2009.

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2009, the District carried commercial insurance for claims. The District has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

11. RETIREMENT PLAN

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-6000.

BIG RAPIDS PUBLIC SCHOOLS
Notes to Financial Statements

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 through June 30, 2008 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000. Basic Plan members make no contributions. 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 benefits on a cash disbursement basis.

The current rate as a percentage of covered payroll was 16.72% for July through September and 16.54% for October through June. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2009, 2008, and 2007, were \$1,598,321, \$1,581,922, and \$1,706,228, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exception:

Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.

12. CONTINGENCIES

Federal Grant Programs

The District participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, not to be material.

13. SUBSEQUENT EVENT

On August 20, 2009, the District borrowed \$2,400,000 in State Aid Anticipation Notes of \$1,900,000 and \$500,000. The notes bear interest at 0.85 percent and 1.4 percent, respectively, and are due on August 20, 2010.

* * * * *

**COMBINING AND INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES**

GENERAL FUND

BIG RAPIDS PUBLIC SCHOOLS

General Fund

Detailed Schedule of Revenue, Expenditures and Changes in Fund Balance Budget and Actual

For the Year Ended June 30, 2009

	Budget		Actual	Variance with Final Budget
	Original	Amended		
Revenue				
Local sources:				
Property taxes	\$ 3,679,871	\$ 3,679,871	\$ 3,782,886	\$ 103,015
Act 18 allocation	410,000	458,724	403,087	(55,637)
Tuition	35,000	25,000	26,020	1,020
Interest	70,000	30,000	15,388	(14,612)
Other	165,200	150,200	90,913	(59,287)
Total local sources	4,360,071	4,343,795	4,318,294	(25,501)
State sources:				
State aid - unrestricted	10,493,374	10,662,701	10,062,286	(600,415)
At-risk	433,718	472,846	471,865	(981)
Special education	475,165	499,665	437,067	(62,598)
Preschool grant	118,800	122,600	122,400	(200)
Total state sources	11,521,057	11,757,812	11,093,618	(664,194)
Federal sources:				
Federal aid received through the state -				
Title I - regular	488,813	550,713	518,579	(32,134)
Title II	150,790	173,040	156,868	(16,172)
Title V	3,343	-	-	-
Safe and drug free schools	15,837	-	-	-
ARRA budget stabilization funds	-	-	760,119	760,119
Federal aid received through intermediate school districts	9,000	-	44,020	44,020
Federal aid received through other sources	-	12,000	12,007	7
Total federal sources	667,783	735,753	1,491,593	755,840
Total revenue	16,548,911	16,837,360	16,903,505	66,145

(continued)

BIG RAPIDS PUBLIC SCHOOLS

General Fund

Detailed Schedule of Revenue, Expenditures and Changes in Fund Balance Budget and Actual (Continued)

For the Year Ended June 30, 2009

Expenditures	Budget		Actual	Variance with Final Budget
	Original	Amended		
Instruction:				
Basic programs:				
Elementary	\$ 3,409,548	\$ 3,411,254	\$ 3,801,492	\$ 390,238
Middle school	2,065,721	2,077,057	1,890,869	(186,188)
High school	2,644,906	2,621,152	2,699,375	78,223
Early education	125,657	123,426	126,981	3,555
Total basic programs	8,245,832	8,232,889	8,518,717	285,828
Added needs:				
Special education	1,268,982	1,279,188	1,261,388	(17,800)
Compensatory education	725,115	738,851	571,753	(167,098)
Total added needs	1,994,097	2,018,039	1,833,141	(184,898)
Total instruction	10,239,929	10,250,928	10,351,858	100,930
Supporting services:				
Pupil services				
Guidance services	326,437	312,225	320,595	8,370
Social work services	-	-	20,441	20,441
Other pupil services	34,940	34,940	-	(34,940)
Total pupil services	361,377	347,165	341,036	(6,129)
Instructional staff				
Improvement of instruction	395,777	568,158	478,088	(90,070)
Library	123,236	127,389	131,236	3,847
Direction of instruction	-	52,234	35,036	(17,198)
Other instructional services	18,818	7,527	10,970	3,443
Total instructional staff	537,831	755,308	655,330	(99,978)
General administration				
Board of Education	89,600	96,500	121,553	25,053
Executive administration	241,248	292,889	282,761	(10,128)
Fiscal services	361,890	367,928	330,046	(37,882)
Total general administration	692,738	757,317	734,360	(22,957)

(continued)

BIG RAPIDS PUBLIC SCHOOLS

General Fund

Detailed Schedule of Revenue, Expenditures and Changes in Fund Balance Budget and Actual (Continued)

For the Year Ended June 30, 2009

	Budget		Actual	Variance with Final Budget
	Original	Amended		
Expenditures (concluded)				
Supporting services (concluded):				
School administration				
Elementary and secondary administration	\$ 1,003,736	\$ 904,810	\$ 930,177	\$ 25,367
Operation and maintenance	2,011,994	2,100,038	1,916,442	(183,596)
Security services	20,000	50,000	43,965	(6,035)
Pupil transportation	719,904	684,187	677,504	(6,683)
Information services	280,435	289,296	280,524	(8,772)
Other services	37,447	46,474	31,190	(15,284)
Payments to other schools	105,000	105,000	85,627	(19,373)
Total supporting services	5,770,462	6,039,595	5,696,155	(343,440)
Community services	57,827	31,979	57,661	25,682
Debt service:				
Principal	65,000	68,800	88,518	19,718
Interest	55,000	183,500	43,476	(140,024)
Total debt service	120,000	252,300	131,994	(120,306)
Capital outlay	55,000	74,000	216,528	142,528
Total expenditures	16,243,218	16,648,802	16,454,196	(194,606)
Revenue over expenditures	305,693	188,558	449,309	260,751

(continued)

BIG RAPIDS PUBLIC SCHOOLS

General Fund

Detailed Schedule of Revenue, Expenditures and Changes in Fund Balance Budget and Actual (Concluded)

For the Year Ended June 30, 2009

	Budget		Actual	Variance with Final Budget
	Original	Amended		
Other financing sources (uses)				
Transfers out	\$ (324,788)	\$ (255,988)	\$ (323,800)	\$ (67,812)
Issuance of long-term debt	78,000	-	152,669	152,669
Total other financing sources (uses)	(246,788)	(255,988)	(171,131)	84,857
Net changes in fund balance	58,905	(67,430)	278,178	345,608
Fund balance, beginning of year	84,008	84,008	84,008	-
Fund balance, end of year	\$ 142,913	\$ 16,578	\$ 362,186	\$ 345,608

NONMAJOR GOVERNMENTAL FUNDS

BIG RAPIDS PUBLIC SCHOOLS

Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2009

	Special Revenue		Debt Service	Total
	Athletics	Food Service	Durant Debt	
Assets				
Cash and investments	\$ 50,549	\$ 91,870	\$ -	\$ 142,419
Accounts receivable	-	1,500	-	1,500
Due from other governments	-	6,730	80,548	87,278
Due from other funds	-	11,962	-	11,962
Inventories	-	10,353	-	10,353
Prepays	-	1,250	-	1,250
Total assets	\$ 50,549	\$ 123,665	\$ 80,548	\$ 254,762
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 275	\$ 2,920	\$ -	\$ 3,195
Accrued expenditures	2,427	4,330	-	6,757
Due to other funds	-	66,590	-	66,590
Deferred revenue	-	4,098	80,548	84,646
Total liabilities	2,702	77,938	80,548	161,188
Fund balances				
Reserved for:				
Inventories	-	6,255	-	6,255
Prepays	-	1,250	-	1,250
Unreserved, undesignated	47,847	38,222	-	86,069
Total fund balances	47,847	45,727	-	93,574
Total liabilities and fund balances	\$ 50,549	\$ 123,665	\$ 80,548	\$ 254,762

BIG RAPIDS PUBLIC SCHOOLS

Combining Statement of Revenue, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds

For the Year Ended June 30, 2009

	<u>Special Revenue</u>		<u>Debt</u> <u>Service</u>	<u>Total</u>
	<u>Athletics</u>	<u>Food</u> <u>Service</u>	<u>Durant</u> <u>Debt</u>	
Revenue				
Local sources	\$ 98,015	\$ 412,546	\$ -	\$ 510,561
State sources	-	55,058	10,577	65,635
Federal sources	-	603,387	-	603,387
	<hr/>			
Total revenue	98,015	1,070,991	10,577	1,179,583
	<hr/>			
Expenditures				
Current:				
Athletic activities	327,209	-	-	327,209
Food service	-	1,072,281	-	1,072,281
Debt service:				
Principal	-	-	8,382	8,382
Interest	-	-	2,195	2,195
	<hr/>			
Total expenditures	327,209	1,072,281	10,577	1,410,067
	<hr/>			
Revenue under expenditures	(229,194)	(1,290)	-	(230,484)
	<hr/>			
Other financing sources				
Transfers in	255,000	-	-	255,000
	<hr/>			
Net changes in fund balances	25,806	(1,290)	-	24,516
	<hr/>			
Fund balances, beginning of year	22,041	47,017	-	69,058
	<hr/>			
Fund balances, end of year	<u>\$ 47,847</u>	<u>\$ 45,727</u>	<u>\$ -</u>	<u>\$ 93,574</u>

BIG RAPIDS PUBLIC SCHOOLS

Athletics Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2009

	Budget		Actual	Variance with Final Budget
	Original	Amended		
Revenue				
Local sources:				
Gate receipts	\$ 95,000	\$ 95,000	\$ 98,015	\$ 3,015
Expenditures				
Supporting services	350,000	350,000	327,209	(22,791)
Revenue under expenditures	(255,000)	(255,000)	(229,194)	25,806
Other financing sources				
Transfers in	255,000	255,000	255,000	-
Net changes in fund balance	-	-	25,806	25,806
Fund balance, beginning of year	22,041	22,041	22,041	-
Fund balance, end of year	\$ 22,041	\$ 22,041	\$ 47,847	\$ 25,806

BIG RAPIDS PUBLIC SCHOOLS

Food Service Fund Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual For the Year Ended June 30, 2009

	Budget		Actual	Variance with Final Budget
	Original	Amended		
Revenue				
Local sources:				
Food sales	\$ 389,500	\$ 389,500	\$ 392,857	\$ 3,357
Interest	22,000	22,000	1,278	(20,722)
Other	45,000	45,000	18,411	(26,589)
Total local sources	456,500	456,500	412,546	(43,954)
State sources:				
State aid	44,000	44,000	55,058	11,058
Federal sources:				
Federal aid received through the State	437,000	437,000	532,308	95,308
USDA donated commodities	30,000	30,000	71,079	41,079
Total federal sources	467,000	467,000	603,387	136,387
Total revenue	967,500	967,500	1,070,991	103,491
Expenditures				
Supporting services	1,008,900	1,008,900	1,072,281	63,381
Net changes in fund balance	(41,400)	(41,400)	(1,290)	40,110
Fund balance, beginning of year	47,017	47,017	47,017	-
Fund balance, end of year	\$ 5,617	\$ 5,617	\$ 45,727	\$ 40,110

AGENCY FUNDS

BIG RAPIDS PUBLIC SCHOOLS
Combining Statement of Assets and Liabilities
Agency Funds
June 30, 2009

	Student Activities	Section 125 Fund	Total
Assets			
Cash and investments	\$ 202,585	\$ 5,682	\$ 208,267
Liabilities			
Due to student groups	\$ 202,585	\$ -	\$ 202,585
Withholdings payable	-	5,682	5,682
Total liabilities	\$ 202,585	\$ 5,682	\$ 208,267

Big Rapids  Public Schools

BIG RAPIDS, MICHIGAN

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

BIG RAPIDS PUBLIC SCHOOLS
Single Audit Report

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**INDEPENDENT AUDITORS' 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**

November 11, 2009

Board of Education
Big Rapids Public Schools
Big Rapids, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *Big Rapids Public Schools*, as of and for the year ended June 30, 2009, which collectively comprise Big Rapids Public Schools' basic financial statements and have issued our report thereon dated November 11, 2009. 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 Big Rapids Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Big Rapids Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Big Rapids Public Schools' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as items 2009-1 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Big Rapids Public 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Big Rapids Public Schools in a separate letter dated November 11, 2009.

Big Rapids Public Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Big Rapids Public Schools' responses and, accordingly, we express no opinion on them.

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

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

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

November 11, 2009

Board of Education
Big Rapids Public Schools
Big Rapids, Michigan

Compliance

We have audited the compliance of *Big Rapids Public Schools* with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Big Rapids Public Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Big Rapids Public Schools' management. Our responsibility is to express an opinion on Big Rapids Public Schools' compliance based on our audit.

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

In our opinion, Big Rapids Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2009-2 through 2009-4.

Internal Control Over Compliance

The management of Big Rapids Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Big Rapids Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Big Rapids Public Schools' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed in the schedule of findings and questioned costs, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider items 2009-2 through 2009-4 as described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Big Rapids Public Schools as of and for the year ended June 30, 2009, and have issued our report thereon dated November 11, 2009. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Big Rapids Public Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Big Rapids Public Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Big Rapids Public Schools' responses and, accordingly, we express no opinion on them.

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



BIG RAPIDS PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Pass- through Grantor's Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2008	Current Year Cash Received
U.S. Department of Agriculture					
<i>Direct program:</i>					
Non-cash assistance:					
Entitlement Commodities	10.555	2008-2009	\$ 62,677	\$ -	\$ 62,677
Bonus Commodities	10.555	2008-2009	7,054	-	7,054
Reimbursements	10.555	2008-2009	1,348	-	1,348
				-	71,079
<i>Passed-through the Michigan Department of Education:</i>					
Child Nutrition Cluster:					
Cash assistance:					
National School Lunch - Breakfast	10.553	081970	10,121	-	10,121
National School Lunch - Breakfast	10.553	091970	85,620	-	85,620
				-	95,741
National School Lunch Section 4 All Lunches	10.555	081950	7,573	-	7,573
National School Lunch Section 4 All Lunches	10.555	091950	53,780	-	53,780
National School Lunch Section 11 Free and Reduced	10.555	081960	43,185	-	43,185
National School Lunch Section 11 Free and Reduced	10.555	091960	295,552	-	295,552
National School Lunch Snacks	10.555	081980	983	-	983
National School Lunch Snacks	10.555	091980	6,522	-	6,522
				-	407,595
Summer Food Service Program for Children	10.559	080900	26,227	-	26,227
Summer Food Service Program for Children	10.559	081900	2,745	-	2,745
				-	28,972
Total Child Nutrition Cluster				-	532,308
Total U.S. Department of Agriculture				-	603,387
U.S. Department of Interior					
<i>Passed-through Newaygo County:</i>					
National Forest	11.000		11,362	-	11,362
<i>Passed-through Mecosta County:</i>					
National Forest	11.000		645	-	645
Total U.S. Department of Interior				-	12,007
U.S. Department of Education					
<i>Passed-through Michigan Department of Education:</i>					
Title I, Part A	84.010	091530-0809	550,708	-	479,590

Expenditures	Accrued
Year Ended	(Deferred)
June 30, 2009	Revenue
June 30, 2009	June 30, 2009
\$ 62,677	\$ -
7,054	-
1,348	-
<u>71,079</u>	<u>-</u>
10,121	-
85,620	-
<u>95,741</u>	<u>-</u>
7,573	-
53,780	-
43,185	-
295,552	-
983	-
6,522	-
<u>407,595</u>	<u>-</u>
26,227	-
2,745	-
<u>28,972</u>	<u>-</u>
532,308	-
603,387	-
11,362	-
645	-
<u>12,007</u>	<u>-</u>
518,579	38,989

(continued)

BIG RAPIDS PUBLIC SCHOOLS

Schedule of Expenditures of Federal Awards (Concluded)

For the Year Ended June 30, 2009

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Pass- through Grantor's Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2008	Current Year Cash Received
U.S. Department of Education (Concluded)					
<i>Passed-through Michigan Department of Education (Concluded):</i>					
Title II, Part D	84.318	092490-0809	\$ 4,756	\$ -	\$ 4,756
Title II, Part A	84.367	090520-0809	178,550	-	145,998
ARRA Budget Stabilization Funds	84.394	n/a	760,119	-	-
Total U.S. Department of Education				-	630,344
U.S. Department of Health and Human Services					
<i>Passed-through Mecosta/Osceola ISD:</i>					
Medicaid Outreach	93.778	n/a	44,020	-	44,020
Total of Expenditures of Federal Awards				\$ -	\$ 1,289,758

See accompanying notes to the schedule of expenditures of federal awards.

Expenditures Year Ended June 30, 2009	Accrued (Deferred) Revenue June 30, 2009
\$ 4,756	\$ -
152,112	6,114
760,119	760,119
1,435,566	805,222
44,020	-
\$ 2,094,980	\$ 805,222

BIG RAPIDS PUBLIC SCHOOLS
Single Audit Report
Notes to Schedule of Expenditures of Federal Awards

NOTE 1 – RECEIPTS AND REVENUE

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Schedule of Expenditures of Federal Awards (the “Schedule”) has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, deferred revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

NOTE 2 – GRANT EXPENDITURES

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grants Section Auditors Report (7120) and the Grant Auditor Report reconcile with this schedule.

Expenditures are reported on the Schedule of Expenditures of Federal Awards for all active awards. Accordingly, the Schedule presents expenditures for the current year grant which remains active beyond the end of the fiscal year because of the accounts receivable, deferred revenue, or accounts payable items.

BIG RAPIDS PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2009

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: *Unqualified*

Internal controls over financial reporting:
 Material weakness(es) identified? x yes no
 Significant deficiency(ies) identified not
 considered to be material weaknesses? yes x none reported

Noncompliance material to financial
 statements noted? yes x no

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? yes x no
 Significant deficiency(ies) identified not
 considered to be material weaknesses? x yes none reported

Type of auditors’ report issued on compliance
 for major programs: *Unqualified*

Any audit findings disclosed that are required to be
 reported in accordance with Circular A-133,
 Section 510(a)? x yes no

Identification of Major Programs

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
84.010	Title I, Part A
84.394	ARRA Budget Stabilization Funds

Dollar threshold used to distinguish
 between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes x no

BIG RAPIDS PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs (Concluded)
For the Year Ended June 30, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS

2009-1 – Preparation of Governmental Financial Statements / Material Audit Adjustments
Material Weakness in Internal Control over Financial Reporting

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition:	During our audit, we identified and proposed several audit adjustments (each of which was reviewed, approved, and posted by management) to correct various account balances, and record year end accruals. In our opinion, these adjustments collectively had a material effect on the District's financial statements. In addition, the District relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process, rather than obtaining the training and experience necessary to complete that task internally. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered a part of the District's <i>internal</i> controls.
Cause:	This condition was caused by a combination of personnel changes in the District's financial management, various inadvertent oversights in the process of preparing for the annual audit, and the District's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.
Effect:	As a result of this condition, the District's accounting records were initially misstated by amounts material to the financial statements. Further, the District lacks complete internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, at least in part, on its external auditors for assistance with this task.
Recommendation:	The District has already reviewed and approved the necessary adjustments identified during the audit, and their effect has been included in the District's financial statements. In addition, we recommend that the District ensure that members of management responsible for the accounting and reporting function receive appropriate training to ensure that they are able to apply generally accepted accounting principles in preparing the District's financial statements, even if it intends to continue to outsource the actual preparation of these statements to its independent auditors.

BIG RAPIDS PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs (Concluded)
For the Year Ended June 30, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS (CONCLUDED)

2009-1 – Preparation of Governmental Financial Statements / Material Audit Adjustments (Concluded)

View of Responsible Officials: The District has determined that it is most cost effective to outsource the preparation of the annual financial statements to its external auditors.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**2009-2 – Documentation of Payroll Costs (Allowable Costs / Cost Principles)
Immaterial Noncompliance / Significant Deficiency in Internal Controls over
Compliance
CFDA # 84.010 – Title I, Part A**

Criteria: Personnel charges to federal programs (such as Title I, Part A) must be documented for co-funded and 100% funded staff in compliance with OMB Circular A-87, Attachment B, Item 8h.

Condition: The District based the allocation of salary costs of the Curriculum Director on a pre-determined budgeted percentage. The documentation to support the actual time allocation was incomplete as it was only a record of hours worked on the Title I program, and not a full record of total hours worked, as required by OMB Circular A-87. However, the hours logged to the Title I did reasonably approximate the budgeted allocation, based on a standard work schedule.

Cause: This condition was caused by a misunderstanding by program management in applying the documentation requirements of Federal Cost Principles.

Effect: As a result of this condition, the District did not fully comply with the document requirement applicable to personnel costs charged to this program in accordance with OMB Circular A-87.

Questioned costs: No costs were questioned as a result of this finding inasmuch as the District was able to produce documentation of hours worked on the grant which, in comparison to a full-time work schedule, approximated the amount charged to the grant.

Recommendation: We recommend that the District carefully review the provisions of Federal Cost Principles as they relate to documenting personnel costs and revise its timekeeping procedures as necessary.

View of Responsible Officials: The District has determined that for future periods it will not be necessary to allocate a portion of the Curriculum Director's time to the Title I grant, as there are sufficient other allowable expenditures available to apply to the grant.

BIG RAPIDS PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs (Concluded)
For the Year Ended June 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

2009-3 – Cash Management

Immaterial Noncompliance / Significant Deficiency in Internal Controls over Compliance
CFDA # 84.010 – Title I, Part A

Criteria:	Federal regulations require that draw downs for grants funded on a reimbursement basis be made only after the related cash disbursements have been made.
Condition:	During the year ended June 30, 2009, the District requested and received funds through the Title I, Part A grant that at one time exceeded actual disbursements to-date for that program.
Cause:	This condition was caused by a management oversight in consideration of year-end accruals in completing the final cash draw. Significant accruals of salaries and fringe benefits are made at year-end for teachers, which are disbursed by the District through the months of July and August.
Effect:	As a result of this condition, the District requested funds at year-end in advance of its actual cash needs.
Questioned cost:	No costs were questioned as a result of this finding inasmuch as the District eventually used all requested funds to pay for allowable expenditures.
Recommendation:	We recommend that the District consider the timing of cash disbursements and not just the date of expenditure recognition before requesting funds under reimbursement-based grants.
View of Responsible Officials:	The District has reviewed the policy for draw downs and directed the appropriate staff to ensure compliance with the policy directive to draw down grant funds based directly on general ledger expenditures and actual disbursements when being funded on a reimbursement basis.

2009-4 – Highly Qualified Personnel (Special Tests and Provisions)

Immaterial Noncompliance / Significant Deficiency in Internal Control over Compliance
CFDA # 84.010 – Title I, Part A

Criteria:	Michigan law requires that instructional staff in elementary and secondary educations attain a certain level of education, competence, or professional development in order to demonstrate qualification. This is referred to as being “highly qualified” and must be documented in accordance with State guidelines. The Title I program requires that all teachers and paraprofessional charged to the grant be highly qualified staff.
Condition:	During the year, the District charged salaries and fringe benefits to the Title I program for a certain paraprofessional who did not meet the standards for being highly qualified.

BIG RAPIDS PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs (Concluded)
For the Year Ended June 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONCLUDED)

2009-4 – Highly Qualified Personnel (Special Tests and Provisions) (Concluded)

Cause: This condition was a result the employee registering for the incorrect competency exam, and a related oversight by the District’s central office in recognizing that the exam taken was not passed.

Effect: As a result of this condition, the District was not in compliance with federal grant requirements, and State law, and requested reimbursement for unallowable expenditures.

Questioned costs: Salaries and benefits paid to the paraprofessional in question amounted to \$23,578.

Recommendation: We recommend that the District review the procedures in place for ensuring that instructional staff are qualified in the subject matter which they are assigned, and that this qualification is appropriately documented.

View of Responsible Officials: The District has reviewed the procedures in place for insuring all instructional staff are qualified in the area they are assigned. In this situation, the employee was directed to take the proper examination to be qualified to continue educating in that area.

SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS

2008-1 – Cash Management
CFDA # 84.010 – Title I, Part A

Corrective action was not sufficient. Finding has been repeated as item 2009-3.

2008-2 – Documentation of Payroll Costs (Allowable Costs / Cost Principles)
CFDA # 84.010 – Title I, Part A

Corrective action was not sufficient. Finding has been repeated as item 2009-2.

* * * * *

November 11, 2009

To the Board of Education
Big Rapids Public Schools
Big Rapids, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Big Rapids Public Schools* (the “District”) for the year ended June 30, 2009, and have issued our report thereon dated November 11, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated June 29, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District’s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District’s compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District’s compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on July 13, 2009.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements may be affected by unusual transactions, including nonrecurring transactions. The following significant unusual accounting transactions occurred during the year:

- During 2009, the District's 1999 general obligation refunding bonds were in-substance defeased through the issuance of advance refunding bonds. In accordance with GASB Codification section D20, *Debt Refundings*, the difference between the amount placed in escrow to repay the refunded bonds and the carrying amount of the refunded bonds is being deferred and amortized as a component of interest expense over the remaining life of the refunded bonds.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, we identified several material audit adjustments (which were approved by management and posted to the District's records) as described in the Schedule of Findings and Questioned Costs of the Single Audit Report.

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 attached management representation letter dated November 11, 2009.

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 entity'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.

This information is intended solely for the use of the governing body and management of Big Rapids Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive style with a large initial 'L' and 'J'.

Big Rapids Public Schools
Comments and Recommendations
For the Year Ended June 30, 2009

In planning and performing our audit of the financial statements of Big Rapids Public Schools as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the District's Single Audit report.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The deficiency we noted that we consider to be a material weakness is described in the Schedule of Findings and Questioned Costs in the District's Single Audit report.

Other Matters

Physical Inventory of Capital Assets (Repeat Comment)

The District has not completed a physical inventory of its capital assets (equipment, furniture, vehicles, etc.) since 2001. We recommend that such an inventory take place to identify whether any capital asset disposals have taken place and not been recorded.

Big Rapids Public Schools
Comments and Recommendations
For the Year Ended June 30, 2009

Athletics Cash Receipts (Repeat Comment)

In previous audits, we recommended that the District develop internal controls procedures relating to athletics cash receipts whereby expected cash receipts could be recalculated based on actual ticket sales. The District has implemented such a procedure for many of its larger sporting events. However, we noted an instance during the year in which the actual cash remitted to the Central Office was less than the sales indicated on the transmittal sheet. The variance remained unidentified. We recommend that the District continue to monitor controls over these receipts to minimize errors and opportunities for misappropriation.

Independent Review and Approval – Bank Reconciliations and Cash Deposits

When a limited sized staff requires a single employee to be assigned to incompatible job duties, it is important that an independent individual review the output for any discrepancies. During our audit, we noted that bank reconciliations, prepared by an employee with integral roles in the cash receipting and disbursement processes, are not independently reviewed after completion. In addition, cash receipts are not compared to the deposit slip by an employee independent of the receipting process. We recommend that a knowledgeable and independent administrator or employee review completed bank reconciliations and compare actual cash deposits to receipts listings. As evidence of this control, the reviewer should initial and date the documentation.

Budgetary Control and Monitoring

During our audit, we noted several instances in which employees were initially set-up in the payroll software to be charged to an incorrect account number. This remained undetected by management, despite significant variances with prior year actual expenditures and the current year budget. Budgetary oversight is a key internal control for school districts. Accordingly, we recommend that budgetary compliance be carefully monitored throughout the year in order to identify and correct such errors on a timely basis.

Title I, Part A – Parental Involvement

One of the special tests and provisions for the Title I grant is that a percentage of the award amount be set aside for parental involvement. During our single audit, we noted that the District was unable to specifically identify which of its Title I expenditures satisfied such requirements. Through discussions with management and review of various disbursements, we were able to determine that the District did in fact comply with this requirement. However, we recommend that the District consider using a separate general ledger account or other means to segregate these costs and clearly demonstrate compliance.

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Big Rapids Public Schools
Schedule of Adjustments Passed (SOAP)
For the June 30, 2009 Audit

In accordance with the provisions of SAS 89, *Audit Adjustments*, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. Also in accordance with SAS 89, we are providing this schedule to both management and the audit committee to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenue	Expenses/ Expenditures
Governmental activities					
Aggregate effect of prior year errors in calculation of compensated absences payable	\$ -	\$ -	\$ 79,694	\$ -	\$ 79,694
Effect of capitalizing both the principal and interest payments on a capital lease	16,201	-	-	-	(16,201)
	<u>\$ 16,201</u>	<u>\$ -</u>	<u>\$ 79,694</u>	<u>\$ -</u>	<u>\$ 63,493</u>