BURT TOWNSHIP SCHOOL DISTRICT #2
GRAND MARAIS, MICHIGAN

FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

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ANDERSON, TACKMAN & COMPANY, P.L.C.
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INDEPENDENT AUDITORS' REPORT

Board of Education
Burt Township School District #2
Grand Marais, Michigan 49839

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Burt Township School District #2, Grand Marais, Michigan, as of and for the year ended June 30, 2005, 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'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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of Burt Township School District #2, Grand Marais, Michigan as of June 30, 2005, and the respective changes in financial position where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 5 through 10 and pages 31 and 32 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards,* we have also issued a separate report to management dated September 16, 2005 on our consideration of the Burt Township School District #2 internal control over financial reporting and our tests of its compliance with certain provision 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 the 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.

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Board of Education
Burt Township School District #2
Grand Marais, Michigan 49839

Our audit was performed for the purpose of forming an opinion on the basic financial statements that collectively comprise Burt Township School District #2 basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Anderson, Tackman & Company, PLC
Certified Public Accountants

September 16, 2005

Burt Township School District #2

Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of Burt Township School District #2 financial performance provides an overview of the School District's financial activities for the year ended June 30, 2005. Please read it in conjunction with the financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- Net assets for Burt Township School District #2 as a whole were reported at $387,991. Nets assets are comprised of 100% governmental activities.

- During the year, Burt Township School District #2 expenses were $945,128, while revenues from all sources totaled $991,116, resulting in an increase in net assets of $45,988.

- The general fund reported an increase of $40,901 before other financing sources (uses) and a total decrease of $12,554. This is $121,950 less than the forecasted decrease of $134,504. This was a result of revenues being $92,829 higher than forecasted and expenses and transfers out being $29,121 lower than forecasted.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Burt Township School District #2 financially as a whole. The *District-wide Financial Statements* Statement of Net Assets and the Statement of Activities (on pages 11 and 12) provide information about the activities the School District as a whole and present a longer-term view of those finances. The fund financial statements present the next level of detail and start on page 13. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The fund financial statements also report the School District's operations in more detail than the district-wide statements by providing information about the School District's most significant fund – the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

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

Our analysis of the Burt Township School District #2 as a whole begins on page 6. One of the most important questions asked about the School District's finances is "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – *Fund Financial Statements*
Our analysis of the School District's major funds begins on page 8. The fund financial statements begin on page 13 and provide detailed information on the most significant funds – not the School District as a whole. Some funds are required to be established by State law, and by bond covenants. However, the School District's Board has established other funds to help it control and manage money for particular purposes. The School District's two kinds of funds - *governmental* and *proprietary* – use the following accounting methods.

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

- *Proprietary funds* –The School District does not have any Proprietary funds.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities
The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

The School District as a Whole
Table 1 provides a summary of the School District's net assets as of June 30, 2005 and 2004:

Table 1
Net Assets

	Governmental Activities - 2005	Governmental Activities - 2004
Current and other assets	$379,893	$328,460
Capital assets, net	74,411	58,869
Total Assets	454,304	387,329
Current liabilities	66,313	45,326
Long-term liabilities	-	-
Total Liabilities	66,313	45,326
Net Assets:		
Invested in capital assets, net of related debt	74,411	58,869
Restricted	-	-
Unrestricted	313,580	283,134
Total Net Assets	$387,991	$342,003

The School District's net assets were $387,991 at June 30, 2005. Capital assets, net of related debt totaling $74,411, compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accreted interest on capital appreciation bonds, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets of $313,580 was unrestricted.

The $313,580 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal years 2005 and 2004.

Table 2
Changes in Net Assets

	Governmental Activities - 2005	Governmental Activities - 2004
Revenues:		
Program revenues:		
Charges for services	$ 6,052	$ 7,934
Operating grants and contributions	109,741	104,727
General revenues:		
Property taxes	373,106	347,394
State sources not restricted to specific program	491,197	229,983
Investment earnings	6,944	5,188
Miscellaneous	4,076	6,543
Total Revenues	991,116	701,769
Program Expenses:		
Instruction	549,888	411,461
Supporting services	329,330	255,156
Other governmental units	835	1,226
Community services	-	1,916
Food service activities	37,284	39,424
Athletic activities	13,577	11,169
Depreciation – unallocated	14,214	17,051
Interest on long-term debt	-	593
Total Expenses	945,128	737,996
Increase (decrease) in net assets	45,988	(36,227)
Net assets, beginning	342,003	378,230
Net Assets, Ending	$ 387,991	$ 342,003

As reported in the Statement of Activities, the cost of all of our governmental activities this year was $945,128.

The School District experienced an increase in net assets for the year of $45,988. The key change in the net assets was the result of an increase of the School District's State revenue.

Table 3 presents the cost of each of the School District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the School District's operation.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	$549,888	$460,075
Supporting services	329,330	329,330
Food service activities	37,284	14,686
Totals	$916,502	$804,091

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

The School District's Funds

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

As the School District completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of $313,580, an increase of $30,446 from the beginning of the year. The change in the combined fund balance was a result of increased State appropriations.

General Fund Budgetary Highlights

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

BUDGETED REVENUES:

General Fund Revenues changed from Original to Final Budget during the year as follows:

	Original Budget	Final Budget	Budget Variance	
			Amount	Percent
Total	$ 695,610	$ 858,176	$ 162,566	23.4%

Burt Township School's final budgeted revenues differed from the original budget as follows:

- By $162,566 or 23.4%

The significant increase in the budgeted revenue can be attributed mainly to Grants ($57,958). Grants are recognized on Burt's financial statements once Burt receives formal notice of award and approval from the state. Hence, no grants were awarded at the time of the original budget whereas all grants were awarded and approved by the time of the final budget. Also, the final budgets include grant revenues that will be utilized in the next fiscal year. The District budgeted the entire grant awarded by the grantors, even if the grants were to be eligible for carryover in the next fiscal year. Another contributing factor was State Aid ($84,813), which was adjusted based on information that came available over the course of the year.

BUDGETED EXPENDITURES

General Fund Expenditures changed from the Original to Final budget during the year as follows:

	Original Budget	Final Budget	Budget Variance	
			Amount	Percent
Total	$ 752,921	$ 993,259	$ 180,338	24.0%

Burt Township School's final budgeted expenditures differed from the original budget as follows:

- By $180,338 or 24.0%

The significant increase in the budgeted expenditures can be attributed partially to Grants ($57,958). Grants are recognized on Burt's financial statements once Burt receives formal notice of award and approval from the state. Hence, no grants were awarded at the time of the original budget whereas all grants were awarded and approved by the time of the final budget. Also, the final budgets include grant expenditures that will be expended in the next fiscal year. The District budgeted the entire grant awarded by the grantors, even if the grants were to be eligible for carryover in the next fiscal year. Also, during the course of the year, Burt's School Board approved additional budgeted amounts for Building and Site improvements necessary to maintain the school facility ($43,000).

ACTUAL REVENUES:

The General Fund Actual Revenues differed from the Final Budget as follows:

	Actual	Final Budget	Variance	
			Amount	Percent
Total	$ 950,954	$ 858,176	$ 92,778	10.8%

Burt Township School's final budgeted revenues differed from the actual revenues as follows:

- By $92,778 or 10.8% more than the final budget.

The significant variance in revenue can be attributed mainly to State Aid ($87,664). This was due to actual state aid being more than anticipated.

ACTUAL EXPENDITURES

General Fund Actual Expenditures differed from the Final budget as follows:

	Actual	Final Budget	Variance	
			Amount	Percent
Total	$ 910,303	$ 933,259	$ 23,206	2.5%

Burt Township School's final budgeted expenditures differed from the actual expenditures as follows:

- By $23,206 or 2.5% less than the final budget.

The significant variance in expenditures can be attributed mainly to a decrease in elementary and secondary education expenses ($14,384).

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005 and 2004, the School District had $113,710 and $136,408, respectively, invested in a variety of capital assets including land, buildings, and buses. (See table 4 below)

Table 4
Capital Assets at Year-End

		Governmental Activities – 2005	Governmental Activities – 2004
Buses		$113,710	$136,408
Less accumulated depreciation		(39,299)	(77,539)
	Totals	$ 74,411	$ 58,869

There was one current year school bus addition. We anticipate capital additions for the 2005-2006 fiscal year will be comparable to the 2004-2005 fiscal year. Depreciation expense for the current year was $14,214.

Debt

There were no new additions to debt this year. At the end of this year, the School District had no bonds outstanding. We present more information about our long-term debt in the notes to the financial statements.

Economic Factors and Next Year's Budgets

Our elected officials and administration consider many factors when setting the School District's fiscal year 2005 budget. One of the most important factors affecting the budget is the collection of local property taxes. Local property taxes account for approximately 40 percent of our revenue.

The collection of revenues by the State can also affect the School District's general operation budget as it did in 2005. School districts throughout the state must adjust their budgets if the State decreases the per pupil foundation grant or categorical funding during its fiscal year. While we are optimistic about the 2005-06 school year, the state of the economy on a state and national level will be reflected in our budget.

Contacting the School District's Financial Management

This financial report is designated to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Burt Township School District #2, P.O. Box 338, Grand Marais, MI 49839

Burt Township School District #2
Statement of Net Assets
June 30, 2005

	Governmental Activities
ASSETS:	
Current assets:	
Cash and cash equivalents	$ 206,617
Receivables:	
Due from other governmental units	171,422
Due from other funds	962
Inventories	892
TOTAL CURRENT ASSETS	379,893
Non-current assets:	
Capital assets	113,710
Less accumulated depreciation	(39,299)
TOTAL NON-CURRENT ASSETS	74,411
TOTAL ASSETS	454,304
LIABILITIES:	
Current liabilities:	
Accounts payable	24,855
Accrued payroll and other liabilities	39,497
Due to other funds	961
Deferred revenue	1,000
Current portion of long term debt obligations	-
TOTAL CURRENT LIABILITIES	66,313
Non-current liabilities:	
Non-current portion of employee benefit obligations	-
Non-current portion of long term debt obligations	-
TOTAL NON-CURRENT LIABILITIES	-
TOTAL LIABILITIES	66,313
NET ASSETS:	
Invested in capital assets net of related debt	74,411
Restricted:	
Debt Service	-
Unrestricted	313,580
TOTAL NET ASSETS	$ 387,991

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

Burt Township School District #2

Statement of Activities

For the Year Ended June 30, 2005

Function / Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:					
Instruction	$ 549,888	$ -	$ 89,813	$ -	$ (460,075)
Supporting services	329,330	-	-	-	(329,330)
Payments to other governmental agencies	835	-	-	-	(835)
Facilities acquisitions	-	-	-	-	-
Food service activities	37,284	2,670	19,928	-	(14,686)
Athletic activities	13,577	3,382	-	-	(10,195)
Interest on retirement of debt	-	-	-	-	-
Depreciation - unallocated	14,214	-	-	-	(14,214)
TOTAL GOVERNMENTAL ACTIVITIES	$ 945,128	$ 6,052	$ 109,741	$ -	(829,335)

General revenues:	
Taxes	
Property taxes, levied for general purposes	373,106
Property taxes, levied for debt services	-
Federal and State aid not restricted to specific purposes	
General	491,197
Interest and investment earnings	6,944
Miscellaneous	4,076
Transfers	-
TOTAL GENERAL REVENUES AND TRANSFERS	875,323
CHANGES IN NET ASSETS	45,988
Net Assets , July 1	342,003
NET ASSETS, JUNE 30	$ 387,991

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

Burt Township School District #2

Governmental Funds

Balance Sheet

June 30, 2005

	General Fund	Capital Projects Fund	Non-Major Governmental Funds	Total
ASSETS:				
Cash and cash equivalents	$ 163,518	$ 43,000	$ 99	$ 206,617
Due from other governmental units	171,077	-	345	171,422
Due from other funds	962	-	-	962
Inventories	-	-	892	892
TOTAL ASSETS	$ 335,557	$ 43,000	$ 1,336	$ 379,893
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	$ 24,611	$ -	$ 244	$ 24,855
Accrued liabilities	39,366	-	131	39,497
Due to other fund	-	-	961	961
Deferred revenue	1,000	-	-	1,000
TOTAL LIABILITIES	64,977	-	1,336	66,313
FUND BALANCES:				
Reserved for:				
School service activities	-	-	-	-
Retirement of debt	-	-	-	-
Unreserved:				
Undesignated	270,580	43,000	-	313,580
TOTAL FUND BALANCES	270,580	43,000	-	313,580
TOTAL LIABILITIES AND FUND BALANCES	$ 335,557	$ 43,000	$ 1,336	$ 379,893

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

Burt Township School District #2

Governmental Funds

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2005

Total Fund Balances for Governmental Funds		$	313,580
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.			
Cost of capital assets	113,710		
Accumulated depreciation	(39,299)		
			74,411
Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of:			
Bonds payable - current	-		
Bonds payable - long term	-		
Employee benefits payable	-		
			-
NET ASSETS OF GOVERNMENTAL ACTIVITIES		**$**	**387,991**

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

Burt Township School District #2

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2005

	General Fund	Capital Projects Fund	Non-Major Governmental Funds	Total
REVENUES:				
Property taxes	$ 373,106	$ -	$ -	$ 373,106
Federal sources	58,142	-	17,966	76,108
State Aid	503,867	-	1,962	505,829
Local sources	8,895	-	6,052	14,947
Interest	6,944	-	-	6,944
TOTAL REVENUES	950,954	-	25,980	976,934
EXPENDITURES:				
Current:				
Instruction	549,888	-	-	549,888
Supporting services	359,330	-	-	359,330
Payments to other governmental agencies	835	-	-	835
Food service activities	-	-	37,284	37,284
Athletic activities	-	-	13,577	13,577
TOTAL EXPENDITURES	910,053	-	50,861	960,914
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	40,901	-	(24,881)	16,020
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)	(67,881)	43,000	24,881	-
Special education	10,231	-	-	10,231
Trust Fund - transfer	1,695	-	-	1,695
Sale of assets	2,500	-	-	2,500
TOTAL OTHER FINANCING SOURCES (USES)	(53,455)	43,000	24,881	14,426
NET CHANGE IN FUND BALANCES	(12,554)	43,000	-	30,446
Fund Balance, July 1	283,134	-	-	283,134
FUND BALANCE, JUNE 30	$ 270,580	$ 43,000	$ -	$ 313,580

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

Burt Township School District #2

Governmental Funds

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

For the Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds		$	30,446
Amounts reported for governmental activities in the statement of activities are different because:			
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 as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.			
Depreciation expense	(14,214)		
Capital outlays - supporting services	30,000		
Gain (Loss) on disposal of fixed assets	(244)		15,542
Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets.			-
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.			-
Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			
Change in sick and vacation leave - (support services)	-		
Change in sick and vacation leave- (instruction)	-		-
Change in Net Assets of Governmental Activities		$	45,988

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

Burt Township School District #2
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2005

		Private-Purpose Trust
ASSETS:		
Cash and equivalents	$	21,610
Accounts receivable		-
Investments		-
TOTAL ASSETS		21,610
LIABILITIES:		
Accounts payable		-
Due to other funds		-
TOTAL LIABILITIES		-
NET ASSETS:		
Reserved for scholarships		21,610
TOTAL NET ASSETS	$	21,610

See Notes to Financial Statements.

Burt Township School District #2
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2005

	Private-Purpose Trust
ADDITIONS:	
Private sources contributions	$ -
Interest	556
Other sources	1,000
TOTAL ADDITIONS	1,556
DEDUCTIONS:	
Scholarships awarded	1,053
Transfers out - General Fund	1,695
TOTAL DEDUCTIONS	2,748
CHANGE IN NET ASSETS	(1,192)
Net assets, July 1, as restated	22,802
NET ASSETS, JUNE 30	$ 21,610

See Notes to Financial Statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Burt Township School District #2 conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the more significant policies:

Reporting Entity

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the School District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of these criteria, the financial statements of the Burt Township School District #2 contain all the funds and account groups controlled by the District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District nor is the School District a component unit of another entity.

BASIS OF PRESENTATION

District-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through State sources, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. All of the School District's district-wide activities are considered to be governmental activities.

Fund Financial Statements:

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The School District reports the General Fund as its only major governmental fund in accordance with the above criteria. The funds of the School District are described below:

Governmental Funds

General Fund - The General Fund is the main operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects), such as the School Service and Athletics Funds.

Debt Retirement Funds - The Debt Retirement Funds are used to account for the accumulation of resources such as taxes, state aid and interest revenue for the payment of general long-term debt principal, interest, and related costs.

Capital Projects Fund - Capital Projects Funds are used to record bond proceeds or other revenue to be used for the acquisition or construction of major capital facilities or other capital assets, including equipment.

Fiduciary Funds

Private Purpose Trust Fund - The Private Purpose Trust Fund is used to account for the granting of scholarships and awards to qualified students.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the district-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (b) below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Basis of Accounting

In the district-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

Cash and Equivalents
The School District cash and cash equivalents as reported in the Statement of Net Assets are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with maturities of three months or less.

Investments
Investments are carried at market value.

Receivables
All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due From and To Other Funds
Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Inventory
The School District utilizes the consumption method of recording inventories of materials and food supplies. Under the consumption method, inventories are recorded as expenditures when they are used. The inventory is valued at the lower of cost (first-in, first-out) or market.

Capital Assets
Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than $5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

The School District does not have infrastructure-type assets.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 20 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the district-wide financial statements.

Long-Term Debt
in the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the district-wide statements.

Compensated Absences
The School District' policies regarding compensated absences permits employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.

Deferred Revenues
In the district-wide statements, deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable.

Equity Classification
District-Wide Statements

Equity is classified as net assets and displayed in three components:

a. Invested in Capital Assets, Net of Related Debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

b. Restricted Net Assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.

c. Unrestricted Net Assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate.

Revenues

District-Wide Statements

In the district-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

Fund Statements

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District's policy to use the restricted resources first.

Property Taxes
Property tax revenue is recognized in the year for which taxes have been levied, provided they are available to finance expenditures of the current period.

Expenses/Expenditures

District-Wide Statements

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity
As a general rule, the effect of interfund activity has been eliminated from the district-wide statements. Exceptions to this rule are (1) activities between funds reported as governmental activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Interfund receivables and payables have been eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting

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

a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

b. Public hearings are conducted to obtain taxpayer comments.

c. Prior to July 1, the budget is approved by the Board of Education.

d. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Education.

e. All annual appropriations lapse at fiscal year end.

Use of Estimates

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – DEPOSITS AND INVESTMENTS:

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and equivalents	$206,617	$21,610	$228,227

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 to it. State law does not require and the District does not have a deposit policy for custodial credit risk. As of June 30, 2005, $247,537 of the District's bank balance of $26,537 was exposed to custodial credit risk as being uninsured and uncollateralized.

NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governmental units consist of various revenues due from federal and state sources for the operation of special programs and grant projects.

NOTE D – INTERFUND TRANSFERS IN AND TRANSFERS OUT:

The transfers between funds for the year ended June 30, 2005 are as follows:

Fund	Transfer Out	Fund	Transfer In
General	$67,881	Athletics	$ 10,195
		School Service	14,686
		Capital projects	43,000
Total	$67,881	Total	$67,881

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE E – CAPTIAL ASSETS:

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

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
Capital assets not being depreciated:				
School buses	$136,408	$62,472	$85,170	$113,710
Total Capital Assets	136,408	62,472	85,170	113,710
Less accumulated depreciation:				
School buses	77,539	14,214	52,454	39,299
Total Accumulated Depreciation	77,539	14,214	52,454	39,299
CAPITAL ASSETS, NET	$ 58,869	$48,258	$32,716	$74,411

Depreciation expense charged to governmental activities was $14,214.

NOTE F – LONG-TERM DEBT:

A summary of changes in long-term debt for the year ended June 30, 2004 is as follows:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
Installment loan payable	$ -	$ -	$ -	$ -

NOTE G – FOUNDATION REVENUE AND CONTINGENCY RECEIVABLE AND PAYABLE:

For the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state wide formula. In previous years, the state utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenue from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on the average of pupil membership counts taken in February and October of 2004.

NOTE G – FOUNDATION REVENUE AND CONTINGENCY RECEIVABLE AND PAYABLE (Continued):

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2004 – August 2005. The local revenue is recognized as outlined in Note A – Property Taxes.

The taxable value of real and personal property, which represents approximately 50% of the estimated current value, located in the District for the 2004 tax year, totaled $28,236,826 (consisting of $8,099,823 for Homestead and $20,137,003 for Non-Homestead). The tax levy for the year was based on a rate of 18 mills on the non-homestead property (one mill is equal to $1.00 per $1,000 of taxable value) and is remitted to the District's general fund by the taxing unit.

NOTE H – EXCESS OF ACTUAL EXPENDITURES OVER BUDGET IN INDIVIDUAL FUNDS:

The following funds had an excess of actual expenditures over appropriations for the year ended June 30, 2005:

	Excess Expenditures
General Fund:	
Career and technical education	$ 40
Operations and maintenance	2,854

NOTE I – EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN:

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPSERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service. The MPSERS also provides death, disability, health, medical, dental, vision and hearing insurance coverage. Benefits are established by state statute.

NOTE I – EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued):

The District was required by state statute to contribute 12.99% of covered compensation to the Plan through September 30, 2004 and 14.87% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2005 was $79,966 which consisted of $66,644 from the District and $13,323 from employees electing the MIP option. These represent approximately 15% and 3% of covered payroll, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2005 was approximately $455,974. The District's total payroll was approximately $491,931.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. MPSERS' issues a publicly available financial report that includes financial statements and required supplementary information for the system. More information may be obtained by writing MPSERS at MPSERS, P.O. Box 30673, Lansing, Michigan 48909-8173.

NOTE J – CONTINGENT LIABILITIES:

Grant Assistance
The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

Risk Management
The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages these risks by purchasing commercial insurance and/or by participating in public entity risk pools.

The District pays annual premiums to the risk pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies. The District is unable to provide an estimate of the amounts of additional assessments, if any, which are required to make the pool self-sustaining; however, they believe any amount would be insignificant. The District's general liability coverage is $25,000 per occurrence and $1,000.000 in the aggregate.

The District estimates that the amount of actual or potential claims, if any, against the District as of June 30, 2005, not covered by insurance are not material to the general purpose financial statement. Therefore, no provision for estimated claims is recognized.

NOTE K – ECONOMIC DEPENDENCY:

The School District receives approximately 52 percent of its revenues through State and Federal sources to be used for providing elementary and secondary education to the students of Burt Township School District #2.

NOTE L – PRIVATE PURPOSE TRUST:

Three funds are considered to be the property of the various groups and not the District. The George Spaulding Library Fund corpus is to be retained, with the income restricted to library use. The Dr. J.R. Boland Scholarship Fund and the James and Robin Henderson Scholarship Fund corpus are to be retained with the income awarded as a scholarship to a worthy student.

NOTE L – PRIVATE PURPOSE TRUST (Continued):

These funds were reclassified as a Private Purpose Trust Fund type from an Agency Fund type in the prior year. The agency balance was restated from $24,807 to $22,807 as a result of corrections made to investment balances.

REQUIRED SUPPLEMENTAL INFORMATION

Burt Township School District #2

General Fund

Budgetary Comparison Schedule

For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local sources	$ 364,220	$ 384,015	$ 388,945	$ 19,795	$ 4,930
State sources	331,390	416,203	503,867	84,813	87,664
Federal sources	-	57,958	58,142	57,958	184
TOTAL REVENUES	695,610	858,176	950,954	162,566	92,778
EXPENDITURES:					
Instruction:					
Basic programs	409,353	499,194	484,810	(89,841)	14,384
Added needs	37,629	70,676	65,078	(33,047)	5,598
Total Instruction	446,982	569,870	549,888	(122,888)	19,982
Supporting Services:					
Pupil services	175	180	180	(5)	-
Instructional staff	8,158	7,801	7,209	357	592
General administration	130,037	173,063	170,356	(43,026)	2,707
Business support	6,275	9,000	7,907	(2,725)	1,093
Operation and maintenance	73,566	102,603	105,457	(29,037)	(2,854)
Pupil transportation	86,478	69,892	68,221	16,586	1,671
Total Supporting Services	304,689	362,539	359,330	(57,850)	3,209
Payments to Other Governmental Agencies					
Pmts to other governmental units	1,250	850	835	400	15
Total Payments to Other Government Agencies	1,250	850	835	400	15
TOTAL EXPENDITURES	752,921	933,259	910,053	(180,338)	23,206
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(57,311)	(75,083)	40,901	(17,772)	115,984
OTHER FINANCING SOURCES (USES)					
Special education	14,000	10,200	10,231	(3,800)	31
Trust Fund	-	1,675	1,695	1,675	20
Sale of assets	-	2,500	2,500	2,500	-
Operating transfers out	(21,425)	(73,796)	(67,881)	(52,371)	5,915
TOTAL OTHER FINANCING SOURCES (USES)	(7,425)	(59,421)	(53,455)	(51,996)	5,966
NET CHANGE IN FUND BALANCE	(64,736)	(134,504)	(12,554)	(69,768)	121,950
Fund Balance, July 1	283,134	283,134	283,134	-	-
FUND BALANCE, JUNE 30	$ 218,398	$ 148,630	$ 270,580	$ (69,768)	$ 121,950

Burt Township School District #2

Capital Projects Fund

Budgetary Comparison Schedule

For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local sources	$ -	$ -	$ -	$ -	$ -
State sources	-	-	-	-	-
Federal sources	-	-	-	-	-
TOTAL REVENUES	-	-	-	-	-
EXPENDITURES:					
Capital outlay	-	-	-	-	-
TOTAL EXPENDITURES	-	-	-	-	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	-	-	-
OTHER FINANCING SOURCES (USES)					
General Fund - transfer in	-	43,000	43,000	43,000	-
Operating transfers out	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	43,000	43,000	43,000	-
NET CHANGE IN FUND BALANCE	-	43,000	43,000	43,000	-
Fund Balance, July 1	-	-	-	-	-
FUND BALANCE, JUNE 30	$ -	$ 43,000	$ 43,000	$ 43,000	$ -

OTHER SUPPLEMENTAL INFORMATION

Burt Township School District #2

General Fund

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

For the Year Ended June 30, 2005

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Local Sources:			
Taxes and Penalties	$ 367,765	$ 373,106	$ 5,341
Other Local Sources:			
Donations	2,505	4,575	2,070
Other local revenue	6,745	4,320	(2,425)
Income from deposits	7,000	6,944	(56)
TOTAL LOCAL SOURCES	384,015	388,945	4,930
State Sources:			
Unrestricted:			
Sec 22a & sec 22b	405,644	491,197	85,553
Restricted:			
Section 51c special ed headlee	9,482	11,653	2,171
Durant payment	296	296	-
Drivers ed grant	781	721	(60)
TOTAL STATE SOURCES	416,203	503,867	87,664
Federal Sources:			
Restricted:			
REAP	17,712	17,712	-
Restricted - received through state:			
Strong families safe children	11,656	11,544	(112)
Homeland Security	1,753	1,753	-
Title I, part A regular	16,531	16,531	-
Title V, part A regular	877	877	-
Title II, part D regular	420	420	-
Title II, part A regular	4,326	4,326	-
Restricted - received through MARESA:			
SDFS via MARESA	213	213	-
Flowthrough via MARESA	4,470	4,766	296
TOTAL FEDERAL SOURCES	57,958	58,142	184
TOTAL REVENUES	858,176	950,954	92,778
EXPENDITURES:			
Instruction:			
Elementary:			
Salaries	147,625	143,783	3,842
Employee benefits	66,395	71,705	(5,310)
Purchased services	6,431	4,567	1,864
Supplies and materials	9,935	7,637	2,298
TOTAL ELEMENTARY	230,386	227,692	2,694

Burt Township School District #2

General Fund

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

For the Year Ended June 30, 2005

	Final Budget	Actual	Variance Favorable (Unfavorable)
Secondary:			
Salaries	$ 167,202	$ 162,235	$ 4,967
Employee benefits	86,076	81,057	5,019
Purchased services	2,950	4,546	(1,596)
Supplies and materials	11,530	8,344	3,186
Other	1,050	936	114
TOTAL SECONDARY	268,808	257,118	11,690
Special Education:			
Salaries	29,949	29,827	122
Employee benefits	10,326	9,463	863
Purchased services	11,200	5,449	5,751
Supplies and materials	2,270	3,368	(1,098)
TOTAL SPECIAL EDUCATION	53,745	48,107	5,638
Compensatory Education:			
Salaries	8,567	8,521	46
Employee benefits	7,964	8,010	(46)
COMPENSATORY EDUCATION	16,531	16,531	-
Career and Technical Education:			
Purchased services	-	120	(120)
Supplies and materials	400	320	80
TOTAL CAREER AND TECHNICAL EDUCATION	400	440	(40)
TOTAL INSTRUCTION	569,870	549,888	19,982
Supporting Services:			
Pupil Services:			
Health:			
Purchased services	180	180	-
TOTAL HEALTH	180	180	-
TOTAL PUPIL SERVICES	180	180	-
Instructional Staff:			
Improvement of Instruction:			
Salaries	-	180	(180)
Employee benefits	500	41	459
Purchased services	-	75	(75)
TOTAL IMPROVEMENT OF INSTRUCTION	500	296	204

Burt Township School District #2

General Fund

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

For the Year Ended June 30, 2005

	Final Budget	Actual	Variance Favorable (Unfavorable)
Library:			
Salaries	$ 2,000	$ 2,003	$ (3)
Employee benefits	874	637	237
Purchased services	50	50	-
Supplies and materials	1,000	881	119
Other expenses	-	35	(35)
TOTAL LIBRARY	3,924	3,606	318
Technology Assisted Instruction:			
Salaries	2,250	2,265	(15)
Employee benefits	507	502	5
Purchased services	620	540	80
TOTAL TECHNOLOGY ASSISTED INSTRUCTION	3,377	3,307	70
TOTAL INSTRUCTIONAL STAFF	7,801	7,209	592
General Administration:			
Board of Education:			
Salaries	2,000	2,100	(100)
Purchased services	8,930	8,481	449
Supplies and materials	1,200	1,190	10
Other expenses	8,850	8,918	(68)
TOTAL BOARD OF EDUCATION	20,980	20,689	291
Executive Administration:			
Salaries	92,095	92,244	(149)
Employee benefits	42,635	40,605	2,030
Purchased services	9,300	8,868	432
Supplies and materials	5,153	5,044	109
Other expenses	2,900	2,906	(6)
TOTAL EXECUTIVE ADMINISTRATION	152,083	149,667	2,416
TOTAL GENERAL ADMINISTRATION	173,063	170,356	2,707
Business Services:			
Fiscal Services:			
Purchased services	8,000	7,485	515
TOTAL FISCAL SERVICES	8,000	7,485	515
Other Business Services:			
Other expenses	1,000	422	578
TOTAL OTHER BUSINESS SERVICES	1,000	422	578
TOTAL BUSINESS SERVICES	9,000	7,907	1,093

Burt Township School District #2

General Fund

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

For the Year Ended June 30, 2005

	Final Budget	Actual	Variance Favorable (Unfavorable)
Operation and Maintenance:			
Salaries	$ 19,100	$ 20,719	$ (1,619)
Employee benefits	6,871	6,843	28
Purchased services	18,932	18,472	460
Supplies and materials	57,700	59,423	(1,723)
TOTAL OPERATION AND MAINTENANCE	102,603	105,457	(2,854)
Pupil Transportation:			
Salaries	12,000	12,943	(943)
Employee benefits	3,289	3,136	153
Purchased services	11,628	10,265	1,363
Supplies and materials	12,975	11,877	1,098
Capital Outlay	30,000	30,000	-
TOTAL PUPIL TRANSPORTATION	69,892	68,221	1,671
TOTAL SUPPORTING SERVICES	362,539	359,330	3,209
Payments to Other Governmental Agencies			
Payments to Other Public Schools in Michigan:			
Payments to Other Public Schools in Michigan:			
Other expenses	850	835	15
TOTAL COMMUNITY ACTIVITIES	850	835	15
TOTAL EXPENDITURES	933,259	910,053	23,206
EXCESS REVENUES (EXPENDITURES)	(75,083)	40,901	115,984
Other Financing Sources (Uses):			
Special education	10,200	10,231	31
Trust Fund	1,675	1,695	20
Sale of assets	2,500	2,500	-
TOTAL OTHER FINANCING SOURCES	14,375	14,426	51
Operating Transfers Out:			
Lunch Fund	(16,571)	(14,686)	1,885
Athletic Fund	(14,225)	(10,195)	4,030
Capital Projects Fund	(43,000)	(43,000)	-
TOTAL OTHER FINANCING USES	(73,796)	(67,881)	5,915
TOTAL OTHER FINANCING SOURCES (USES)	(59,421)	(53,455)	5,966
NET CHANGE IN FUND BALANCE	(134,504)	(12,554)	121,950
Fund Balance, July 1	283,134	283,134	-
FUND BALANCE, JUNE 30	$ 148,630	$ 270,580	$ 121,950

Burt Township School District #2

Non-Major Special Revenue Funds

Combining Balance Sheet

June 30, 2005

	School Lunch Fund	Athletic Fund	Total
ASSETS:			
Cash and cash equivalents	$ 99	$ -	$ 99
Due from other governmental units	345	-	345
Inventory	892	-	892
TOTAL ASSETS	$ 1,336	$ -	$ 1,336
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts payable	$ 244	$ -	$ 244
Accrued liabilties	131	-	131
Due to other funds	961	-	961
TOTAL LIABILITIES	1,336	-	1,336
FUND BALANCES:			
Reserved for school service activities	-	-	-
TOTAL LIABILITIES AND FUND BALANCES	$ 1,336	$ -	$ 1,336

Burt Township School District #2

Non-Major Special Revenue Funds

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2005

	School Lunch Fund	Athletic Fund	Total
REVENUES:			
Athletic activities	$ -	$ 3,382	$ 3,382
School lunch activities	2,670	-	2,670
State aid	1,962	-	1,962
Federal sources	17,966	-	17,966
TOTAL REVENUES	22,598	3,382	25,980
EXPENDITURES:			
School lunch activities	37,284	-	37,284
Athletic activities	-	13,577	13,577
TOTAL EXPENDITURES	37,284	13,577	50,861
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(14,686)	(10,195)	(24,881)
OTHER FINANCING SOURCES (USES):			
Operating transfers in	14,686	10,195	24,881
TOTAL OTHER FINANCING SOURCES (USES)	14,686	10,195	24,881
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance, July 1	-	-	-
FUND BALANCE, JUNE 30	$ -	$ -	$ -

Burt Township School District #2

School Lunch Fund

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

For the Year Ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
School lunch activities	$ 3,233	$ 2,670	$ (563)
State aid	2,000	1,962	(38)
Federal sources	17,000	17,966	966
TOTAL REVENUES	22,233	22,598	365
EXPENDITURES:			
School lunch activities:			
Salaries	9,307	10,372	(1,065)
Employee benefits	11,172	8,726	2,446
Purchased services	425	357	68
Supplies and materials	17,900	17,829	71
TOTAL EXPENDITURES	38,804	37,284	1,520
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(16,571)	(14,686)	1,885
OTHER FINANCING SOURCES (USES):			
Transfer from general fund	16,571	14,686	(1,885)
TOTAL OTHER FINANCING SOURCES (USES):	16,571	14,686	(1,885)
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance, July 1	-	-	-
FUND BALANCE, JUNE 30	$ -	$ -	$ -

Burt Township School District #2

Athletic Fund

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

For the Year Ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Athletic activities	$ 2,240	$ 3,382	$ 1,142
TOTAL REVENUES	2,240	3,382	1,142
EXPENDITURES:			
Athletic activities:			
Salaries	5,400	4,739	661
Employee benefits	1,250	1,060	190
Purchased services	7,585	5,705	1,880
Supplies and materials	1,750	1,596	154
Other expenses	480	477	3
TOTAL EXPENDITURES	16,465	13,577	2,888
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(14,225)	(10,195)	4,030
OTHER FINANCING SOURCES (USES):			
Transfers from general fund	14,225	10,195	(4,030)
TOTAL OTHER FINANCING SOURCES (USES)	14,225	10,195	(4,030)
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance, July 1	-	-	-
FUND BALANCE, JUNE 30	$ -	$ -	$ -

Burt Township School District #2
Capital Projects Fund
Balance Sheet
June 30, 2005

Assets:		
Cash and cash equivalents	$	43,000
Due from Other Funds		-
TOTAL ASSETS	$	43,000
Liabilities:		
Accounts payable	$	-
Due to other funds		-
TOTAL LIABILITIES		-
Fund Equity:		
Fund Balance:		
Reserved for capital outlay		43,000
TOTAL LIABILITIES AND FUND EQUITY	$	43,000

Burt Township School District #2
Capital Projects Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Interest	$ -	$ -	$ -
Sale of Fixed Assets	-	-	-
Other revenues	-	-	
TOTAL REVENUES	-	-	-
EXPENDITURES:			
Other Expenditures	-	-	-
Capital outlay	-	-	
TOTAL EXPENDITURES	-	-	-
EXCESS REVENUES OVER (UNDER) EXPENDITURES	-	-	-
Other Financing Sources (Uses):			
General Fund	43,000	43,000	-
TOTAL OTHER FINANCING SOURCES	43,000	43,000	-
Operating Transfers Out:			
Lunch Fund	$ -	$ -	$ -
TOTAL OTHER FINANCING USES	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	43,000	43,000	-
FUND BALANCE, JULY 1		-	
FUND BALANCE, JUNE 30		$ 43,000	

ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE
WISCONSIN
GREEN BAY
MILWAUKEE

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

Burt Township School District #2
Grand Marais, Michigan

We have audited the governmental activities, each major funds, and the aggregate remaining fund information, which collectively comprise the basic financial statements of Burt Township School District #2, Michigan, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 16, 2005. 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.

Compliance

As part of obtaining reasonable assurance about Burt Township School District #2'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These instances are described in a separate letter to management dated September 16, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered whether Burt Township School District #2's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Anderson, Tackman & Company, PLC
Certified Public Accountants

September 16, 2005

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Burt Township School District #2
Report to Management Letter
For the Year Ended June 30, 2005

Board of Education
Burt Township School District #2
Grand Marais, Michigan 49839

In planning and performing our audit of the financial statements of the Burt Township School District #2 for the year ended June 30, 2005; we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could affect the Burt Township School District #2's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Instances of Non-Compliance

Uniform Budgeting and Accounting Act (P.A. 621)

The State of Michigan has enacted Public Act 621, the Uniform Budgeting and Accounting Act, to provide for a system of uniform procedures for the preparation and execution of budgets in local units of government. The purpose of P.A. 621 is to require that all local units of government adopt balanced budgets, to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process, including data for capital construction projects. The major provisions of P.A. 621 are as follows:

1. Local Units of government must adopt a budget.
2. The budget, including accrued deficits and available unappropriated surpluses, must be balanced.
3. The budget must be amended when necessary.
4. Debt shall not be entered into unless the debt is permitted by law.
5. Expenditures shall not be incurred in excess of the amount appropriated.
6. Expenditures shall not be made unless authorized in the budget.
7. Violations of the act, disclosed in an audit of the financial records, in the absence of reasonable procedures, shall be filed with the State Treasurer and reported to the Attorney General.

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Board of Education
Burt Township School District #2
Grand Marais, Michigan 49839

The Burt Township School District #2 was found to be in violation of the legal and contractual provisions of the Uniform Budgeting and Accounting Act (Public Act 621) in certain individual funds as enumerated upon in the Footnotes of the financial statements.

* * * * * * * * * *

This report is intended solely for the information and use of the Burt Township School District #2 board, management, and other legislative or regulatory body and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate and would like to thank the Burt Township School District #2's staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

Anderson, Tackman & Company, PLC
Certified Public Accountants

September 16, 2005

ANDERSON, TACKMAN & COMPANY, P.L.C.
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September 16, 2005

Board of Education
Burt Township School District #2
Grand Marais, Michigan 49839

We have audited the financial statements of the Burt Township School District #2 for the year ended June 30, 2005, and have issued our report thereon dated September 16, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Burt Township School District #2. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the Burt Township School District #2 are described in Footnotes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Burt Township School District #2 during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Burt Township School District #2 financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Burt Township School District #2, either individually or in the aggregate, indicates matters that could have a significant effect on the Burt Township School District #2's financial reporting process.

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Board of Education
Burt Township School District #2
Grand Marais, Michigan 49839

Disagreements with Management

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

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the governmental unit's financial statements or a determination of the type of auditors' 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.

Issues Discussed Prior to Retention of Independent Auditors

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 Burt Township School District #2's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Conclusion

This information is intended solely for the use of the Burt Township School District #2 Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants