

Big Rapids  Public Schools

BIG RAPIDS, MICHIGAN

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

BIG RAPIDS PUBLIC SCHOOLS

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INDEPENDENT AUDITORS' REPORT

October 26, 2011

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, 2011, 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 the 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, 2011, and the respective changes in financial position, where applicable, thereof and the budgetary comparisons of the general fund and major 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 October 26, 2011 on our consideration of the Big Rapids Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 listed in the table of contents are presented for purposes of additional analysis and are not a required part of the Big Rapids Public Schools' basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are 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, 2011.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$6,973,069 (*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 \$610,599.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$951,010, a decrease of \$469,589 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance of the general fund was \$564,961, or 3.5 percent of total general fund expenditures and transfers out.
- The District refunded the 1999 general obligation bonds during the year which resulted in a cash savings of \$897,587 and an economic gain of \$452,835.

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 several 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, food service special revenue fund, debt service fund, and QZAB capital projects fund, which are considered to be major funds. Data from the District's nonmajor governmental fund is reported in a single column. If the District is to have additional nonmajor governmental funds in subsequent year, individual fund data for each of these nonmajor governmental funds will be provided in the form of *combining statements* elsewhere in the report.

The District adopts an annual appropriated budget for its general and special revenue fund. 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 12-19 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 20 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 21-35 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 36-40 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 \$6,973,069 at the close of the most recent fiscal year.

Big Rapids Public Schools' Net Assets

	<u>2011</u>	<u>2010</u>
Assets		
Current and other assets	\$ 4,769,694	\$ 5,302,662
Capital assets, net	25,466,469	24,146,170
	<hr/>	
Total assets	30,236,163	29,448,832
Liabilities		
Long-term liabilities	19,727,783	19,349,599
Other liabilities	3,535,311	3,736,763
	<hr/>	
Total liabilities	23,263,094	23,086,362
Net assets		
Invested in capital assets, net of related debt	6,475,404	5,251,985
Restricted	245,595	807,228
Unrestricted (deficit)	252,070	303,257
	<hr/>	
Total net assets	<u>\$ 6,973,069</u>	<u>\$ 6,362,470</u>

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.

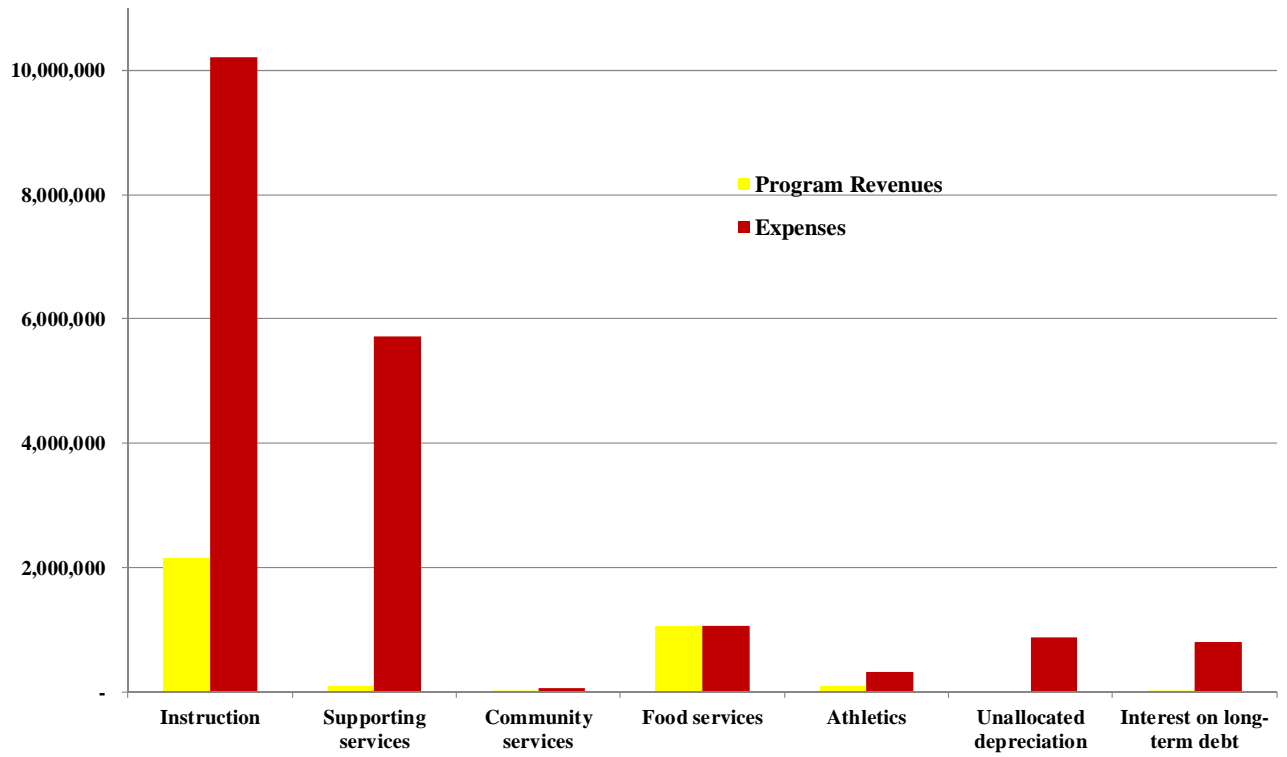
The District's net assets were \$6,973,069 at June 30, 2011. Capital assets, net of related debt totaling \$6,475,404, compares the original cost, less depreciation of the District's capital assets, to long-term debt used to finance the acquisition of these assets. Most of the debt will be repaid from 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 \$252,070.

Big Rapids Public Schools' Changes in Net Assets

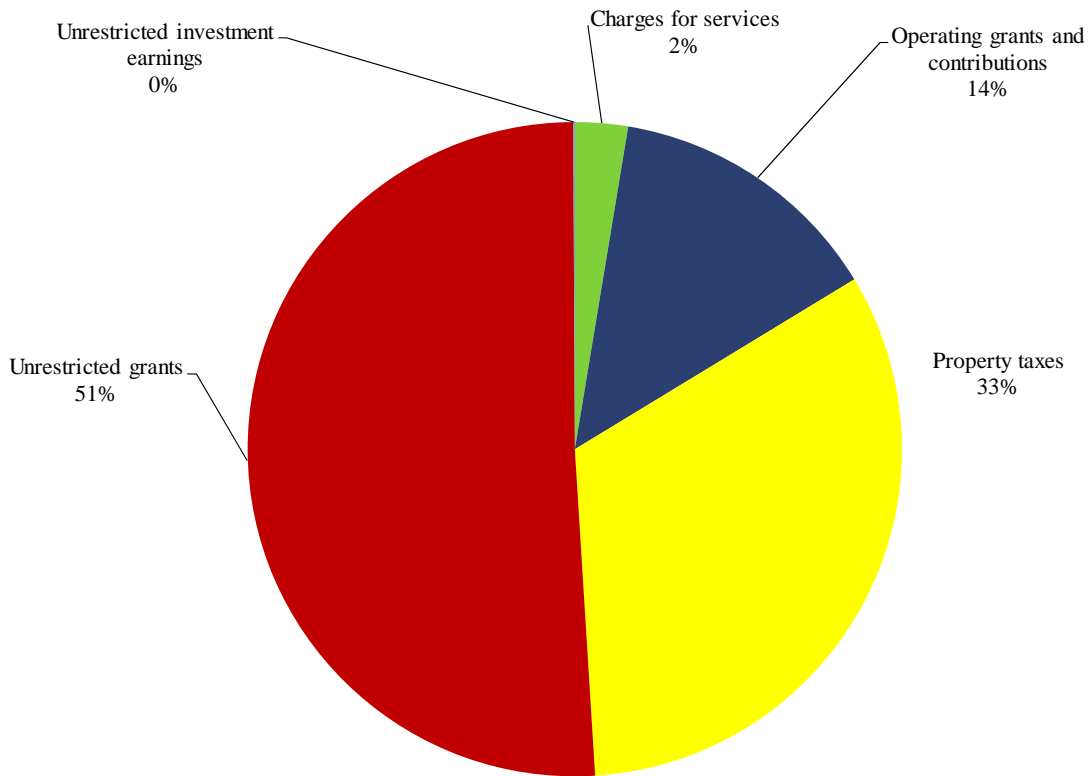
	2011	2010
Revenues		
Program revenues:		
Charges for services	\$ 516,795	\$ 536,135
Operating grants and contributions	3,450,719	3,365,547
General revenues:		
Property taxes	5,659,963	5,786,250
Grants and contributions not restricted to specific programs	10,058,404	10,394,147
Unrestricted investment earnings	2,930	5,971
Total revenues	19,688,811	20,088,050
Expenses		
Instruction	10,832,193	10,526,423
Supporting services	5,105,004	5,422,818
Community services	70,336	68,328
Food services	1,049,982	1,033,998
Athletics	355,523	325,901
Depreciation - unallocated	885,821	873,667
Interest on long-term debt	779,353	944,073
Total expenses	19,078,212	19,195,208
Change in net assets	610,599	892,842
Net assets, beginning of year	6,362,470	5,469,628
Net assets, end of year	\$ 6,973,069	\$ 6,362,470

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.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



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, unassigned fund balance was \$564,961 and total fund balance of the general fund was \$663,329. 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. Unassigned fund balance and total fund balance represent approximately 3.47 percent and 4.08 percent of total general fund expenditures and transfers out, respectively

The fund balance of the District's general fund increased by \$109,563 during the current fiscal year. This was mainly due to an increase in 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 fund balance of the food service special revenue fund decreased from \$110,030 to \$69,494. This was primarily the result of a loss of revenue due to a large number of snow days where lunches were not purchased. The District also had an overall drop in number of breakfasts and lunches being purchased this year due to the struggling economy.

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:

- Elementary instruction expenditures were over budget by approximately \$164,000 as a result of adding classrooms back after the budget had been set. We were able open up extra classrooms to reduce our class sizes which was a benefit for the district.
- Middle school instruction expenditures were under budget by approximately \$100,000 as a result of moving certain instructional costs to a different function which had available federal funding.
- Direction of instruction expenditures were under budget by approximately \$113,200 because Title I program administration was charged to a different function than budgeted, and special education coordination activities were absorbed by existing general education positions.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2011 amounted to \$25,466,469 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment.

Major capital asset additions during the year included significant energy conservation improvements and the purchase of two busses.

Big Rapids Public Schools

Capital Assets

(net of depreciation)

	<u>2011</u>	<u>2010</u>
Land	\$ 570,602	\$ 570,602
Buildings and improvements	24,371,673	23,122,906
Furniture and equipment	299,731	304,320
Buses and vehicles	<u>224,463</u>	<u>148,342</u>
Total	<u>\$ 25,466,469</u>	<u>\$ 24,146,170</u>

Additional information on the District's capital assets can be found in Note 6 on pages 29-30 of this report.

Long-term debt. At the end of the current fiscal year, the District had long-term debt outstanding of \$19,349,599. The District's total debt increased by \$378,184 during the current fiscal year. This is the result of making scheduled principal payments in addition to issuing Qualified Zone Academy Bonds in the amount of \$2,223,600

Big Rapids Public Schools

Long-term Debt

	<u>2011</u>	<u>2010</u>
Bonds payable	\$ 19,057,928	\$ 18,736,767
Installment purchase agreements	97,613	171,669
Deferred bond charges	(101,908)	57,516
Compensated absences and early retirement incentives	<u>674,150</u>	<u>383,647</u>
Total	<u>\$ 19,727,783</u>	<u>\$ 19,349,599</u>

Additional information on the District's long-term debt can be found in Note 8 on pages 30-32 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2011-12 fiscal year:

- Revenue based on stagnant foundation allowance per pupil
- Decreased enrollment projections from the previous year
- Union wages were projected to increase according to negotiated contracts and Board approval
- MPSERS rate of 24.46% (23.23% for pension plus members)
- Discontinued receipt of ARRA (Federal stimulus) money

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, 2011

	Governmental Activities
Assets	
Current assets:	
Cash and investments	\$ 2,050,218
Receivables	2,372,803
Inventories	4,537
Prepays	50,510
Total current assets	<u>4,478,068</u>
Noncurrent assets:	
Capital assets not being depreciated	570,602
Capital assets being depreciated, net	24,895,867
Deferred bond charges, net	291,626
Total noncurrent assets	<u>25,758,095</u>
Total assets	<u>30,236,163</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	1,478,129
Unearned revenue	6,982
State aid anticipation note payable	2,050,200
Current portion of long-term debt	1,688,567
Total current liabilities	<u>5,223,878</u>
Noncurrent liabilities:	
Noncurrent portion of long-term debt	<u>18,039,216</u>
Total liabilities	<u>23,263,094</u>
Net assets	
Invested in capital assets, net of related debt	6,475,404
Restricted for:	
Food service	69,494
Debt service	126,993
Other purposes	49,108
Unrestricted	<u>252,070</u>
Total net assets	<u>\$ 6,973,069</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, 2011

Functions / Programs	Program Revenues			Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Revenue
Governmental activities:				
Instruction	\$ 10,832,193	\$ -	\$ 2,598,776	\$ (8,233,417)
Supporting services	5,105,004	23,481	150,934	(4,930,589)
Community services	70,336	21,212	-	(49,124)
Food services	1,049,982	370,853	638,593	(40,536)
Athletics	355,523	101,249	-	(254,274)
Depreciation - unallocated	885,821	-	-	(885,821)
Interest on long-term debt	779,353	-	62,416	(716,937)
Total governmental activities	\$ 19,078,212	\$ 516,795	\$ 3,450,719	(15,110,698)
General revenues:				
Property taxes - operations				3,633,562
Property taxes - debt service				2,026,401
Grants and contributions not restricted to specific programs				10,058,404
Unrestricted investment earnings				2,930
Total general revenues				15,721,297
Change in net assets				610,599
Net assets, beginning of year				6,362,470
Net assets, end of year				\$ 6,973,069

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

BIG RAPIDS PUBLIC SCHOOLS

Balance Sheet Governmental Funds

June 30, 2011

	General	Food Service	Debt Service	QZAB Capital Projects
Assets				
Cash and investments	\$ 1,377,992	\$ 456,698	\$ 215,528	\$ -
Accounts receivable	49,204	3,706	2,659	-
Due from other governments	2,242,025	12,641	-	-
Due from other funds	393,356	-	-	-
Inventories	-	4,537	-	-
Prepays	49,260	1,250	-	-
Total assets	\$ 4,111,837	\$ 478,832	\$ 218,187	\$ -
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 58,378	\$ 2,507	\$ -	\$ -
Accrued expenditures	1,319,557	6,493	-	-
Due to other funds	-	393,356	-	-
Deferred revenue	20,373	6,982	-	-
State aid anticipation notes payable	2,050,200	-	-	-
Total liabilities	3,448,508	409,338	-	-
Fund balances (Note 11)				
Nonspendable	49,260	5,787	-	-
Restricted	49,108	63,707	218,187	-
Unassigned	564,961	-	-	-
Total fund balances	663,329	69,494	218,187	-
Total liabilities and fund balances	\$ 4,111,837	\$ 478,832	\$ 218,187	\$ -

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

Nonmajor Governmental Fund	
Durant Debt Service	Total
\$ -	\$ 2,050,218
-	55,569
62,568	2,317,234
-	393,356
-	4,537
-	50,510
<hr/>	
\$ 62,568	\$ 4,871,424

\$ -	\$ 60,885
-	1,326,050
-	393,356
62,568	89,923
-	2,050,200
<hr/>	
62,568	3,920,414
<hr/>	
-	55,047
-	331,002
-	564,961
<hr/>	
-	951,010
<hr/>	
\$ 62,568	\$ 4,871,424

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, 2011

Fund balances - governmental funds	\$ 951,010
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.	
Capital assets not being depreciated	570,602
Capital assets being depreciated, net	24,895,867
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.	
Deferred long-term receivables	82,941
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	
Deferred bond charges, net of accumulated amortization	291,626
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds and installment notes payable	(19,155,541)
Premiums and discount on bonds payable, net	(247,472)
Deferred loss on issuance of refunding debt, net	349,380
Accrued interest on bonds payable	(91,194)
Compensated absences and early retirement incentive	<u>(674,150)</u>
Net assets of governmental activities	<u><u>\$ 6,973,069</u></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, 2011

	General	Food Service	Debt Service	QZAB Capital Projects
Revenue				
Local sources	\$ 4,284,136	\$ 371,285	\$ 2,029,714	\$ 935
State sources	10,731,428	11,863	-	-
Federal sources	1,357,152	626,298	-	56,791
Total revenue	16,372,716	1,009,446	2,029,714	57,726
Expenditures				
Current:				
Instruction	10,286,084	-	-	-
Supporting services	5,127,680	-	-	-
Community services	70,336	-	-	-
Athletics	355,523	-	-	-
Food services	-	1,049,982	-	-
Debt service:				
Principal	74,056	-	1,135,000	148,240
Interest	55,131	-	677,451	62,848
Bond issuance costs	-	-	87,593	43,972
Capital outlay	60,022	-	-	2,156,466
Total expenditures	16,028,832	1,049,982	1,900,044	2,411,526
Revenue over (under) expenditures	343,884	(40,536)	129,670	(2,353,800)
Other financing sources (uses)				
Transfers in	-	-	104,121	130,200
Transfers out	(234,321)	-	-	-
Issuance of long-term debt	-	-	3,905,000	2,223,600
Payment to refunded bond escrow agent	-	-	(4,621,731)	-
Discount on issuance of refunding debt	-	-	(55,676)	-
Total other financing sources (uses)	(234,321)	-	(668,286)	2,353,800
Net changes in fund balances	109,563	(40,536)	(538,616)	-
Fund balances, beginning of year, as restated	553,766	110,030	756,803	-
Fund balances, end of year	\$ 663,329	\$ 69,494	\$ 218,187	\$ -

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

Nonmajor Governmental Fund	
Durant Debt Service	Total
\$ -	\$ 6,686,070
10,576	10,753,867
-	2,040,241
<hr/>	<hr/>
10,576	19,480,178
<hr/>	<hr/>
-	10,286,084
-	5,127,680
-	70,336
-	355,523
-	1,049,982
9,199	1,366,495
1,377	796,807
-	131,565
-	2,216,488
<hr/>	<hr/>
10,576	21,400,960
<hr/>	<hr/>
-	(1,920,782)
<hr/>	<hr/>
-	234,321
-	(234,321)
-	6,128,600
-	(4,621,731)
-	(55,676)
<hr/>	<hr/>
-	1,451,193
<hr/>	<hr/>
-	(469,589)
-	1,420,599
<hr/>	<hr/>
\$ -	\$ 951,010
<hr/> <hr/>	<hr/> <hr/>

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, 2011

Net changes in fund balances - governmental funds \$ (469,589)

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.

Change in deferred long-term receivables (13,929)

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.

Capital assets purchased/constructed 2,206,120
Depreciation expense (885,821)

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.

Principal payments on long-term liabilities 1,366,495
Issuance of long-term debt (6,128,600)
Discount on issuance of long-term debt 55,676
Payment to refunded bond escrow agent 4,621,731
Bond issuance costs 131,565
Amortization of bond issuance costs (25,321)
Amortization of deferred loss on bond refunding (30,303)
Amortization of premiums and discounts on bonds payable 27,320

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.

Change in accrued interest payable on bonds 45,758
Change in the accrual for compensated absences and early retirement incentive (290,503)

Change in net assets of governmental activities \$ 610,599

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, 2011

	Budget		Actual	Variance with Final Budget
	Original	Amended		
Revenue				
Local sources	\$ 3,985,848	\$ 4,205,355	\$ 4,284,136	\$ 78,781
State sources	11,649,306	10,766,349	10,731,428	(34,921)
Federal sources	1,039,391	1,378,498	1,357,152	(21,346)
Total revenue	16,674,545	16,350,202	16,372,716	22,514
Expenditures				
Current:				
Instruction	10,257,800	10,071,990	10,286,084	214,094
Supporting services	5,433,599	5,287,248	5,127,680	(159,568)
Community services	90,775	71,804	70,336	(1,468)
Athletics	355,704	357,038	355,523	(1,515)
Debt service:				
Principal	48,000	43,530	74,056	30,526
Interest	100,500	100,000	55,131	(44,869)
Capital outlay	80,000	205,505	60,022	(145,483)
Total expenditures	16,366,378	16,137,115	16,028,832	(108,283)
Revenue over expenditures	308,167	213,087	343,884	130,797
Other financing uses				
Transfers out	(68,800)	(132,400)	(234,321)	(101,921)
Net changes in fund balance	239,367	80,687	109,563	28,876
Fund balance, beginning of year, as restated	553,766	553,766	553,766	-
Fund balance, end of year	\$ 793,133	\$ 634,453	\$ 663,329	\$ 28,876

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

BIG RAPIDS PUBLIC SCHOOLS

Food Service Fund

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

For the Year Ended June 30, 2011

	Budget		Actual	Variance with Final Budget
	Original	Amended		
Revenue				
Local sources:				
Food sales	\$ 395,840	\$ 355,523	\$ 364,468	\$ 8,945
Interest	5,000	355	432	77
Other	22,250	6,378	6,385	7
Total local sources	423,090	362,256	371,285	9,029
State sources:				
State aid	37,000	11,859	11,863	4
Federal sources:				
Federal aid received through the State	497,000	550,975	555,493	4,518
USDA donated commodities	30,500	572	70,805	70,233
Total federal sources	527,500	551,547	626,298	74,751
Total revenue	987,590	925,662	1,009,446	83,784
Expenditures				
Supporting services	979,945	981,449	1,049,982	68,533
Net changes in fund balance	7,645	(55,787)	(40,536)	15,251
Fund balance, beginning of year	110,030	110,030	110,030	-
Fund balance, end of year	\$ 117,675	\$ 54,243	\$ 69,494	\$ 15,251

BIG RAPIDS PUBLIC SCHOOLS
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2011

Assets	
Cash and cash equivalents	<u><u>\$ 227,901</u></u>
Liabilities	
Due to student groups	\$ 215,102
Withholdings payable	<u>12,799</u>
Total liabilities	<u><u>\$ 227,901</u></u>

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, 2011.

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 *food service special revenue fund* accounts for the administration of the District's school lunch program, including the expenditure of Federal grants under the child nutrition cluster.

The *debt service fund* accounts for the accumulation of resources which are restricted for the payment of principal and interest on the District's bonds payable. These payments are financed primarily through a property tax levy.

The *QZAB construction capital projects fund* accounts for the issuance of Qualified Zone Academic Bonds and the expenditure of bond proceeds for allowable capital purposes.

Additionally, the government reports the following fund types:

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.

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, 2011. 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 2010 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.

BIG RAPIDS PUBLIC SCHOOLS
Notes to Financial Statements

- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- 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).

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.

Fund Equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify, or rescind a fund balance commitment. The District reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

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

BIG RAPIDS PUBLIC SCHOOLS

Notes to Financial Statements

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.

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.

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 2011 fiscal year.

BIG RAPIDS PUBLIC SCHOOLS
Notes to Financial Statements

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2011 the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund:			
Instruction:			
Basic programs	\$ 8,151,289	\$ 8,260,338	\$ 109,049
Added needs	1,920,701	2,025,746	105,045
Supporting services:			
Pupil services	257,634	268,749	11,115
General administration	714,878	797,036	82,158
Payments to other schools	75,000	93,415	18,415
Debt service:			
Principal	43,530	74,056	30,526
Transfers out	132,400	234,321	101,921
Food service fund:			
Supporting services	981,449	1,049,982	68,533

4. CASH AND INVESTMENTS

Following is a reconciliation of deposits and investments as of June 30, 2011:

	Governmental Activities	Fiduciary Funds	Total
Cash and investments	\$ 2,050,218	\$ 227,901	\$ 2,278,119

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

Checking and savings accounts	\$ 2,185,355
Certificates of deposit (due within one year)	79,277
Investments	12,417
Cash on hand	1,070
	\$ 2,278,119

These deposits are in three (3) 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	\$ 12,417	S&P AAAM

BIG RAPIDS PUBLIC SCHOOLS
Notes to Financial Statements

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, \$2,053,577 of the District's bank balance of \$2,388,667 was exposed to custodial credit risk because the entire amount was covered by FDIC insurance.

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	\$ 55,569
Due from other governments	2,317,234
	<u>\$ 2,372,803</u>

Of the amounts reports in accounts receivable above, \$20,373 relates to a land contract and is not expected to be collected within the next year. This amount is reported as deferred revenue in the general fund balance sheet.

BIG RAPIDS PUBLIC SCHOOLS
Notes to Financial Statements

Payables are comprised of the following at year-end:

	Governmental Activities
Accounts	\$ 60,885
Accrued expenditures	1,326,050
Interest payable on long-term debt	91,194
	\$ 1,478,129

6. CAPITAL ASSETS

A summary of capital assets activity for the year ended June 30, 2011 is as follows:

	Balance July 1, 2010	Additions	Dispositions	Balance June 30, 2011
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 570,602	\$ -	\$ -	\$ 570,602
Depreciable capital assets:				
Buildings and improvements	32,477,668	2,005,520	-	34,483,188
Furniture and equipment	1,171,468	83,200	-	1,254,668
Buses and vehicles	1,183,173	117,400	-	1,300,573
Total depreciable capital assets	34,832,309	2,206,120	-	37,038,429
Accumulated depreciation:				
Buildings and improvements	(9,354,762)	(756,753)	-	(10,111,515)
Furniture and equipment	(867,148)	(87,789)	-	(954,937)
Buses and vehicles	(1,034,831)	(41,279)	-	(1,076,110)
Total accumulated depreciation	(11,256,741)	(885,821)	-	(12,142,562)
Total capital assets being depreciated, net	23,575,568	1,320,299	-	24,895,867
Governmental activities capital assets, net	\$ 24,146,170	\$ 1,320,299	\$ -	\$ 25,466,469

Depreciation for the fiscal year ended June 30, 2011 amounted to \$885,821. 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, 2011 was \$75,208.

BIG RAPIDS PUBLIC SCHOOLS
Notes to Financial Statements

At year-end, the Eastwood Elementary and Hillcrest Elementary school buildings were vacant. Management is unable to estimate the date at which the buildings may be placed back in service. The net book value of these buildings was \$1,292,347 and \$1,022,211, respectively, at June 30, 2011.

7. TRANSFERS AND INTERFUND BALANCES

Transfers primarily reflect subsidies allocated from the general fund to finance payments on bonds and notes payable.

	Transfers in		
Transfers out	Debt Service	QZAB Capital Projects	Total
General fund	\$ 104,121	\$ 130,200	\$ 234,321

At year-end, there was an internal balance between the general fund (due from) and the food service special revenue fund (due to) in the amount of \$393,356. The balance relates to salaries and fringe benefits for food service employees initially paid by the general fund and not reimbursed until after year-end.

8. LONG-TERM DEBT

The following is a summary of debt transactions of the District for the year ended June 30, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 18,736,767	\$ 6,128,600	\$ 5,807,439	\$ 19,057,928	\$ 1,385,713
Installment purchase agreements	171,669	-	74,056	97,613	47,835
	18,908,436	6,128,600	5,881,495	19,155,541	1,433,548
Unamortized discounts/premiums					
on general obligation bonds	330,468	(55,676)	27,320	247,472	33,180
Deferred loss on bond refunding	(272,952)	(106,731)	(30,303)	(349,380)	(32,133)
Early retirement incentive	152,562	405,000	76,559	481,003	215,000
Compensated absences	231,085	128,233	166,171	193,147	38,972
	\$ 19,349,599	\$ 6,499,426	\$ 6,121,242	\$ 19,727,783	\$ 1,688,567

Bonds payable at June 30, 2011, are comprised of the following issues:

General obligation bonds:

2010 Qualified Zone Academy Bonds (QZAB) due in annual installments of \$148,240 plus interest at 5.50% - 5.00 % through 2025 (exclusive of a 4.97% Federal subsidy (unlimited tax, general obligation) \$ 2,075,360

2010 Refunding Bonds due in amounts ranging from \$975,000 through \$980,000 plus interest at 3.25% - 3.50% through 2025 (unlimited tax, general obligation) 3,905,000

BIG RAPIDS PUBLIC SCHOOLS
Notes to Financial Statements

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)	\$ 11,330,000
2007 Energy Bonds due in amounts ranging from \$35,000 through \$165,000 plus interest at 4.00% through 2024	1,685,000
* 1998 School Improvement Bonds (Durant Settlement) due in amounts ranging from \$6,641 through \$15,438 plus interest at 4.76% through 2013	<u>62,568</u>
	<u>\$ 19,057,928</u>

* 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.

Installment purchase agreements at June 30, 2011, are comprised of the following:

Installment purchase agreements:	
2007 Installment purchase agreement due in installments of \$17,440 plus interest at 4.05% through 2012	\$ 32,869
2009 Installment purchase agreement due in monthly installments of \$2,812, including interest at 4.0% through 2013	<u>64,744</u>
	<u>\$ 97,613</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
2012	\$ 1,433,548	\$ 552,211	\$ 1,985,759
2013	1,443,113	522,224	1,965,337
2014	1,383,240	510,522	1,893,762
2015	1,438,240	500,502	1,938,742
2016	1,453,240	488,105	1,941,345
2017 – 2021	7,011,200	2,222,018	9,233,218
2022 – 2025	<u>4,992,960</u>	<u>458,395</u>	<u>5,451,355</u>
	<u>\$ 19,155,541</u>	<u>\$ 5,253,977</u>	<u>\$ 24,409,518</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 2011, the District advance refunded \$4,515,000 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 \$4,515,000 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 resulted in a savings of \$897,587 and an economic gain of \$452,835.

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, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental activities				
State aid anticipation notes	\$ 1,950,000	\$ 2,400,000	\$ (2,299,800)	\$ 2,050,200

The state aid note outstanding at year-end was due on August 19, 2011 and includes interest at 0.4 percent.

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, 2011, 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. FUND BALANCE – GOVERNMENTAL FUNDS

The District adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the current year. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. While the classifications of fund balance in the District's various governmental funds were revised, the implementation of this standard had no effect on total fund balance. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Food Service	Debt Service	QZAB Construction	Nonmajor Governmental Fund	Total
Nonspendable:						
Inventories	\$ -	\$ 4,537	\$ -	\$ -	\$ -	\$ 4,537
Prepaid items	49,260	1,250	-	-	-	50,510
Total nonspendable	49,260	5,787	-	-	-	55,047

BIG RAPIDS PUBLIC SCHOOLS
Notes to Financial Statements

	General Fund	Food Service	Debt Service	QZAB Construction	Nonmajor Governmental Fund	Total
Restricted for:						
Debt service	\$ -	\$ -	\$ 218,187	\$ -	\$ -	\$ 218,187
Physical education	46,277	-	-	-	-	46,277
Tobacco prevention	1,500	-	-	-	-	1,500
Food service program	-	63,707	-	-	-	63,707
Other purposes	1,331	-	-	-	-	1,331
Total restricted	49,108	63,707	218,187	-	-	331,002
Unassigned	564,961	-	-	-	-	564,961
Total fund balances governmental funds	\$ 663,329	\$ 69,494	\$ 218,187	\$ -	\$ -	\$ 951,010

12. NET ASSETS INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

The composition of net assets invested in capital assets, net of related debt as of June 30, 2011, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 570,602
Capital assets being depreciated, net	<u>24,895,867</u>
	<u>25,466,469</u>
Related debt:	
Total bonds and notes payable	19,155,541
Net bond premium/discount	247,472
Deferred loss on advance refunding	(349,380)
Deferred Durant receivable	<u>(62,568)</u>
	<u>18,991,065</u>
Invested in capital assets, net of related debt	<u>\$ 6,475,404</u>

13. 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.

BIG RAPIDS PUBLIC SCHOOLS

Notes to Financial Statements

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) 322-5103.

Funding Policy

Member contribution rates vary based on date of hire and certain voluntary elections. 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 rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Members first hired July 1, 2008 through June 30, 2010 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000. Basic Plan members make no contributions. Members first enrolled on or after July 1, 2010 are enrolled in the Pension Plus Plan which contains a defined contribution component. Member contributions are matched at a rate of 50 percent by the employer, up to a maximum of one percent. 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 rates for the year ended June 30, 2011 as a percentage of payroll ranged from 16.94 to 20.66 percent for MIP members and 15.44 to 19.16 percent for Pension Plus members. 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, 2011, 2010, and 2009 were \$1,794,268, \$1,628,807, and \$1,598,321, 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 exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1998 with the vested deferred benefits, are eligible for partially State of Michigan paid health benefit coverage (no payment if less than 21 years of service).

BIG RAPIDS PUBLIC SCHOOLS
Notes to Financial Statements

14. 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.

15. SUBSEQUENT EVENT

On August 22, 2011, the District issued State Aid Anticipation Notes in the amount of \$2,200,000. The notes bear interest at 0.311 percent and are due on August 20, 2012.

16. RESTATEMENT

As described in Note 11, The District adopted the provisions of GASB Statement No. 54 in the current year. While the classifications of fund balance in the District's various governmental funds were revised, the implementation of this standard had no effect on total fund balance. Beginning fund balance of the general fund increased by \$77,347, which was comprised entirely of the athletics special revenue fund (no longer separately presented). As a result, the beginning fund balance of nonmajor governmental funds was decreased by the same amount.

* * * * *

**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, 2011

	Budget		Actual	Variance with Final Budget
	Original	Amended		
Revenue				
Local sources:				
Property taxes	\$ 3,396,538	\$ 3,611,603	\$ 3,633,562	\$ 21,959
Act 18 allocation	410,810	387,292	367,927	(19,365)
Tuition	15,000	17,667	21,212	3,545
Gate receipts	94,000	96,993	101,249	4,256
Interest	9,000	2,809	2,930	121
Other	60,500	88,991	157,256	68,265
Total local sources	3,985,848	4,205,355	4,284,136	78,781
State sources:				
State aid - unrestricted	10,667,396	9,902,521	9,868,673	(33,848)
At-risk	422,500	425,867	424,794	(1,073)
Special education	437,010	315,561	315,561	-
Preschool grant	122,400	122,400	122,400	-
Total state sources	11,649,306	10,766,349	10,731,428	(34,921)
Federal sources:				
Federal aid received through the state -				
Title I - regular	550,000	567,987	591,565	23,578
Title I - carryover	-	23,578	-	(23,578)
Title I - ARRA	108,214	111,686	115,295	3,609
Title II	132,243	155,261	155,261	-
ARRA budget stabilization funds	-	231,943	231,943	-
Federal aid received through intermediate school districts	236,934	277,810	252,855	(24,955)
Federal aid received through other source	12,000	10,233	10,233	-
Total federal sources	1,039,391	1,378,498	1,357,152	(21,346)
Total revenue	16,674,545	16,350,202	16,372,716	22,514

(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, 2011

	Budget		Actual	Variance with Final Budget
	Original	Amended		
Expenditures				
Instruction:				
Basic programs:				
Elementary	\$ 2,949,709	\$ 2,739,087	\$ 2,899,760	\$ 160,673
Middle school	2,421,895	2,550,949	2,451,192	(99,757)
High school	2,673,669	2,738,853	2,785,336	46,483
Early education	-	122,400	124,050	1,650
Total basic programs	8,045,273	8,151,289	8,260,338	109,049
Added needs:				
Special education	1,540,207	1,178,657	1,205,523	26,866
Compensatory education	672,320	742,044	820,223	78,179
Total added needs	2,212,527	1,920,701	2,025,746	105,045
Total instruction	10,257,800	10,071,990	10,286,084	214,094
Supporting services:				
Pupil services:				
Guidance services	294,714	257,634	252,393	(5,241)
Social work services	-	-	16,356	16,356
Other pupil services	5,200	-	-	-
Total pupil services	299,914	257,634	268,749	11,115
Instructional staff:				
Improvement of instruction	242,858	221,241	280,398	59,157
Library	148,756	204,546	145,191	(59,355)
Direction of instruction	44,042	104,646	1,237	(103,409)
Other instructional services	2,541	2,246	3,460	1,214
Total instructional staff	438,197	532,679	430,286	(102,393)
General administration:				
Board of Education	149,500	132,801	128,981	(3,820)
Executive administration	262,241	274,657	304,742	30,085
Fiscal services	287,445	307,420	363,313	55,893
Total general administration	699,186	714,878	797,036	82,158

(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, 2011

	Budget		Actual	Variance with Final Budget
	Original	Amended		
Expenditures (concluded)				
Supporting services (concluded):				
School administration:				
Elementary and secondary administration	\$ 948,302	\$ 955,705	\$ 924,047	\$ (31,658)
Operation and maintenance	1,805,771	1,649,052	1,579,608	(69,444)
Security services	45,750	28,500	28,173	(327)
Pupil transportation	717,836	686,763	651,618	(35,145)
Information services	315,709	323,365	312,515	(10,850)
Other services	57,934	63,672	42,233	(21,439)
Payments to other schools	105,000	75,000	93,415	18,415
Total supporting services	5,433,599	5,287,248	5,127,680	(159,568)
Athletics	355,704	357,038	355,523	(1,515)
Community services	90,775	71,804	70,336	(1,468)
Debt service:				
Principal	48,000	43,530	74,056	30,526
Interest	100,500	100,000	55,131	(44,869)
Total debt service	148,500	143,530	129,187	(14,343)
Capital outlay	80,000	205,505	60,022	(145,483)
Total expenditures	16,366,378	16,137,115	16,028,832	(108,283)
Revenue over expenditures	308,167	213,087	343,884	130,797

(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, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Amended</u>		
Other financing uses				
Transfers out	\$ (68,800)	\$ (132,400)	\$ (234,321)	\$ (101,921)
Net changes in fund balance	239,367	80,687	109,563	28,876
Fund balance, beginning of year, as restated	553,766	553,766	553,766	-
Fund balance, end of year	\$ 793,133	\$ 634,453	\$ 663,329	\$ 28,876

AGENCY FUNDS

BIG RAPIDS PUBLIC SCHOOLS
Combining Statement of Assets and Liabilities
Agency Funds
June 30, 2011

	Student Activities	Section 125 Fund	Total
Assets			
Cash and investments	\$ 215,102	\$ 12,799	\$ 227,901
Liabilities			
Due to student groups	\$ 215,102	\$ -	\$ 215,102
Withholdings payable	-	12,799	12,799
Total liabilities	\$ 215,102	\$ 12,799	\$ 227,901

120-DAY BOND AUDIT

October 26, 2011

Board of Education
Big Rapids Public Schools
Big Rapids, Michigan

We have audited the accompanying schedule of revenue, expenditures and changes in fund balance of the capital projects fund (the “schedule”) which accounted for the proceeds and disbursement of the 2010 Qualified Zone Academy Bonds of **Big Rapids Public Schools**, Big Rapids, Michigan, as of and for the seven months, 28 days ended May 26, 2011. This schedule is the responsibility of Big Rapids Public Schools’ management. Our responsibility is to express an opinion on this schedule 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 opinion.

The accompanying schedule was prepared for the purpose of complying with the provisions of the Michigan Revised School Code, Public Act 451 of 1976, as amended (MCL 380.1351a). In our opinion, the schedule referred to above presents fairly, in all material respects, the results of operations of the 2010 Qualified Zone Academy Bonds capital projects fund of Big Rapids Public Schools for the seven months, 28 days ending May 26, 2011, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated October 26, 2011 on our consideration of Big Rapids Public Schools’ internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.



BIG RAPIDS PUBLIC SCHOOLS

Statement of Revenue, Expenditures and Changes in Fund Balances 2010 Qualified Zone Academy Bonds Capital Projects Fund For the Seven Months, 28 Days Ending May 26, 2011

Revenue	
Local sources	\$ 935
Federal sources	56,791
	<hr/>
Total revenue	57,726
	<hr/>
Expenditures	
Debt service:	
Principal	148,240
Interest	62,848
Bond issuance costs	43,972
Capital outlay	2,156,466
	<hr/>
Total expenditures	2,411,526
	<hr/>
Revenue under expenditures	(2,353,800)
	<hr/>
Other financing sources	
Transfers in	130,200
Issuance of long-term debt	2,223,600
	<hr/>
Total other financing sources	2,353,800
	<hr/>
Net changes in fund balances	-
Fund balances, beginning of year	-
	<hr/>
Fund balances, end of year	<u><u>\$ -</u></u>

Big Rapids  Public Schools

BIG RAPIDS, MICHIGAN

SINGLE AUDIT ACT COMPLIANCE

FOR THE YEAR ENDED JUNE 30, 2011

 **Rehmann**

BIG RAPIDS PUBLIC SCHOOLS
Single Audit Act Compliance

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**INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS**

October 26, 2011

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, 2011, and have issued our report thereon dated October 26, 2011. 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 U.S. Office of Management and Budget (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
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Pass- through Grantor's Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2010	Current Year Cash Received
U.S. Department of Agriculture					
<i>Passed through the Michigan Department of Education:</i>					
Child Nutrition Cluster:					
Cash assistance:					
National School Lunch - Breakfast	10.553	101970	\$ 9,815	\$ -	\$ 9,815
National School Lunch - Breakfast	10.553	111970	88,850	-	88,850
				-	98,665
National School Lunch Section 4 All Lunches	10.555	101950	6,657	-	6,657
National School Lunch Section 4 All Lunches	10.555	111950	56,342	-	56,342
National School Lunch Section 11 Free and Reduced	10.555	101960	39,548	-	39,548
National School Lunch Section 11 Free and Reduced	10.555	111960	319,363	-	319,363
National School Lunch Snacks	10.555	101980	1,159	-	1,159
National School Lunch Snacks	10.555	111980	8,136	-	8,136
				-	431,205
Summer Food Service Program for Children	10.559	100900	23,629	8,552	27,664
Summer Food Service Program for Children	10.559	101900	1,994	893	2,887
				9,445	30,551
Non-cash assistance:					
Entitlement Commodities	10.555	2010-2011	67,781	-	67,781
Bonus Commodities	10.555	2010-2011	1,787	-	1,787
Reimbursements	10.555	2010-2011	1,237	-	1,237
				-	70,805
Total Child Nutrition Cluster				9,445	631,226
<i>Passed through Newaygo County:</i>					
National Forest Revenue Program	10.665	-n/a-	9,419	-	9,419
<i>Passed through Mecosta County:</i>					
National Forest Revenue Program	10.665	-n/a-	814	-	814
Total National Forest Revenue Program				-	10,233
Total U.S. Department of Agriculture				9,445	641,459
U.S. Department of Education					
<i>Passed through the Michigan Department of Education:</i>					
Title I, Part A Cluster:					
Title I, Part A	84.010	101530-0910	564,864	321,061	321,061
Title I, Part A	84.010	111530-1011	591,565	-	505,329
ARRA - Title I, Part A	84.389	101535-0910	296,050	171,055	184,361
ARRA - Title I, Part A	84.389	111535-1011	111,689	-	96,881
				492,116	1,107,632

Expenditures		Accrued (Deferred)
(Memo Only)	Year Ended	Revenue
Prior Year(s)	June 30, 2011	June 30, 2011
\$ -	\$ 9,815	\$ -
-	88,850	-
-	98,665	-
-	6,657	-
-	56,342	-
-	39,548	-
-	319,363	-
-	1,159	-
-	8,136	-
-	431,205	-
-	23,629	4,517
-	1,994	-
-	25,623	4,517
-	67,781	-
-	1,787	-
-	1,237	-
-	70,805	-
-	626,298	4,517
-	9,419	-
-	814	-
-	10,233	-
-	636,531	4,517
564,864	-	-
-	591,565	86,236
171,055	13,306	-
-	101,989	5,108
735,919	706,860	91,344

(continued)

BIG RAPIDS PUBLIC SCHOOLS

Schedule of Expenditures of Federal Awards (Concluded)

For the Year Ended June 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Pass- through Grantor's Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2010	Current Year Cash Received
U.S. Department of Education (Concluded)					
<i>Passed through the Michigan Department of Education (Concluded):</i>					
Title II, Part A	84.367	100520-0910	\$ 155,580	\$ 76,465	\$ 76,465
Title II, Part A	84.367	110520-1011	155,261	-	103,333
				<u>76,465</u>	<u>179,798</u>
ARRA - Title II, Part D	84.386	104295-0910	11,269	3,670	3,670
ARRA - Budget Stabilization Funds	84.394	102525-0910	573,192	193,760	193,760
ARRA - Budget Stabilization Funds	84.394	112525-1011	231,943	-	178,423
				<u>193,760</u>	<u>372,183</u>
<i>Passed through Mecosta-Osceola Intermediate School District:</i>					
Special Education Cluster (IDEA):					
ARRA - Flowthrough (2009-10 Award)	84.391	100455-0910	191,458	64,225	56,969
ARRA - Flowthrough (2010-11 Award)	84.391	100455-0910	236,930	-	187,174
ARRA - Preschool Flowthrough (2009-10 Award)	84.392	100465-0910	11,564	4,651	4,651
ARRA - Preschool Flowthrough (2010-11 Award)	84.392	100465-0910	12,166	602	10,219
				<u>69,478</u>	<u>259,013</u>
Total U.S. Department of Education				<u>835,489</u>	<u>1,922,296</u>
U.S. Department of Health and Human Services					
<i>Passed through Mecosta-Osceola Intermediate School District:</i>					
Medicaid Outreach	93.778	-n/a-	4,361	-	4,361
Total Expenditures of Federal Awards				<u>\$ 844,934</u>	<u>\$ 2,568,116</u>

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

<u>Expenditures</u>		<u>Accrued</u>
<u>(Memo Only)</u>	<u>Year Ended</u>	<u>(Deferred)</u>
<u>Prior Year(s)</u>	<u>June 30, 2011</u>	<u>Revenue</u>
		<u>June 30, 2011</u>
\$ 155,580	\$ -	\$ -
-	155,261	51,928
<u>155,580</u>	<u>155,261</u>	<u>51,928</u>
11,269	-	-
573,192	-	-
-	231,943	53,520
<u>573,192</u>	<u>231,943</u>	<u>53,520</u>
191,458	-	7,256
-	236,930	49,756
11,564	-	-
602	11,564	1,947
<u>203,624</u>	<u>248,494</u>	<u>58,959</u>
<u>1,679,584</u>	<u>1,342,558</u>	<u>255,751</u>
-	4,361	-
<u>\$ 1,679,584</u>	<u>\$ 1,983,450</u>	<u>\$ 260,268</u>

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

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Big Rapids Public Schools (the "District") under programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

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.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this Schedule.

3. RECONCILIATION TO FINANCIAL STATEMENTS

A reconciliation of the amounts presented in the Schedule to the amounts presented in the financial statements is as follows:

Federal revenue as reported in the financial statements	\$ 2,040,241
Federal subsidy for Qualified Zone Academy Bonds	<u>(56,791)</u>
Federal revenue as reported in the Schedule of Expenditures of Federal Awards	<u>\$ 1,983,450</u>

* * * * *

**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***

October 26, 2011

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, 2011, which collectively comprise Big Rapids Public Schools' basic financial statements and have issued our report thereon dated October 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2011-1 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 October 26, 2011.

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

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 THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

October 26, 2011

Board of Education
Big Rapids Public Schools
Big Rapids, Michigan

Compliance

We have audited **Big Rapids Public Schools'** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Big Rapids Public Schools' major federal programs for the year ended June 30, 2011. 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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 2011-2 through 2011-5.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Big Rapids Public Schools' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-2 and 2011-3. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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, other within the entity, 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 Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS

2011-1 – Preparation of Governmental Financial Statements / Material Audit Adjustments

Finding Type. 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 *internal* controls.

Cause. This condition was primarily caused by the District's decision that it is more cost effective to outsource the preparation of its annual financial statements including assistance with certain year-end adjustments, 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. The District's decision to rely, in part, on its auditors, for the preparation of external financial statements is allowable provided that it is disclosed as part of the report on internal control and compliance in accordance with *Government Auditing Standards*. Therefore, no specific corrective action is required at this time.

View of Responsible Officials. The government has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the proposed journal entries, draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

BIG RAPIDS PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2011-2 – Documented Approval of Invoices

Finding Type. Immaterial Noncompliance / Significant Deficiency in Internal Control over Compliance – Allowable Costs/Cost Principles

Federal Awarding Agency. U.S. Department of Education

CFDA Numbers and Program Names. 84.010/84.389 – Title I, Part A Cluster (Includes ARRA) and 84.391/84.392 – Special Education Cluster (IDEA) (Includes ARRA)

Pass-through Entities and Award Numbers. Michigan Department of Education 101530-0910, 111530-1011, 101535-0910, 111535-1011 and Mecosta-Osceola Intermediate School District 100455-0910 and 100465-0910.

Criteria. Grant recipients are required to spend federal funding for allowable purposes. An important element of ensuring that grant funds are used for allowable purposes is having invoices reviewed and approved by the grant administrator prior to disbursement. Documentation of such approval is a requirement of OMB Circular A-87.

Condition. 10 of the 13 accounts payable disbursements that were reviewed from the Title I, Part A Cluster and 6 of 6 of the accounts payable disbursements that were reviewed from the Special Education Cluster did not evidence independent review and approval.

Cause. This condition is caused by a management oversight in documenting this review and approval, which appears to have taken place verbally.

Effect. As a result of this condition, the District was exposed to the risk that federal funds could be used for unallowable purposes.

Questioned costs. The selected invoices for which independent review and approval was not documented totaled \$4,400 and \$13,406 in the Title I, Part A Cluster and the Special Education Cluster, respectively.

Recommendation. We recommend that the Curriculum Director or Finance Director approve all grant expenditures prior to disbursement. This approval should be evidenced by signature/initials and a date on the invoice or purchase order itself, which should be retained as evidence of this review.

View of Responsible Officials. The District will have the Curriculum Director sign or initial all grant-related invoices prior to disbursement. These will then be reviewed by the Finance Director to ensure expenditures meet Federal and/or pass-through grantor requirements.

BIG RAPIDS PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2011

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

2011-3 – Internal Controls over Preparation and Review of Grant Reports

Finding Type. Immaterial Noncompliance/Significant Deficiency in Internal Control over Compliance – Reporting

Federal Awarding Agency. U.S. Department of Education

CFDA Numbers and Program Names. 84.010/84.389 – Title I, Part A Cluster (Includes ARRA) and 84.391/84.392 – Special Education Cluster (IDEA) (Includes ARRA)

Pass-through Entities and Award Numbers. Michigan Department of Education 101530-0910, 111530-1011, 101535-0910, 111535-1011 and Mecosta-Osceola Intermediate School District 100455-0910 and 100465-0910.

Criteria. Recipients of federal awards are required to report periodically on financial information, as specified by the OMB Circular A-133 Compliance Supplement or grant agreement. Reported information should be supported by the entity's accounting records, filed internally with supporting documents, and evidence review and approval by an individual independent of the preparation. For grants received through the Michigan Department of Education (MDE) (which includes the Title I, Part A Cluster), grant receipts are required to report on grant expenditures by function code and object as defined by MDE and the grant award budget. For the Special Education Cluster, grant recipients are required to report annually on Federal IDEA expenditures in total, along with detailed information on locally-funded special education expenditures by function code and object.

Condition. The final expenditure reports for the Title I, Part A Cluster agreed in total to actual grant expenditures in the District's accounting records, but varied by function code and object. The SE-4096 Special Education Actual Cost Report included Federal IDEA expenditures that did not agree to the District's award amount or internal records. None of the reports evidenced independent review and approval.

Cause. This condition is caused primarily by limited availability of staff with the knowledge and expertise to review such reports. In addition, spreadsheets were used as the basis for preparing the Special Education report, which were not fully reconciled to the general ledger.

Effect. As a result of this condition, the District reported grant expenditures that were either misclassified by function code or object, or disagreed in amount to the accounting records. In addition, the SE-4096 Special Education Actual Cost Report serves as the basis for determining maintenance of effort by the State of Michigan, which could be impacted by these variances.

Questioned Costs. No costs are required to be questioned as a result of this finding inasmuch as we noted no instances in which the reported expenditures were for unallowable purposes, and the variances in the Special Education Cluster resulted in under-reporting of expenditures.

Recommendation. We recommend that the general ledger serve as the basis for all grant reports, including amount, function code, and object. Based on previous audit recommendations, the District is attaching supporting documentation to copies of grant reports which are being filed in the Central Office. We commend the District for this improvement and further recommend that the report be subject to review and approval by an individual independent of the preparation. Both the preparer and the reviewer should sign/initial and date the report as evidence of the process and it should be retained with the other supporting files.

BIG RAPIDS PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2011

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

2011-3 – Internal Controls over Preparation and Review of Grant Reports (Concluded)

View of Responsible Officials. The District has made improvements in the process for preparing and documenting grant expenditure reports. Management acknowledges the need to improve the accuracy of detailed report data, such as function code and object, and will aim to correct such discrepancies going forward. In addition, management will consider whether it is feasible to implement a review process for grant reports.

2011-4 – Documentation of Time and Effort in Accordance with OMB Circular A-87

Finding Type. Immaterial Noncompliance – Allowable Costs/Cost Principles

Federal Awarding Agency. U.S. Department of Education

CFDA Numbers and Program Names. 84.010/84.389 – Title I, Part A Cluster (Includes ARRA) and 84.391/84.392 – Special Education Cluster (IDEA) (Includes ARRA)

Pass-through Entities and Award Numbers. Michigan Department of Education 101530-0910, 111530-1011, 101535-0910, 111535-1011 and Mecosta-Osceola Intermediate School District 100455-0910 and 100465-0910.

Criteria. Office of Management and Budget (OMB) Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires that charges to federal awards for personnel costs (i.e., salaries, wages and employee benefits) must be documented in accordance with specific guidelines. For employees charged entirely to a single Federal cost objective, the use of a semi-annual certification is permissible.

Condition. We noted that the individuals who worked 100 percent on a single Federal cost objective completed semi-annual certifications, as permitted. However, the certifications for both semesters were signed and dated prior to the end of the period being certified. In each semester, the certifications were signed 3-4 weeks prior to the end of the period being certified.

Cause. This condition was caused by the District's good-faith effort to complete the necessary documentation prior to the end of the semester, especially in June when teachers are not easily accessible after the end of the academic year.

Result. As a result of this condition, the District failed to fully comply with the documentation requirements of OMB Circular A-87, which requires that semi-annual certifications represent an after-the-fact reporting of the time actually worked by the employees.

Questioned Costs. No costs are required to be questioned as a result of this condition as the teachers' classroom schedules supported that each continued to work in the same capacity through the end of the academic year. This was confirmed through inquiry of the Curriculum Director.

Recommendation. We recommend that the District provide necessary personnel with time certification forms with the last payroll period of the semester.

View of Responsible Officials. The District understands the reasoning behind dating the certifications as close to the end of the period being certified as possible and appropriate corrective action will be taken in the next school year.

BIG RAPIDS PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2011

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

2011-5 – Expenditure of Funds for Parental Involvement

Finding Type. Immaterial Noncompliance – Special Tests and Provisions

Federal Awarding Agency. U.S. Department of Education

CFDA Numbers and Program Name. 84.010/84.389 – Title I, Part A Cluster (Includes ARRA)

Pass-through Entity and Award Numbers. Michigan Department of Education 101530-0910, 111530-1011, 101535-0910, 111535-1011

Criteria. The Michigan Department of Education as the pass-through grantor agency has required that grantees with Title I allocations of more than \$500,000 must set aside at least one percent of the award budget for parent involvement in schools served with Title I funding. Of the budgeted amount, at least 95 percent must be expended.

Condition. The District budgeted one percent of its Title I allocation for parental involvement, as required. However, the actual amount of expenditures for this purpose was less than 95 percent of the total.

Cause. This condition was caused by an oversight in monitoring the separate general ledger accounts utilized to track parental involvement expenditures.

Effect. As a result of this condition, the District failed to fully comply with the provisions of the grant agreement.

Questioned Costs. No costs are required to be questioned as a result of this finding inasmuch as the condition relates to under-spending of funds.

Recommendation. We noted that based on a previous audit recommendation, the District is now using a separate series of general ledger accounts to track parent involvement expenditures. We commend the District for taking this step and recommend that the accounts be tracked more closely throughout the year to ensure that adequate funds are being spent.

View of Responsible Officials. The District concurs with the auditors and recognizing that this compliance requirement needs to be managed more closely in future periods. The District will develop a detailed plan on the anticipated expenditure of the parent involvement funds in order to ensure that sufficient opportunities are available. Actual expenditures will be tracked by the Curriculum Director and follow-up action will be taken as needed.

SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS

2010-1 – Preparation of Governmental Financial Statements / Material Audit Adjustments

Finding Type. Material Weakness in Internal Control over Financial Reporting

Status. The District has determined that it is most cost-effective to rely on its external auditors for year-end reporting and assistance with certain adjustments. Since this assistance is allowable if properly disclosed in the single audit report, management does not intend to take corrective action at this time. Finding has been repeated as item 2011-1.

BIG RAPIDS PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs (Concluded)
For the Year Ended June 30, 2011

SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS (CONCLUDED)

2010-2 – Documented Approval of Invoices

Finding Type. Significant Deficiency in Internal Control Over Compliance – Allowable Costs/Cost Principles

CFDA Numbers and Program Name. 84.010/84.389 – Title I, Part A Cluster (Including ARRA)

Status. Corrective action was not sufficient. Finding has been repeated as 2011-2.

2010-3 – Documentation of Payroll Costs

Finding Type. Significant Deficiency in Internal Control over Compliance – Allowable Costs/Cost Principles

CFDA Numbers and Program Name. 84.010/84.389 – Title I, Part A Cluster (Including ARRA)

Status. Corrective action was sufficient.

2010-4 – Internal Controls over Contracting with Suspended/Debarred Parties

Finding Type. Significant Deficiency in Internal Control over Compliance – Procurement, Suspension and Debarment

CFDA Numbers and Program Name. 84.010/84.389 – Title I, Part A Cluster (Including ARRA)

Status. Corrective action was sufficient.

2010-5 – Highly Qualified Personnel

Finding Type. Significant Deficiency in Internal Control over Compliance – Special Tests and Provisions

CFDA Numbers and Program Name. 84.010/84.389 – Title I, Part A Cluster (Including ARRA)

Status. Corrective action was sufficient.

* * * * *

October 26, 2011

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, 2011, and have issued our report thereon dated October 26, 2011. 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 July 25, 2011, 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 September 13, 2011.

Significant Results from the Audit*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. Other than the adoption of GASB Statement No. 54, which is described in Note 11 to the financial statements, no other new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the District during the year 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.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection on a land contract with an individual.

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 2011, significant amounts of the District's 1999 refunding bonds were in-substance defeased through the issuance of advance refunding bonds. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, 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. 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 certain 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 report on Single Audit Act Compliance.

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 October 26, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the 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, prominent initial 'L'.

Big Rapids Public Schools

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2011

In planning and performing our audit of the financial statements of Big Rapids Public Schools (the "District") as of and for the year ended June 30, 2011, 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. The deficiencies we noted that we consider to be material weaknesses are described in the Schedule of Findings and Questioned Costs in the District's report on Single Audit Act compliance.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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 report on Single Audit Act compliance.

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

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2011

Written Policies and Procedures over Administration of Federal Awards

The Michigan Department of Education (MDE) has interpreted certain Federal guidance to indicate that an entity is required to have written policies and procedures over the administration of Federal awards as a precursor to receiving such funds. As such, MDE has recently notified all Michigan School Districts that these written policies and procedures should be prepared if not already available. The Board of Education of Big Rapids Public Schools has informal policies in place, but has not yet adopted several components of the required policies from MDE. The District is currently working to draft comprehensive policies and procedures manual to meet MDE's requirements, which is expected to be completed during the 2011/2012 academic year.

Budgetary Control

During our audit, we noted that the original and amended budgets as recorded in the District's accounting software did not agree by department or in total to the budgets approved by the Board of Education. While the differences were not significant, the District uses the accounting system to generate budget vs. actual reports regularly, and as such is tracking its budgetary compliance using inaccurate amounts. We recommend that the District reconcile the original and amended budgets in the accounting system to the actual Board approved budgets to ensure that they agree.

In addition, we noted that certain fringe benefits are budgeted in one function code (based on the Michigan Department of Education chart of accounts) for administrative convenience, but are recorded as expenditures in the various functions in which the covered employees' salaries and wages are actually recorded. While expenditures in the general fund as a whole are unaffected, this practice results in a significant number of budget variances. The Michigan Department of Education (MDE) monitors budgetary compliance at the function code level, and overages are deemed a violation of State law. We recommend that management begin budgeting for all costs in the function in which the expenditure is expected to be recorded.

Dating of Personnel Contracts

The employment contracts of certain administrators working on a 10-month schedule are based on different payment options. Similar to teachers, these administrators are permitted to be paid over the period of service or over the period of one year. We noted one instance in which an employee contract was executed indicating payment would be made over the period of service. Our discussions with District management indicated that the contract was changed to allow for payment over a 12-month period. However, this change was verbal only and there was no documentation to support the discussion. We recommend that the District document and retain support for such changes in the future.

Big Rapids Public Schools

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2011

Documented Review of Federal Grant Activities

Recipients of Federal awards are required to comply with up to 14 different compliance requirements specified by the Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. Detailed information on these expenditures and the results of tests of compliance with the provisions of grant agreements are presented in a separate report. We noted through discussion with management that grant activities related to the various compliance areas are often subjected to independent review and approval. However, we noted that in some cases this independent review is not documented. Given the heightened scrutiny over Federal award activities, we recommend that this independent review be documented with a signature/initial and date and retained as evidence of the control.

We noted in our single audit procedures that the report used to allocate grant funding under the Title I, Part A program among the District's schools and students contained various errors in calculations and discrepancies with source documentation. While the variances did not result in grant funds being allocated to ineligible schools and/or students, we believe that if the review and approval process explained above is followed, these items may be detected and corrected prior to submission.

Bonded Construction Fund Compliance Requirements

A Michigan school district that issues bonds after May 1, 1994 under MCL 380.1351a is required to have an independent audit conducted on its bonding process and the expenditure of bond proceeds. This audit is required to be conducted with 120 days of substantial completion of the project, and therefore is informally called the "120-day Bond Audit". The District issued 2010 Qualified Zone Academy Bonds on October 26, 2010 and fully expended the bond proceeds by June 30, 2011. As such, a 120-day bond audit was conducted concurrently with financial statement audit fieldwork. Our report on bond activities and compliance requirements is included following as a component of the financial statement audit.

Big Rapids Public Schools

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2011

While our auditing procedures identified no material noncompliance with the State requirements, we did note one instance of immaterial noncompliance related to document retention. The District is required to obtain competitive bids for construction contracts funded with bond proceeds. A request for bids must be advertised once per week for two successive weeks in a newspaper circulated in the geographical area of the construction. Management verbally indicated to us that the request for bids was advertised in the local newspaper and on the State of Michigan website. However, documentation to substantiate this claim could not be provided. While no corrective action is deemed necessary for the 2010 bond issue, we recommend that management carefully review the requirements of bonded construction funds for future projects, and retain evidence of its compliance for audit purposes.

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Big Rapids Public Schools
 Attachment B - Schedule of Adjustments Passed (SOAP)
 For the June 30, 2011 Audit

In accordance with the provisions of SAS 107, *Audit Risk and Materiality*, 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 107, 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)Statemen				
	Assets	Liabilities	Beginning Equity	Revenue	Expenses/ Expenditures
Governmental Activities Effect of capitalizing both principal and interest on installment purchase agreement in a prior year	\$ 9,720	\$ -	\$ 12,961	\$ -	\$ 3,241

October 26, 2011

Rehmann Robson
2330 E Paris Ave SE
Grand Rapids, MI 49546

We are providing this letter in connection with your audit of the financial statements of *Big Rapids Public Schools* as of June 30, 2011 and for the year then ended for the purpose of expressing opinions as to whether the financial statements 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 and the respective changes in financial position and, where applicable, cash flows thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of October 26, 2011, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all—
 - a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Minutes of the meetings of Board of Education or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.
5. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, you have proposed adjusting journal entries that have been posted. We are in agreement with those adjustments. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
8. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you have reported to us.
9. We have a process to track the status of audit findings and recommendations.
10. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
11. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
12. The District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
13. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.


For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
 - b. Guarantees, whether written or oral, under which the District is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
14. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

15. There are no—
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with Financial Accounting Standards Board (FASB) Statement No. 5 or which would affect federal award programs, and we have not consulted a lawyer concerning litigation, claims, or assessments.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Reservations or designation of fund equity that were not properly authorized and approved.
16. As part of your audit, you prepared the draft financial statements and related notes and schedule of expenditures of federal awards. We have designated a competent management-level individual to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and schedule of expenditures of federal awards.
17. The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
18. The District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
19. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
20. The financial statements properly classify all funds and activities.
21. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
22. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
23. Provisions for uncollectible receivables have been properly identified and recorded.
24. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.


25. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
26. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
27. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
28. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
29. Required supplementary information (RSI) is measured and presented within prescribed guidelines.
30. With respect to federal award programs:
 - a. We are responsible for complying and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
 - b. We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
 - c. We are responsible for complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
 - d. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies (including material weaknesses) reported in the schedule of findings and questioned costs.
 - e. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to major federal programs.

- f. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- g. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including those resulting from other audits or program reviews.
- h. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- i. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- j. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- k. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- l. We have charged costs to federal awards in accordance with applicable cost principles.
- m. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- n. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- o. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a corrective action plan for each audit finding.

No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.



Nick Scheible
Finance Director



Tim Haist
Superintendent