

Leland Public School

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2012

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Management's Discussion and Analysis

For the year ended June 30, 2012

The discussion and analysis of the Leland Public School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. Please read this analysis in conjunction with the District's financial statements, which immediately follow this section.

DESCRIPTION OF REPORTING ENTITY AND SERVICES PROVIDED

Leland School District is one of the few remaining one building schools in Michigan. The District is located in Leelanau County. Leland Public School serves students in grades Kindergarten through 12th grade. In addition to a full college preparatory curriculum offered on the Leland campus, Leland staff members teach non-core subjects such as fine arts, foreign language, and technology at the nearby parochial school. Students attending the District are afforded individualized attention due to small class sizes. Educators in the District are committed to the philosophy that all children are capable of learning if they have the appropriately specified learning tasks and a suitable amount of time commensurate with their individual learning rates. Leland Public School District offers a core academic curriculum that meets and/or exceeds State guidelines at all levels. The population for the 2011-2012 school year was 496 pupils.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three sections presented in the following order: Management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include several kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide comprehensive *short-term* and *long-term* financial information about the District as a whole.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about assets held by the District in a *trustee* or *agent* capacity.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data and supporting documentation. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged.

Figure A-1

District Financial Report Organization

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to Basic Financial Statements

Budgetary Information for Funds
(Required Supplemental Information)

Other Supplemental Information

DISTRICT-WIDE STATEMENTS

The district-wide statements provide comprehensive information about the entire District using the accrual basis of accounting which is similar to the method used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities and the difference between the two, which is net assets. The statement of activities accounts for all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction and supporting services. Unrestricted State Aid and property taxes finance most of these activities.

The two district-wide statements report the District's *net assets* and how they have changed. Examining net assets is one way to measure the District's financial health or *position*. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or declining. The relationship between revenues and expenses is the District's operating results, or in other terms, whether the District had a profit or a loss at year end. However, the District's mission is not simply to generate profits, as may be the case for a commercial entity.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. Each major fund is presented in a separate column. Non-major funds are aggregated and displayed in a single column. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The District has two kinds of funds:

Governmental funds:

All of the District's basic services are included in governmental funds. Governmental fund reporting generally focuses on how dollars flow in and out of the funds and the balances left at year-end. These balances are reported using the modified accrual basis of accounting. Revenues are recognized when they are measurable and available. Expenditures are recorded when the related fund liability is incurred. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are presented in a reconciliation displayed further in our documentation. The District's major governmental funds are the general fund, 2010 refunding and school improvement debt retirement fund, and the 2009-2010 capital projects fund.

Fiduciary Funds:

The District is the Trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations. For example, the Student Activities Account is accounted for as a fiduciary fund.

The District as a Whole

Recall that the statement of net assets provides the perspective of the District as a whole. Table 1 provides a summary of the District's net assets as of June 30, 2012:

TABLE 1

	<u>Governmental Activities</u>		
	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>% Change</u>
Assets			
Current and other assets	\$1,596,230	\$1,766,693	10.68%
Capital assets	<u>9,304,652</u>	<u>8,986,095</u>	<u>-3.42%</u>
Total assets	<u>10,900,882</u>	<u>10,752,788</u>	<u>1.36%</u>
Liabilities			
Current liabilities	1,275,346	1,208,188	-5.27%
Long-term liabilities	<u>6,451,080</u>	<u>5,777,167</u>	<u>-10.45%</u>
Total liabilities	<u>7,726,426</u>	<u>6,985,355</u>	<u>-9.59%</u>
Net Assets Invested in			
Property and Equipment – Net of related debt	2,396,579	2,712,903	13.20%
Restricted for			
Public Improvements	440,374	353,171	-19.80%
Debt Service	35,700	69,375	94.33%
Food Service	17,884	19,008	6.28%
Unrestricted	<u>283,919</u>	<u>612,976</u>	<u>115.90%</u>
Total net assets	<u>\$3,174,456</u>	<u>\$3,767,433</u>	<u>18.68%</u>

The above analysis focuses on the net assets (see Table 1). The District's net assets were \$3,174,456 at June 30, 2011 and \$3,767,433 at June 30, 2012. 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 District has restricted net assets. The remaining amount of net assets, (\$283,919 and \$612,976 in 2011 and 2012, respectively), were unrestricted.

The unrestricted net assets of governmental activities represent the accumulated results of all past years' operations. It means that if we had to pay off all of our bills today, including all of our non-capital liabilities, we would have \$283,919 and \$612,976 remaining at June 30, 2011 and 2012, respectively. The operating results of the District will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2012. Revenue and expense for fiscal year 2011 is also shown for comparison purposes.

TABLE 2

	<u>Governmental Activities</u>		<u>% Change</u>
	<u>June 30, 2011</u>	<u>June 30, 2012</u>	
Program Revenues:			
Charges for services	\$ 120,127	\$ 135,893	13.12%
Operating grants and contributions	898,867	1,199,448	33.44%
General Revenue			
Property taxes			
Levied- general purpose	3,334,543	3,391,995	1.72%
Levied for debt service	889,179	907,923	2.11%
Levied for sinking fund	147,409	157,319	6.72%
State School Aid- unrestricted	595,185	425,311	-28.54%
Grants and contributions- unrestricted	174,661	209,595	20.00%
Other	<u>27,768</u>	<u>20,937</u>	<u>-24.60%</u>
 Total Revenues	 <u>\$6,187,739</u>	 <u>\$6,448,421</u>	 <u>4.21%</u>
Functions/Program Expenses:			
Instruction	\$3,112,124	2,959,699	-4.90%
Support services	1,934,152	1,994,161	3.10%
Food Service	223,666	218,482	-2.32%
Other transactions	3,256	584	-82.06%
Interest on Long-Term Debt	270,713	260,211	-3.88%
Depreciation (unallocated)	<u>413,879</u>	<u>422,307</u>	<u>2.04%</u>
 Total Expenses	 <u>\$5,957,790</u>	 <u>\$5,855,444</u>	 <u>-1.72%</u>
 Increase in Net Assets	 229,949	 592,977	 157.87%
 Net assets, beginning of year	 <u>2,944,507</u>	 <u>3,174,456</u>	 <u>7.81%</u>
 Net assets, end of the year	 <u>\$3,174,456</u>	 <u>\$3,767,433</u>	 <u>18.68%</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$5,855,444. Certain activities were partially funded from those who benefited from the programs, such as food service and athletics, (\$135,893) or by other grants and contributions (\$1,199,448). We paid for the remaining “public benefit” portion of our governmental activities with \$3,391,995 in taxes, \$425,311 in State Aid and with our other revenues including interest and general entitlements.

The District experienced an increase in net assets. The key reason for the increase in net assets was due to the receipt of Federal Impact Aid monies. The Impact Aid program reimburses school districts for property taxes lost due to the taking of school district land by the Federal government. Other reasons for the change include technology purchases made from bond proceeds and upgrades made through the “sinking” fund rather than through the General Fund.

As discussed above, the net cost shows the financial burden that was placed on the State and the District’s taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of District operating revenue sources, the School Board and Administration must annually evaluate the needs of the District and balance those needs with State allocated available unrestricted resources.

The District’s Funds

As noted earlier, the District uses fund accounting to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District’s overall financial health. The District’s budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. The General Fund is the main operating fund of the District. All other funds would be used to account for the proceeds from specific revenue sources that are legally restricted to certain types of expenditures.

As the District completed this year, the general fund reported a fund balance of \$797,607, which is an increase of \$292,740 from the prior year. The primary reason for the increase was the receipt of multiple years of Impact Aid payment which were owed to the district.

Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with numerous changes in expected revenues and expenditures. The Uniform Budget Act of the State of Michigan requires that the Board of Education adopt a budget for the upcoming school year prior to July 1, which is the start of the new fiscal year. The District revised its budget two times during the fiscal year. Under normal circumstances, the District adjusts its budget to reflect a wide variety of Federal and State funding sources, many of which are not finalized until well after the District's original budget is required to be adopted. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations.

A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the general fund budget were as follows:

- More Federal Impact Aid was received than budgeted
- Some grants were higher and some lower than expected – both revenue and expenses were adjusted to match actual amount received
- More local taxes and less students meant less state aid
- State “best practices” and retirement offset were higher than planned
- Careful monitoring of the budget kept expenses within limits

Capital Asset and Debt Administration

Capital Assets

At June 30, 2012, the District had \$8,986,095 invested in a range of capital assets including buildings, furniture, equipment and vehicles summarized as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital Asset	\$14,618,009	\$ 103,750	\$(410,815)	\$14,310,944
Less: Accum. Depreciation	<u>(5,313,357)</u>	<u>(422,307)</u>	<u>410,815</u>	<u>(5,324,849)</u>
Total Capital Assets, Net	<u>\$ 9,304,652</u>	<u>\$(318,557)</u>	<u>\$ -</u>	<u>\$ 8,986,095</u>

Debt

At June 30, 2012, the District had \$6,457,823 debt owing.

Economic Factors and Next Year's Budgets and Rates

At the time these financial statements were prepared and audited, the District was aware of a number of circumstances that could significantly affect the financial health of Leland Public School District.

- The State of Michigan once again is proposing one time monies instead of an increase to the SFGA or student foundation grant allowance. The current SFGA listed for Leland Public School is equal to 2005-2006 funding levels although expenses have gone up drastically.
- An entitlement payment (Federal Impact Aid) of \$525,000 has been budgeted for 2012-2013. The uncertainty of the total amount and timing of the payment(s) make budgeting decisions very difficult. Although the money has been appropriated, it is not being distributed to the schools. Currently, Leland Public School is due payments for 2010, 2011, and 2012.
- The Michigan School Employees Retirement System rate is slated for reform although there are two decisions recently made by the court system that may change the program or timing of the reform which will likely increase the retirement rate to schools.

Contacting the School District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Sandy Thomas, Business Manager, at Leland Public School District, P.O. Box 498, Leland, MI 49654, Telephone (231) 256-9857, Fax (231) 256-9844.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Leland Public School

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Leland Public School** (the "School District") as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Leland Public School as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2012 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Dennis, Gartland & Niergarth

October 5, 2012

Leland Public School

STATEMENT OF NET ASSETS

June 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,615,802
Due from other governments	114,614
Prepays	28,333
Inventory	<u>7,944</u>
Total current assets	1,766,693
Capital assets, net of accumulated depreciation	<u>8,986,095</u>
Total assets	<u><u>\$ 10,752,788</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	\$ 527,532
Current portion of long-term liabilities	<u>680,656</u>
Total current liabilities	1,208,188
Non-current portion of long-term obligations	<u>5,777,167</u>
Total liabilities	<u>6,985,355</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,712,903
Restricted for	
Public Improvements	353,171
Debt Service	69,375
Food Service	19,008
Unrestricted	<u>612,976</u>
Total net assets	<u>3,767,433</u>
Total liabilities and net assets	<u><u>\$ 10,752,788</u></u>

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

Leland Public School

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Functions/Program	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 2,959,699	\$ -	\$ 1,112,263	\$ (1,847,436)
Supporting Services	1,994,161	16,977	-	(1,977,184)
Food Service	218,482	118,916	87,185	(12,381)
Other	584	-	-	(584)
Interest on long-term debt	260,211	-	-	(260,211)
Depreciation-unallocated	422,307	-	-	(422,307)
Total governmental activities	\$ 5,855,444	\$ 135,893	\$ 1,199,448	(4,520,103)
General purpose revenues				
Property taxes				
Levied for general purposes				3,391,995
Levied for Debt Service				907,923
Levied for Sinking Fund				157,319
State school aid - unrestricted				425,311
Grants and contributions not restricted to specific program				209,595
Investment and other				20,937
Total general purpose revenues				5,113,080
Change in net assets				592,977
Net assets, beginning of year				3,174,456
Net assets, end of year				\$ 3,767,433

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

Leland Public School

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2012

	General Fund	2010 Refunding and School Improvement Debt Retirement Fund	2009-2010 Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,107,481	\$ 88,092	\$ 306,775	\$ 113,454	\$ 1,615,802
Due from other governments	114,614	-	-	-	114,614
Prepaid expenses	28,333	-	-	-	28,333
Due from other funds	36,414	-	-	-	36,414
Inventory	940	-	-	7,004	7,944
	<u>1,287,782</u>	<u>88,092</u>	<u>306,775</u>	<u>120,458</u>	<u>1,803,107</u>
Total assets	<u>\$ 1,287,782</u>	<u>\$ 88,092</u>	<u>\$ 306,775</u>	<u>\$ 120,458</u>	<u>\$ 1,803,107</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenses	\$ 490,175	\$ -	\$ -	\$ 1,520	\$ 491,695
Due to other funds	-	-	5,533	30,881	36,414
	<u>490,175</u>	<u>-</u>	<u>5,533</u>	<u>32,401</u>	<u>528,109</u>
Total liabilities	<u>490,175</u>	<u>-</u>	<u>5,533</u>	<u>32,401</u>	<u>528,109</u>
FUND BALANCES					
Nonspendable	29,273	-	-	7,004	36,277
Restricted					
Food Service	-	-	-	12,004	12,004
Debt retirement	-	88,092	-	17,120	105,212
Capital projects	-	-	301,242	51,929	353,171
Committed					
Subsequent year expenditures	480,397	-	-	-	480,397
Assigned					
Employee leave liability	60,833	-	-	-	60,833
Early retirement incentive	123,798	-	-	-	123,798
Unassigned	103,306	-	-	-	103,306
	<u>797,607</u>	<u>88,092</u>	<u>301,242</u>	<u>88,057</u>	<u>1,274,998</u>
Total fund balances	<u>797,607</u>	<u>88,092</u>	<u>301,242</u>	<u>88,057</u>	<u>1,274,998</u>
Total liabilities and fund balances	<u>\$ 1,287,782</u>	<u>\$ 88,092</u>	<u>\$ 306,775</u>	<u>\$ 120,458</u>	

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

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$14,310,944 and the accumulated depreciation is \$(5,324,849).

8,986,095

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

	Bonds payable	\$ 6,505,000	
	Loans payable	3,981	
	Accrued interest on bonds	35,837	
	Unamortized bond refunding loss	(206,050)	
	Unamortized bond discount and issuance costs	(29,739)	
	Early retirement payable	123,798	
	Accumulated leave liability	60,833	<u>(6,493,660)</u>

Total net assets - governmental activities

\$ 3,767,433

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

Leland Public School

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

Year Ended June 30, 2012

	General Fund	2010 Refunding and School Improvement Debt Retirement Fund	2009-2010 Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 3,391,995	\$ 795,764	\$ -	\$ 269,478	\$ 4,457,237
Interest	15,710	3,946	544	737	20,937
State revenues	620,994	-	-	13,315	634,309
Federal revenues	916,580	-	-	73,870	990,450
Other	<u>226,572</u>	<u>-</u>	<u>-</u>	<u>118,916</u>	<u>345,488</u>
Total revenues	<u>5,171,851</u>	<u>799,710</u>	<u>544</u>	<u>476,316</u>	<u>6,448,421</u>
Expenditures					
Current					
Instruction	2,996,016	-	-	-	2,996,016
Supporting Services	1,859,006	-	-	-	1,859,006
Food Service	-	-	-	218,482	218,482
Other	-	434	-	150	584
Debt Service					
Principal	7,667	550,000	-	107,836	665,503
Interest	1,422	219,438	-	11,375	232,235
Capital outlay	<u>-</u>	<u>-</u>	<u>103,939</u>	<u>134,966</u>	<u>238,905</u>
Total expenditures	<u>4,864,111</u>	<u>769,872</u>	<u>103,939</u>	<u>472,809</u>	<u>6,210,731</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>307,740</u>	<u>29,838</u>	<u>(103,395)</u>	<u>3,507</u>	<u>237,690</u>
Other financing sources (uses)					
Operating transfers in	-	-	-	15,000	15,000
Operating transfers out	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(15,000)</u>
Total other financing sources (uses)	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	292,740	29,838	(103,395)	18,507	237,690
Fund balance, beginning of year	<u>504,867</u>	<u>58,254</u>	<u>404,637</u>	<u>69,550</u>	<u>1,037,308</u>
Fund balance, end of year	<u>\$ 797,607</u>	<u>\$ 88,092</u>	<u>\$ 301,242</u>	<u>\$ 88,057</u>	<u>\$ 1,274,998</u>

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

Leland Public School

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

Year Ended June 30, 2012

Total Net Change in Fund Balances - Governmental Funds \$ 237,690

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

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

Capital outlays	\$ 103,750	
Depreciation expense	<u>(422,307)</u>	(318,557)

In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time used was less than the amounts earned by \$6,743. Early retirement incentives earned were less than amounts paid by \$43,060.

36,317

Repayment of bond and loan principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

665,503

Net amortization of bond premium, discount and issuance costs

(6,381)

Amortization of bond refunding loss

(24,241)

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

2,646

Changes in Net Assets of Governmental Activities

\$ 592,977

Leland Public School

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>	<u>Total</u>
ASSETS			
Cash and investments	<u>\$ 61,344</u>	<u>\$ 71,161</u>	<u>\$ 132,505</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Due to student groups	\$ -	\$ 71,161	\$ 71,161
NET ASSETS			
Reserved for scholarships	<u>61,344</u>	<u>-</u>	<u>61,344</u>
Total liabilities and net assets	<u>\$ 61,344</u>	<u>\$ 71,161</u>	<u>\$ 132,505</u>

Leland Public School

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2012

	<u>Private Purpose Trust Funds</u>
Additions	
Contributions	\$ 18,900
Interest	<u>1,905</u>
Total additions	20,805
Deductions	
Scholarships awarded	<u>13,062</u>
Change in net assets	7,743
Net assets, beginning of year	<u>53,601</u>
Net assets, end of year	<u><u>\$ 61,344</u></u>

Leland Public School

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Leland Public School (the "School District") is a Michigan public school district consisting of one K-12 building. The School District also provides staff for St. Mary's School of Lake Leelanau. The School District primarily serves the Leland community. As of June 30, 2012, the School District employs 38 professional staff and 25 non-professional staff, and has 496 students enrolled within its School District.

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

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2012.

Financial Reporting Entity

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

District-Wide and Fund Financial Statements

District-Wide Financial Statements

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

Fund Financial Statements

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

The district-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

Fund Types and Major Funds

Activities in Major Funds

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

The 2010 Refunding and School Improvement Debt Retirement Fund is used to account for the accumulation of resources (property taxes) for, and the payment of, bond principal, interest and related costs.

The 2009-2010 Capital Projects Fund is used to account for financial resources (bond proceeds) to be used for the acquisition of equipment.

Other Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes. The Food Service Fund is a Special Revenue Fund that segregates, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of this fund.

The 2008-2009 Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of bond principal, interest and related costs.

The Infrastructure Fund is a capital project fund and is used to account for a sinking fund tax levy to be used for construction or repair of various School District property.

The Public Improvement Fund is a capital project fund and is used to account for financial resources to be used for the acquisition or construction of capital assets.

Fiduciary Funds

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

Cash and Equivalents

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

NOTES TO FINANCIAL STATEMENTS - Continued

Inventories

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

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 3 to 50 years. The School District generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

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

Buildings	50 years
Improvements, other than buildings	5 years
Buses and vehicles	7 years
Furniture and equipment	3-20 years

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

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

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

Fund Balance

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

Allocation of Expenses

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

The School District has elected to not allocate indirect expenses.

Use of Estimates in the Preparation of Financial Statements

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

Program Revenues

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

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

NOTE B - BUDGETARY POLICY AND PRACTICE

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2012, the School District was not in compliance with the Act as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Debt service	\$ -	\$ 9,089	\$ 9,089
Operating transfer out	9,000	15,000	6,000

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE C - CASH AND INVESTMENTS

At June 30, 2012, the School District's cash and cash equivalents include the following:

Bank deposits and cash on hand	\$ 223,078
Certificates of Deposit	36,502
Investment pools ("MILAF")	<u>1,488,727</u>
	<u>\$ 1,748,307</u>

Custodial Credit Risk - Deposits

In the event of a bank failure, the School District's deposits (including certificates of deposit) may not be returned to it. As of June 30, 2012, the School District's bank deposits were fully insured.

Investments

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

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.
7. Securities issued or guaranteed by agencies of the United States government.
8. Michigan Investment Liquid Asset Fund Plus ("MILAF")

The School District's investments have the following maturities:

Investment Type	Fair Value	Investment Maturities (in years)			
		Current	1-5	6-10	More than 10
Certificates of Deposit	\$ 36,502	\$ 9,800	\$ 26,702	\$ -	\$ -
Investment pools	<u>1,488,727</u>	<u>1,488,727</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,525,229</u>	<u>\$ 1,498,527</u>	<u>\$ 26,702</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

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

NOTES TO FINANCIAL STATEMENTS - Continued

Credit Risk

The School District's investment in the MILAF investment pool was rated AAAM by Standard and Poor's.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

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

During the fiscal year, \$10.9013 per \$1,000 of equalized non-principle residence property value of \$310 million was levied for general operating purposes. For debt service purposes, \$1.72 per \$1,000 of equalized homestead and non-homestead property value of \$517 million was levied for bonded debt repayments by the Debt Service Fund. For sinking fund purposes, \$0.30 per \$1,000 of equalized homestead and non-homestead property value of \$517 million was levied.

Intergovernmental Receivables and Deferred Revenue

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

Amounts due from other governments at June 30, 2012 are as follows:

Due from the State of Michigan - State Aid	\$ 112,620
Other	<u>1,994</u>
	<u><u>\$ 114,614</u></u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	June 30, 2011	Additions	Disposals	June 30, 2012
Buildings and improvements	\$11,040,114	\$ -	\$ -	\$11,040,114
Furniture and equipment	3,162,265	25,275	(410,815)	2,776,725
Buses and vehicles	<u>415,630</u>	<u>78,475</u>	<u>-</u>	<u>494,105</u>
Total depreciable assets	14,618,009	103,750	(410,815)	14,310,944
Less accumulated depreciation	<u>(5,313,357)</u>	<u>(422,307)</u>	<u>410,815</u>	<u>(5,324,849)</u>
Total capital assets, net	<u>\$ 9,304,652</u>	<u>\$ (318,557)</u>	<u>\$ -</u>	<u>\$ 8,986,095</u>

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

Unallocated	<u>\$ 422,307</u>
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NOTE F - LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended June 30, 2012 were as follows:

	Beginning Balance	New Debt	Payments	In-substance defeasance	Ending Balance	Current Portion
2010 Refunded general obligation and school improvement bonds	\$ 6,845,000	\$ -	\$ (550,000)	\$ -	\$ 6,295,000	\$ 570,000
2009 School technology and equipment bonds	310,000	-	(100,000)	-	210,000	105,000
Unamortized bond discount and issuance costs	(36,120)	-	6,381	-	(29,739)	(6,379)
Unamortized bond refunding loss	(230,291)	-	24,241	-	(206,050)	(24,241)
Bus loan	19,484	-	(15,503)	-	3,981	3,981
Accumulated leave liability	54,090	-	6,743	-	60,833	-
Early retirement incentives	<u>166,858</u>	<u>-</u>	<u>(43,060)</u>	<u>-</u>	<u>123,798</u>	<u>32,295</u>
Long-term liabilities	<u>\$ 7,129,021</u>	<u>\$ -</u>	<u>\$ (671,198)</u>	<u>\$ -</u>	<u>\$ 6,457,823</u>	<u>\$ 680,656</u>

Payments on general obligation bonds (including the 2008 and 2009 School technology and equipment bonds) are made by Debt Service Funds. The accumulated leave liability and early retirement payable will be liquidated primarily by the General Fund.

NOTES TO FINANCIAL STATEMENTS - Continued

At June 30, 2012, the School District's long-term debt consisted of the following:

\$6,845,000; 2010 Refunding and School Improvement Bonds; remaining installments due annually of \$550,000 to \$770,000 through May 1, 2021; remaining interest rates of 2.25% to 4.25%.	\$ 6,295,000
\$400,000; 2009 School Technology and Equipment Bonds; remaining installments due annually of \$100,000 to \$105,000 through May 1, 2014; remaining interest rates of 3.50% to 3.75%.	210,000
Note payable, secured by a bus purchased for \$71,720; due in monthly installments of \$1,337 through September 2012; interest rate of 4.35%.	3,981
Unamortized bond refunding loss	(206,050)
Unamortized bond discount and issuance costs	(29,739)
Accumulated leave liability	60,833
Early retirement payable	<u>123,798</u>
Total long-term liabilities	<u><u>\$ 6,457,823</u></u>

Total annual requirements to amortize bonds outstanding as of June 30, 2012 are as follows:

Years Ending June 30,	Principal	Interest
2013	\$ 675,000	\$ 214,937
2014	710,000	198,176
2015	730,000	179,112
2016	750,000	159,038
2017	770,000	136,538
2018 - 2022	<u>2,870,000</u>	<u>292,374</u>
	<u><u>\$ 6,505,000</u></u>	<u><u>\$ 1,180,175</u></u>

Total annual requirements to amortize loans outstanding as of June 30, 2012 are as follows:

Years Ending June 30,	Principal	Interest
2013	<u><u>\$ 3,981</u></u>	<u><u>\$ 29</u></u>

Interest expense for the year ended June 30, 2012 was \$260,211, and interest paid for the year ended June 30, 2012 was \$232,235.

Accumulated Leave Liability

As of June 30, 2012, a potential liability for sick pay of up to \$803,120 had accumulated to employees; this amount is not vested. However, as an employee becomes eligible for retirement, 10.0% of their sick pay balance plus FICA will be paid to them upon retirement if they have 10 years of service with the School District. The School District has used the retirement value method to estimate the probable amount to be paid.

Early Retirement Incentives

During the fiscal year ended June 30, 1998, the School District adopted an early retirement program. The net present value of early retirement incentives due to participants at June 30, 2012 is \$123,798.

Prior Year Defeasance of Debt

On December 16, 2010, the School District issued \$6,845,000 in 2010 Refunding and School Improvement Bonds with interest rates ranging from 2.25% to 4.25%, to advance refund \$6,155,000 of outstanding 2001 Building and Site and Refunding Bonds with an interest rate varying between 4.25% and 4.875%. The net proceeds of \$6,219,760 plus \$78,500 from Debt Service Funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the redemption of the \$6,155,000 outstanding 2001 Building and Site Refunding Bonds. The outstanding principal of the defeased bonds was \$5,665,000 at June 30, 2012.

NOTE G - RISK MANAGEMENT

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

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

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

Receivables and Payables

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

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds		
General Fund	\$ 36,414	\$ -
2009-2010 Capital Projects Fund	-	5,533
Other Governmental Funds		
Food Service Fund	-	18,929
Infrastructure Fund	-	11,952
	<u>\$ 36,414</u>	<u>\$ 36,414</u>

Transfers and Payments

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

The government-wide statement of activities eliminates transfers as reported within the segregated governmental activities columns.

NOTES TO FINANCIAL STATEMENTS - Continued

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

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Major Governmental Funds		
General Fund	\$ -	\$ 15,000
Other Governmental Funds		
Food Service Fund	<u>15,000</u>	<u>-</u>
	<u>\$ 15,000</u>	<u>\$ 15,000</u>

NOTE I - PENSION PLAN

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

Funding Policy

Plan members who participate in MIP are required to contribute 3.0% to 6.4% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the plan; and the School District is required to contribute at an actuarially determined rate using the individual entry age actuarial cost method. The rate, as a percentage of annual covered payroll, was 20.66% and 19.16%, dependent on entrance date, for the period July 1, 2011 to September 30, 2011, and 24.46% and 23.23%, dependent on entrance date, for the period October 1, 2011 to June 30, 2012, of annual covered payroll. The contribution requirements of plan members and the School District are established and may be amended by the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2012, 2011 and 2010 were \$628,542, \$529,175 and \$468,448, respectively, which is equal to the required contribution for each year.

Post-Employment Benefits

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

NOTE J - COMMITMENTS AND CONTINGENCIES

Capital Projects

The Infrastructure Fund records capital project activities funded with a Sinking Fund millage. For these funds, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

The 2009-2010 Capital Projects Fund accounts for activity related to acquiring and installing educational technology and other equipment. This project is funded with two bond issues after May 1, 1994. For these funds, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

The project for which the 2010 School Improvement Bonds were issued has not been completed as of June 30, 2012. The remaining fund balance in the Capital Projects Fund as of June 30, 2012, was \$301,242.

Federal and State Grants

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

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Leland Public School Education Association. The Board of Education and the Leland Public School Education Association have a contract through August 31, 2013.

The support personnel at the School District are organized under the Northern Michigan Education Association. The Board of Education and the Northern Michigan Education Association have a contract through August 31, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

Leland Public School

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variances - Positive (Negative)	
	Original	Final		Final	Final to Actual
Revenues					
Local and intermediate sources	\$ 3,404,174	\$ 3,623,879	\$ 3,407,705	\$ 219,705	\$ (216,174)
State revenues	646,640	520,213	620,994	(126,427)	100,781
Federal revenues	453,000	914,711	916,580	461,711	1,869
Other	38,088	66,287	226,572	28,199	160,285
Total revenues	4,541,902	5,125,090	5,171,851	583,188	46,761
Expenditures					
Instruction	2,980,087	3,037,135	2,996,016	(57,048)	41,119
Supporting services	1,822,604	1,873,708	1,859,006	(51,104)	14,702
Debt service	-	-	9,089	-	(9,089)
Total expenditures	4,802,691	4,910,843	4,864,111	(108,152)	46,732
REVENUES OVER (UNDER) EXPENDITURES	(260,789)	214,247	307,740	475,036	93,493
Other financing uses					
Operating transfers out	-	(9,000)	(15,000)	(9,000)	(6,000)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(260,789)	205,247	292,740	466,036	87,493
Fund balance, beginning of year	449,262	504,867	504,867	55,605	-
Fund balance, end of year	\$ 188,473	\$ 710,114	\$ 797,607	\$ 521,641	\$ 87,493

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

Leland Public School

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2012

	Special Revenue Funds	Debt Service Fund	Capital Project Funds			Total Non-Major Governmental
	Food Service	2008-2009 Debt Retirement	Infrastructur e Fund	Public Improvement	Total	
ASSETS						
Cash and cash equivalents	\$ 32,453	\$ 17,120	\$ 63,881	\$ -	\$ 63,881	\$ 113,454
Inventory	<u>7,004</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,004</u>
Total assets	<u><u>\$ 39,457</u></u>	<u><u>\$ 17,120</u></u>	<u><u>\$ 63,881</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 63,881</u></u>	<u><u>\$ 120,458</u></u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable and accrued expenses	\$ 1,520	\$ -	\$ -	\$ -	\$ -	\$ 1,520
Due to other funds	<u>18,929</u>	<u>-</u>	<u>11,952</u>	<u>-</u>	<u>11,952</u>	<u>30,881</u>
Total liabilities	<u>20,449</u>	<u>-</u>	<u>11,952</u>	<u>-</u>	<u>11,952</u>	<u>32,401</u>
FUND BALANCES						
Nonspendable	7,004	-	-	-	-	7,004
Restricted						
Food service	12,004	-	-	-	-	12,004
Debt retirement	-	17,120	-	-	-	17,120
Capital projects	<u>-</u>	<u>-</u>	<u>51,929</u>	<u>-</u>	<u>51,929</u>	<u>51,929</u>
Total fund balances	<u>19,008</u>	<u>17,120</u>	<u>51,929</u>	<u>-</u>	<u>51,929</u>	<u>88,057</u>
Total liabilities and fund balances	<u><u>\$ 39,457</u></u>	<u><u>\$ 17,120</u></u>	<u><u>\$ 63,881</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 63,881</u></u>	<u><u>\$ 120,458</u></u>

Leland Public School

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

Year Ended June 30, 2012

	Special Revenue Fund	Debt Service Fund	Capital Project Funds			Total Non-Major Governmental
	Food Service	2008-2009 Debt Retirement	Infrastructure Fund	Public Improvement	Total	
Revenues						
Property taxes	\$ -	\$ 112,159	\$ 157,319	\$ -	\$ 157,319	\$ 269,478
Interest	26	557	149	5	154	737
State revenues	13,315	-	-	-	-	13,315
Federal revenues	73,870	-	-	-	-	73,870
Other	118,916	-	-	-	-	118,916
Total revenues	206,127	112,716	157,468	5	157,473	476,316
Expenditures						
Food Service	218,482	-	-	-	-	218,482
Debt Service						
Principal	-	100,000	-	7,836	7,836	107,836
Interest	-	11,375	-	-	-	11,375
Other	-	150	-	-	-	150
Capital outlay	1,521	-	133,445	-	133,445	134,966
Total expenditures	220,003	111,525	133,445	7,836	141,281	472,809
REVENUES OVER (UNDER) EXPENDITURES	(13,876)	1,191	24,023	(7,831)	16,192	3,507
Other financing sources						
Operating transfers in	15,000	-	-	-	-	15,000
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	1,124	1,191	24,023	(7,831)	16,192	18,507
Fund balance, beginning of year	17,884	15,929	27,906	7,831	35,737	69,550
Fund balance, end of year	<u>\$ 19,008</u>	<u>\$ 17,120</u>	<u>\$ 51,929</u>	<u>\$ -</u>	<u>\$ 51,929</u>	<u>\$ 88,057</u>

FEDERAL PROGRAMS

Leland Public School

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2011	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2012
United States Department of Education							
Direct grants							
REAP Grant	84.358A	\$ 38,849	\$ -	\$ -	\$ 38,849	\$ 38,849	\$ -
Title VIII - Impact Aid	84.041	802,179	-	-	802,179	802,179	-
Passed through Michigan Department of Education							
Title I, Part A Cluster 121530-1112	84.041	50,250	-	-	50,250	50,250	-
Title IIA - Improving Teacher Quality 120520-1112	84.367	18,775	-	-	18,775	18,775	-
Education Jobs Fund							
112545-1112	84.410A	6,319	-	-	6,319	6,319	-
Total passed through Michigan Department of Education		75,344	-	-	75,344	75,344	-
Passed through Traverse Bay Area ISD							
Special Education Cluster Transition Grant	84.027	-	-	-	208	208	-
Total U.S. Department of Education		916,372	-	-	916,580	916,580	-

Leland Public School

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue July 1, 2011	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2012
United States Department of Agriculture Nutrition Cluster Passed Through Michigan Department of Education National School Lunch Program							
1950-All Lunches	10.555	-	1,725	11,744	1,725	-	-
1960-Free and Reduced	10.555	-	8,061	52,496	52,215	44,154	-
USDA Bonus Commodities	10.555	-	-	2,097	1,898	1,898	-
USDA Entitlement Commodities	10.555	-	-	12,956	10,049	10,049	-
		-	9,786	79,293	65,887	56,101	-
1970-Breakfast	10.553	-	3,288	19,361	21,057	17,769	-
Total Nutrition Cluster		-	13,074	98,654	86,944	73,870	-
Total Federal Financial Assistance		\$ 916,372	\$ 13,074	\$ 98,654	\$ 1,003,524	\$ 990,450	\$ -

Leland Public School

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2012

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



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

Board of Education
Leland Public School

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Leland Public School** (the "School District") as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 5, 2012. 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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1 and 2012-2 to be material weaknesses.

Compliance and Other Matters

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

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

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

Dennis, Gartland & Niergarth

October 5, 2012



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

Board of Education
Leland Public School

Compliance

We have audited the compliance of **Leland Public School** (the "School District") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement*, that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012. The School District's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, Leland Public School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

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

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

Dennis, Gartland & Niergarth

October 5, 2012

Leland Public School

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2012

PRIOR YEAR

Findings 2011-1 and 2011-2 are repeated this year in Section 2 as Findings 2012-1 and 2012-2.

CURRENT YEAR

Section 1 - Summary of Auditors' Results

1. The auditor's report represents an unqualified opinion on the financial statements of Leland Public School.
2. There were two material weaknesses in internal control reported as a result of the audit of the financial statements. See Section 2 - Findings in Accordance with Governmental Auditing Standards.
3. There were no compliance findings disclosed that were material to the School District's financial statements.
4. The auditor's report does not disclose any reportable conditions in internal control over major programs.
5. The report over compliance for major programs was unqualified.
6. There were no audit findings relative to major programs that are required to be reported.
7. The School District's major program was Title VIII - Impact Aid (CFDA No. 84.041).
8. The dollar threshold for distinguishing between Type A and Type B programs was \$300,000.
9. Leland Public School did not qualify as a low risk auditee.

Section 2 - Findings in Accordance with Governmental Auditing Standards

Finding Number 2012-1

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

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

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

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

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

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

Finding Number 2012-2

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

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

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

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

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

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

No findings or questioned costs.