WALKERVILLE PUBLIC SCHOOLS

Walkerville, Michigan

FINANCIAL STATEMENTS

For the Year Ended
June 30, 2005

WALKERVILLE PUBLIC SCHOOLS

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The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Walkerville Public Schools' basic financial statements. The combining and individual nonmajor fund financial statements and schedules, and the schedule of expenditures of federal awards, as required by U.S. Office of Management and budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of Walkerville Public Schools' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Rehmann Lohan

Management's Discussion and Analysis

As management of Walkerville Public Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $2,208,513 (*net assets*). Of this amount, $129,141 (*unrestricted net assets*) may be used to meet the District's ongoing obligations for general district programs.
- The District's total net assets decreased by $291,612.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $345,584, a decrease of $57,189 in comparison with the prior year.
- At the end of the current fiscal year, unreserved undesignated fund balance for the general fund was $270,531 or 6.6 percent of total general fund expenditures and transfers out.
- Investments for the future were made by spending $729,507 on school improvements, vehicles and equipment.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues *(governmental activities).* The activities of the District include instruction, supporting services, community services, food services, athletics and other services. The District has no business-type activities as of and for the year ended June 30, 2005.

The government-wide financial statements can be found on pages 9-10 of this report.

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

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

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

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

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

The governmental fund financial statements can be found on pages 11-15 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Walkerville Public Schools' own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 16 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17-29 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 30-36 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by $2,208,513 at the close of the most recent fiscal year. The timing of debt service payments and depreciation expense of capital assets has a significant impact on this balance.

A large portion of the District's net assets (91%) reflect investment in capital assets net of related debt (e.g., land, buildings, vehicles, and equipment, less any related debt used to acquire those assets that is still outstanding). The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Walkerville Public School's Net Assets

	Governmental Activities	
	2005	2004
Current and other assets	$ 906,180	$ 881,407
Capital assets, net	4,685,098	4,140,590
Total assets	5,591,278	5,021,997
Long-term liabilities outstanding	767,844	908,060
Other liabilities	2,614,921	1,913,812
Total liabilities	3,382,765	2,521,872
Net assets:		
Invested in capital assets, net of related debt	2,014,983	2,171,053
Restricted	64,389	69,227
Unrestricted	129,141	259,845
Total net assets	**$2,208,513**	**$2,500,125**

An additional portion of the District's net assets (3%) represents resources that are subject to other external restrictions on how they may be used. The remaining balance of *unrestricted net assets (6%)* may be used to meet the District's ongoing obligations to its general programs.

At the end of the current fiscal year, the District was able to report positive balances in all three categories of net assets, for the District as a whole, as well as positive fund balances for its separate governmental funds.

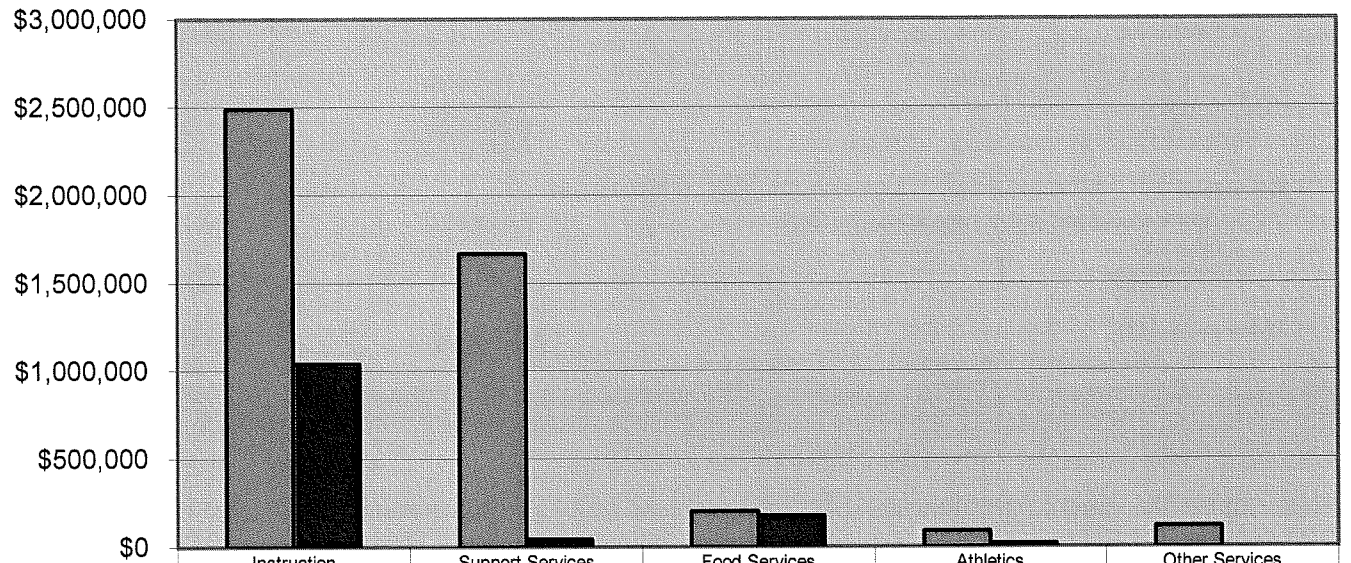
Walkerville Public School's Changes in Net Assets

	Governmental Activities	
	2005	2004
Revenue:		
Program revenue:		
Charges for services	$ 47,032	$ 60,803
Operating grants and contributions	1,229,270	1,141,168
General revenue:		
Property taxes - operations	379,407	374,635
Property taxes - debt service	131,882	128,576
Grants and contributions not restricted to specific programs	2,467,690	2,520,591
USF Funds	-	70,953
Unrestricted investment earnings	6,954	2,854
Total revenue	**4,262,235**	**4,299,580**
Expenses:		
Instruction	2,488,407	2,295,716
Supporting services	1,664,272	1,649,720
Community services	199,474	188,761
Transfers to locals and other services	86,583	91,098
Interest on long-term debt	115,111	105,161
Total expenses	**4,553,847**	**4,330,456**
Increase in net assets	(291,612)	(30,876)
Net assets, beginning of year	2,500,125	2,531,001
Net assets, end of year	**$2,208,513**	**$2,500,125**

Governmental activities. Net assets decreased by $291,612. Key elements of this increase are as follows:

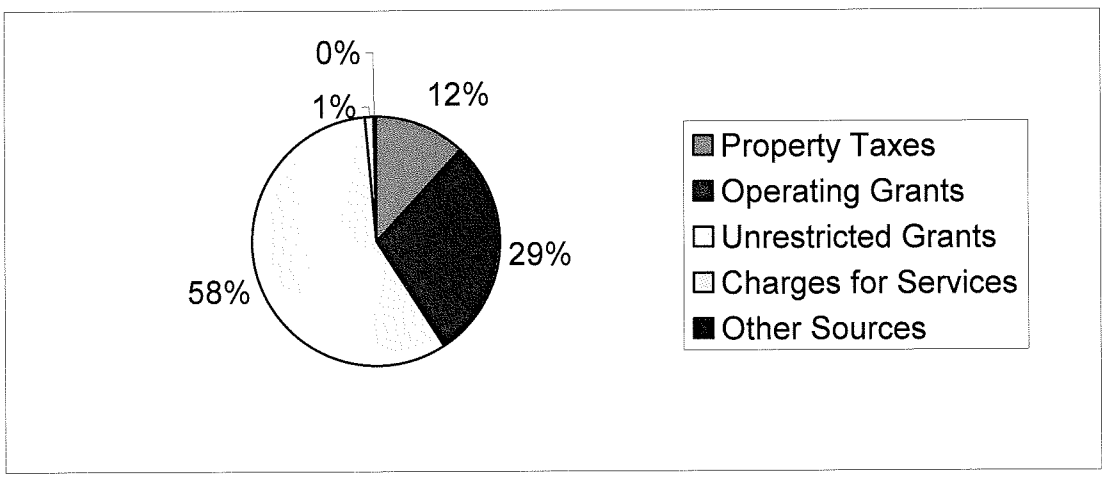
- Timing of debt service payments and depreciation expense.

Expenses and Program Revenues – Government-wide



	Instruction	Support Services	Food Services	Athletics	Other Services
Expenses	$2,488,407	$1,664,272	$199,474	$86,583	$115,111
Revenue	$1,039,579	$43,608	$176,206	$16,909	$0

Revenues by Source – Government-wide



Financial Analysis of the Government's Funds

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

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

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was $270,531, while the total fund balance was $272,830. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved undesignated fund balance and total fund balance represent 6.6 and 6.7 percent respectively of total general fund expenditures and transfers out.

The fund balance of the District's general fund decreased by $58,648 during the current fiscal year. The largest revenue source in this fund is state revenue which includes primarily state aid. Expenditures consist primarily of costs associated with supporting the District's operations.

General Fund Budgetary Highlights

Differences between the original and final amended budgets were relatively minor and related primarily to non-homestead changes to homestead property classification or corporations receiving abatements.

Capital Asset and Debt Administration

- **Capital assets** – The District's investment in capital assets for its governmental type activities as of June 30, 2005 amounted to $4,685,098 (net of accumulated depreciation). This investment in capital assets included land, buildings, vehicles and equipment.

Major capital asset additions during the year are primarily recorded as construction in progress. This balance includes facility improvements associated with the Energy Conservation bonds issued during the current year. Capital assets at the end of the current fiscal year included the following:

Walkerville Public School's Capital Assets
(net of depreciation)
June 30, 2005

Land	$ 139,874
Construction in progress	669,676
Buildings and improvements	3,078,953
Furniture and equipment	669,419
Vehicles	127,176
Total	**$ 4,685,098**

Additional information on the District's capital assets can be found in Note 5 on pages 24-25 of this report.

Long-term debt. At the end of the current fiscal year, the District had total long-term debt outstanding of $2,934,665. The District's total debt increased by $918,510 during the current fiscal year, with four new debt issuances. Additional information on the Districts's long-term debt can be found in Note 6 on pages 25-27 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2005-2006 fiscal year:

- A stable pupil count was used because a five year average showed student variances over this time period +/- 5 students.
- An increase of $125 per student in the state foundation grant based on the state legislature.
- A minor reduction in state and federal grants projected based on state legislature.
- Wage, retirement and insurance cost to increase based on contract, state retirement contribution requirements and insurance rate schedules.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Business Manager
Walkerville Public Schools
180 East Main
Walkerville, MI 49459
(231) 873-4850

WALKERVILLE PUBLIC SCHOOLS

Statement of Net Assets

June 30, 2005

	Governmental Activities
Assets	
Current assets:	
Cash and cash equivalents	$ 329,338
Receivables:	
Due from other governmental units	572,681
Inventories	4,161
Total current assets	906,180
Noncurrent assets:	
Land	139,874
Construction in progress	669,676
Capital assets, net of accumulated depreciation	3,875,548
Total noncurrent assets	4,685,098
Total assets	5,591,278
Liabilities	
Current liabilities:	
Accounts payable	182,757
Accrued payroll	193,631
Fringe benefits payable	155,402
Notes payable	55,960
Current portion of long-term debt	144,277
Current portion of compensated absences/early retirement	35,817
Total current liabilities	767,844
Noncurrent liabilities:	
Long term compensated absences/early retirement	82,450
Non-current portion of long-term debt	2,532,471
Total noncurrent liabilities	2,614,921
Total liabilities	3,382,765
Net assets	
Invested in capital assets, net of related debt	2,014,983
Restricted for capital projects	10,703
Restricted for debt service	51,387
Restricted for scholarship fund	2,299
Unrestricted	129,141
Total net assets	$ 2,208,513

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

WALKERVILLE PUBLIC SCHOOLS

Statement of Activities

For the Year Ended June 30, 2005

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Governmental activities:					
Instruction	$ 2,488,407	$ -	$ 1,039,579	$ -	$ (1,448,828)
Supporting services	1,664,272	7,115	36,493	-	(1,620,664)
Food services	199,474	23,008	153,198	-	(23,268)
Athletics	86,583	16,909	-	-	(69,674)
Interest on long-term debt	115,111	-	-	-	(115,111)
Total governmental activities	$ 4,553,847	$ 47,032	$ 1,229,270	$ -	(3,277,545)
Changes in net assets					
General revenues:					
Property taxes - operations					379,407
Property taxes - debt service					131,882
Grants and contributions not restricted to specific programs					2,467,690
Unrestricted investment earnings					6,954
Total general revenues					2,985,933
Change in net assets					(291,612)
Net assets, beginning of year					2,500,125
Net assets, end of year					**$ 2,208,513**

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

WALKERVILLE PUBLIC SCHOOLS

Balance Sheet
Governmental funds

June 30, 2005

	General	Capital Projects Energy Conservation	Other Governmental Funds	Total
ASSETS				
Assets				
Cash and cash equivalents	$ 192,419	$ 75,797	$ 61,122	$ 329,338
Due from other funds	26,788	13,900	24,131	64,819
Due from other governmental units	562,331	-	10,350	572,681
Inventory	-	-	4,161	4,161
TOTAL ASSETS	$ 781,538	$ 89,697	$ 99,764	$ 970,999
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	$ 65,884	$ 69,676	$ 20,043	$ 155,603
Salaries payable	193,631	-	-	193,631
Fringe benefits payable	155,402	-	-	155,402
Due to other funds	37,831	11,631	15,357	64,819
Notes payable	55,960	-	-	55,960
Total liabilities	508,708	81,307	35,400	625,415
Fund balances				
Reserved for capital projects	-	8,390	8,946	17,336
Reserved for debt service	-	-	51,387	51,387
Reserved for scholarship fund	2,299	-	-	2,299
Unreserved	270,531	-	-	270,531
Unreserved reported in nonmajor special revenue funds	-	-	4,031	4,031
Total fund balances	272,830	8,390	64,364	345,584
TOTAL LIABILITIES AND FUND BALANCES	$ 781,538	$ 89,697	$ 99,764	$ 970,999

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

WALKERVILLE PUBLIC SCHOOLS

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

June 30, 2005

Fund balances - total governmental funds	$	345,584
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Add - land		139,874
Add - construction in progress		669,676
Add - capital assets, net of accumulated depreciation		3,875,548
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Deduct - bonds payable		(2,816,398)
Add - unamortized bond issuance costs		139,650
Deduct - accrued interest on bonds payable		(27,154)
Deduct - compensated absences / early retirement		(118,267)
Net assets of governmental activities	$	2,208,513

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

WALKERVILLE PUBLIC SCHOOLS

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

For the Year Ended June 30, 2005

	General	Capital Projects Energy Conservation	Other Governmental Funds	Total
Revenue				
Local sources	$ 449,363	$ 1,757	$ 172,667	$ 623,787
State sources	2,828,323	-	13,697	2,842,020
Federal sources	656,927	-	139,501	796,428
Total revenue	3,934,613	1,757	325,865	4,262,235
Expenditures				
Current:				
Instructional	2,315,009	-	-	2,315,009
Supporting services	1,613,594	18,691	74,095	1,706,380
Food service activities	-	-	200,692	200,692
Athletic activities	-	-	86,583	86,583
Capital projects	-	669,676	-	669,676
Debt service				
Payment to escrow	-	-	7,000	7,000
Principal	-	-	84,439	84,439
Interest	-	-	115,040	115,040
Total expenditures	3,928,603	688,367	567,849	5,184,819
Revenue over (under) expenditures	6,010	(686,610)	(241,984)	(922,584)
Other financing sources (uses)				
Transfers in	-	-	160,958	160,958
Proceeds from purchase agreements	96,300	695,000	-	791,300
Bond issue	-	-	1,680,000	1,680,000
Premiums	-	-	8,725	8,725
Payment to escrow	-	-	(1,614,630)	(1,614,630)
Transfers out	(160,958)	-	-	(160,958)
Total other financing sources (uses)	(64,658)	695,000	235,053	865,395
Net change in fund balances	(58,648)	8,390	(6,931)	(57,189)
Fund balances, beginning of year	331,478	-	71,295	402,773
Fund balances, end of year	$ 272,830	$ 8,390	$ 64,364	$ 345,584

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

WALKERVILLE PUBLIC SCHOOLS

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2005

Net change in fund balances - total governmental funds	$ (57,189)
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 and reported as depreciation expense.	
Add - capital asset purchases	729,507
Deduct - depreciation expense	(184,999)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but a reduction in long-term debt on the statement of net assets.	
Deduct - bond and notes issued	(791,300)
Add - payment to escrow agent	7,000
Add - principal payments on long-term liabilities	84,439
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the	
Deduct - increase in accrued interest payable on bonds	(71)
Deduct - amortization of bond issuance costs	(7,350)
Deduct - increase in the accrual for compensated absences/early retirement incentive	(71,649)
Change in net assets of governmental activities	$ (291,612)

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

WALKERVILLE PUBLIC SCHOOLS

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

For the Year Ended June 30, 2005

	Budget			Variance
	Original Amount	Amended Amount	Actual Amount	Positive (Negative)
Revenue				
Local sources	$ 427,150	$ 426,150	$ 449,363	$ 23,213
State sources	2,784,456	2,838,903	2,828,323	(10,580)
Federal sources	533,275	700,098	656,927	(43,171)
Total revenue	3,744,881	3,965,151	3,934,613	(30,538)
Expenditures				
Current:				
Instructional	2,161,368	2,330,233	2,315,009	15,224
Supporting services	1,537,387	1,648,286	1,613,594	34,692
Total expenditures	3,698,755	3,978,519	3,928,603	49,916
Revenue over (under) expenditures	46,126	(13,368)	6,010	19,378
Other financing sources (uses)				
Proceeds from purchase agreements	97,500	97,500	96,300	(1,200)
Transfers out	(143,626)	(160,961)	(160,958)	3
Total other financing sources (uses)	(46,126)	(63,461)	(64,658)	(1,197)
Net change in fund balance	-	(76,829)	(58,648)	18,181
Fund balance, beginning of year	331,478	331,478	331,478	-
Fund balance, end of year	$ 331,478	$ 254,649	$ 272,830	$ 18,181

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

WALKERVILLE PUBLIC SCHOOLS

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS

June 30, 2005

ASSETS	AGENCY FUND
Cash and cash equivalents	$ 14,739
TOTAL ASSETS	$ 14,739
LIABILITIES	
Due to student groups	$ 14,739
TOTAL LIABILITIES	$ 14,739

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the ***Walkerville Public Schools*** (the "District") conform to generally accepted accounting principles applicable to governments. The District is considered to be a local governmental unit. The following is a summary of the more significant policies.

Reporting Entity

Walkerville Public Schools is located in the Counties of Oceana and Newaygo, Michigan. The District is a K through 12 district and provides educational services to approximately 300 students, including adult education students. The District is governed by a School Board consisting of seven members all of whom are elected by District residents, and is administered by a Superintendent who is appointed by the School Board.

The District has followed the guidelines of the Governmental Accounting Standards Board's Statement Nos. 14 and 39, and has determined that no entities should be included in its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements. The criteria for including a component unit include significant operational or financial relationships with the District.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2005.

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

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

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The agency fund also uses the accrual basis of accounting.

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Governmental Funds

The District reports the following major governmental funds:

The *general fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The *energy conservation capital projects fund* is utilized to account for the issuance of bonds and the expending of these funds to upgrade district facilities to improve energy efficiency.

Additionally, the District reports the following fund types:

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities and improvements.

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, or where there is a need to determine the results of operations, such as food service and athletic activities.

The *debt service funds* are used to account for the accumulation of resources for, and the payment of long-term debt principal, interest, and related costs.

Fiduciary Funds

The agency funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

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

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

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

Budgetary Data

The District budgets for the General Fund and the Special Revenue Funds on the modified accrual basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted and as amended by the Board of Education.

Restricted And Unrestricted State Aid

A certain portion of State Aid received by the District is restricted to cover specified expenses of the District, including special education and vocational education costs. The unrestricted portion is for use in the general operations of the District.

Cash and Cash Equivalents

Amounts reported as cash and cash equivalents include cash, checking and deposit accounts, certificates of deposit and overnight repurchase agreements.

Deposits and Investments

Michigan law authorizes the District to deposit and invest in:

a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

b. Certificates of deposits issued by a state or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this state.

c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

d. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

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

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

Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the Food Service Fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed.

Capital Assets

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

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

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

Assets	Years
Buildings and improvements	20-45
Machinery and equipment	5-20
Vehicles	8

Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

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

Reserves and Designations of Fund Balance/Restricted Net Assets

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

Designations of fund balance are established to identify amounts set aside by the Board of Education for future expenditures.

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

Durant Related Issues

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

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

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

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

The remaining 50% of the settlement which is being received over ten years, beginning April 1999, is recorded in the General Fund as Unrestricted State School Aid. Use of these funds is restricted to specified purposes.

Federal Grants

Federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred.

Pension Plans

The provision for pension cost is recorded on an accrual basis, and the District's policy is to fund pension costs as they accrue.

Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets and service debt. The accompanying financial statements generally reflect such transactions as transfers.

Compensated Absences and Severance Pay

Sick and vacation pay are vested in the District, and these liabilities are accounted for in the statement of net assets because they are not expected to be liquidated with expendable available financial resources. Eligible District employees are entitled to two options for retirement incentive bonuses upon separation from the District.

The accumulated liability for this unpaid severance pay is recorded in the statement of net assets because it is not expected to be liquidated with expendable available financial resources.

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

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

State of Michigan School Aid

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan School aid appropriation acts. State funding provided 72% of general fund revenue to the District during the 2005 fiscal year.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

State of Michigan Public Act 621 requires that the General Fund and Special Revenue Funds of the School District be under budgetary control. The District has also adopted budgets for its Debt Service Fund and project length budgets for the Capital Projects Fund. The District's Budget Appropriations Act must be adopted before the beginning of each fiscal year. The District has the ability to amend the Appropriations Act provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year end. The District may also permit the chief administrative or fiscal officer to execute transfers between line items, without prior approval of the Board of Education. The level of control is the function level. All appropriations lapse at the end of the fiscal year.

During the year ended June 30, 2005, expenditures were incurred in excess of the amount appropriated in the amended budgets of the District as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund			
Other Districts	$ 30,848	$ 32,298	$ (1,450)
Food Service Fund			
Fringe Benefits	26,620	28,960	(2,340)
Non-food Supplies	4,000	5,422	(1,422)
Contracted Services	250	600	(350)
Miscellaneous	500	1,653	(1,153)
Capital Outlay	-	1,218	(1,218)
Athletics Fund			
Salaries and Wages	46,020	47,552	(1,532)
Fringe Benefits	11,420	11,421	(1)
Dues and Fees	1,200	1,585	(385)

3. CASH AND CASH EQUIVALENTS

The captions on the financial statements relating to cash and cash equivalents are as follows:

	Governmental Activities	Fiduciary Activities	Total
Cash and cash equivalents	$329,338	$14,739	$344,077

Investment and Deposit Risk

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. State law does not require and the District's investment policy does not have specific limits in excess of state law on custodial credit risk. As of year end $86,475 of the District's bank balance of $186,475 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk which is more restrictive than state law. Of the above cash and cash equivalents, $171,382 was invested in overnight repurchase agreements which were uninsured, unregistered and held by the District's bank which is also the counterparty for these particular agreements.

4. PROPERTY TAXES

Property taxes are assessed as of December 31 and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied on July 1 by townships whose boundaries include property within the District and are due on September 15. Delinquent real taxes are advanced to the District by the Revolving Tax Funds of the County, in which the townships are located.

5. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2005 was as follows

	Balance July 1, 2004	Additions	Dispositions	Balance June 30, 2005
Governmental activities				
Nondepreciable capital assets:				
Land	$ 139,874	$ -	$ -	$ 139,874
Construction in progress	-	669,676	-	669,676
Total depreciable capital assets	139,874	669,676	-	809,550
Depreciable capital assets:				
Buildings and improvements	3,919,059	-	-	3,919,059
Furniture and equipment	1,417,112	3,531	-	1,420,643
Vehicles	452,571	56,300	79,078	429,793
Total depreciable capital assets	5,788,742	59,831	79,078	5,769,495
Less accumulated depreciation:				
Buildings and improvements	(756,439)	(83,667)	-	(840,106)
Furniture and equipment	(666,263)	(84,961)	-	(751,224)
Vehicles	(365,324)	(16,371)	-	(302,617)
Total accumulated depreciation	(1,788,026)	(184,999)	79,078	(1,893,947)
Total capital assets being depreciated, net	4,000,716	(125,168)	79,078	3,875,548
Governmental activities capital assets, net	**$4,140,590**	**$544,508**	**$ -**	**$4,685,098**

For governmental activities, depreciation expense was charged to functions as follows:

Instruction	$101,749
Supporting services	83,250
Governmental activities depreciation expense	**$184,999**

6. SHORT-TERM/LONG-TERM DEBT

Short-term Debt

The following is a summary of short-term debt transactions for the District for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	(Deletions)	Balance June 30, 2005
Notes payable	$55,926	$410,000	$409,966	$55,960

The short-term note is a Michigan Municipal Bond Authority Note. It is payable in seven payments with the final payment due in August 2005.

Long-term Debt

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	(Deletions)	Balance June 30, 2005	Due within one year
*$89,464 Durant School Improvement Bonds- due in annual installments of $4,697 to $11,194 through 2013; interest payable at 4.76 percent	$ 57,155	$ -	$ -	$ 57,155	$ 4,330
$1,865,000 General Obligation Bonds – due in annual installments of $10,000 to $140,000 through 2024; interest payable at 4.00 to 5.65 percent	1,765,000	-	(1,575,000)	190,000	40,000
$46,410 Bus installment purchase – due in annual installments of $7,920 through 2004; interest payable at 4.65 percent	7,568	-	(7,568)	-	-
$27,630 Tractor installment purchase- due in annual installments of $5,526 through 2006; interest payable at 4.40 percent	11,052	-	(5,526)	5,526	5,526

	Balance July 1, 2004	Additions	(Deletions)	Balance June 30, 2005	Due within one year
$36,064 Verizon phone installment purchase- due in annual installments of $7,213 through 2006; interest payable at 4.10 percent	$14,426	$ -	$ (7,213)	$ 7,213	$ 7,213
$50,247 Bus installment purchase – due in annual installments of $12,562 through 2005; interest payable at 3.45 percent	25,124	-	(12,562)	12,562	12,562
$59,320 Installment Land Purchase- due in annual installments of $3,950 through 2017; interest payable at 4.85 percent	51,350	-	(3,950)	47,400	3,950
$40,000 Dell Computer and Software Installment purchase- due in annual installments of $13,000 - $14,000; interest payable at 2.9%	-	40,000	-	40,000	14,000
$56,300 Bus installment purchase- due in annual installments of $14,075; interest payable at 2.55%	-	56,300	-	56,300	14,075
$50,482 Bus installment purchase- due in annual installments of $12,620 through 2006; interest payable at 2.98 percent	37,862	-	(12,620)	25,242	12,621
$695,000 Energy Conservation Improvement Bonds due in annual installments of $20,000 to $55,000; interest payable at 4.20 – 4.85%	-	695,000	-	695,000	20,000
$1,680,000 General Obligation Refunding Bonds due in annual installments of $10,000 to $140,000 through 2024; interest payable at 3.00 – 4.30%	-	1,680,000	-	1,680,000	10,000
Total bonds/obligations outstanding	1,969,537	2,471,300	(1,624,439)	2,816,398	144,277
Compensated absences/early retirement					
Compensated absences	38,285	4,982	-	43,267	10,817
Early retirement incentive	8,333	75,000	(8,333)	75,000	25,000
Total compensated absences/early retirement incentive	46,618	79,982	(8,333)	118,267	35,817
Total long-term debt	**$2,016,155**	**$ 2,551,282**	**$(1,632,772)**	**$2,934,665**	**$180,094**

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

Compensated absences and early retirement incentives are expected to be liquidated with general fund resources.

Following is a summary of future principal maturities and interest requirements:

	Principal	Interest
2006	$ 144,277	$ 114,560
2007	144,339	118,369
2008	120,778	106,145
2009	118,004	101,215
2010	114,166	96,217
2011-2015	651,934	411,957
2016-2020	782,900	267,279
2021-2024	740,000	83,445
Total	**$2,816,398**	**$1,299,187**

During fiscal year 2005, Walkerville Public Schools utilized receipts from $1,680,000 of refunding general obligation bonds and a payment of $7,000 to advance refunded certain bonds by placing the proceeds of new bonds and the additional payment in an irrevocable trust to provide for all future debt service payments on the old bonds. The advance refunding resulted in a defeasance of the bonds. As a result, the trust account assets and the liability for the defeased bonds are not included in the Walkerville Public Schools financial statements. At June 30, 2005, $1,540,000 of bonds outstanding are considered defeased. The current year advance refunding was undertaken to reduce total debt service payments by $86,942, which resulted in an economic gain of $58,903.

7. RELATED PARTY TRANSACTIONS

A School Board member is an executive at a local bank which the District has approved for one of its depositors; however, the District is currently not using the bank as a depository.

8. DEFINED BENEFIT PENSION PLAN

Plan Description

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

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 4.3% of all wages over $15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 14.87% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2005, 2004 and 2003 were $323,419, $284,298, and $286,796, respectively, equal to the required contributions for each year.

Other Post Employment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

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

2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

9. INTERFUND RECEIVABLES/PAYABLES, AND TRANSFERS

Interfund balances primarily reflect balances utilized to facilitate appropriate cash flow for operations. The amounts of interfund receivables and payables at year end are as follows:

	Interfund Receivables	Interfund Payables
Major Funds:		
General Fund	$26,788	$13,900
Energy Conservation bonds	-	11,631
Nonmajor Governmental Funds	24,131	15,357
	$64,819	**$64,819**

Transfers primarily reflect subsidies allocated to other funds from the General Fund.

Interfund Transfers	In	Out
General Fund	$ -	$160,958
Nonmajor Funds:		
Athletics special revenue	69,697	-
Food Service special revenue	24,380	-
Debt service	54,073	-
Energy Conservation bonds	12,808	-
Total	**$160,958**	**$160,958**

10. CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, management does not believe such disallowances, if any, will be material to the financial position of the District.

11. RISK MANAGEMENT

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty, health claims and for employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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WALKERVILLE PUBLIC SCHOOLS

General Fund
Schedule of Revenue, Expenditures and Change in Fund Balance
Budget and Actual

For the Year Ended June 30, 2005

	Budget			Variance
	Original Amount	Amended Amount	Actual Amount	Positive (Negative)
Revenue				
Local sources:				
Property taxes	$ 375,400	$ 375,400	$ 379,407	$ 4,007
Library penal fines	12,000	12,000	14,586	2,586
Interest on investments	7,000	7,000	6,086	(914)
Rent	1,000	1,000	-	(1,000)
Sale of fixed assets	2,000	2,000	2,500	500
Other	25,000	25,000	42,800	17,800
Miscellaneous	4,750	3,750	3,984	234
Total revenue from local sources	427,150	426,150	449,363	23,213
State sources:				
Foundation allowance	2,414,330	2,465,650	2,458,744	(6,906)
Special education	59,980	59,980	64,073	4,093
At risk	245,000	239,815	238,873	(942)
Library aid	1,000	1,000	881	(119)
Bilingual education	9,000	9,000	8,833	(167)
Michigan School Readiness Program	46,200	52,800	46,200	(6,600)
Other	8,946	10,658	10,719	61
Total revenue from state sources	2,784,456	2,838,903	2,828,323	(10,580)
Federal sources:				
Title I	309,000	348,079	349,530	1,451
Title II	36,159	36,081	36,110	29
Title V	10,000	12,050	11,245	(805)
National forest	20,000	20,000	19,900	(100)
Migrant education	-	73,927	73,927	-
REAP grant	9,643	7,851	3,438	(4,413)
Other	148,473	202,110	162,777	(39,333)
Total revenue from federal sources	533,275	700,098	656,927	(43,171)
Total revenue	**3,744,881**	**3,965,151**	**3,934,613**	**(30,538)**

WALKERVILLE PUBLIC SCHOOLS

General Fund
Schedule of Revenue, Expenditures and Change in Fund Balance
Budget and Actual - Continued

For the Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Expenditures				
Instructional:				
Elementary grades	$ 551,229	$ 684,126	$ 678,376	$ 5,750
Middle school/high school	829,705	899,040	899,038	2
Pre-school	46,805	46,805	45,950	855
Special education	210,568	213,466	213,453	13
Compensatory education	523,061	486,796	478,192	8,604
Total instructional services	2,161,368	2,330,233	2,315,009	15,224
Supporting services				
Guidance services	62,980	98,608	96,164	2,444
Social work services	36,315	6,500	6,180	320
Improvement of instruction	116,855	180,330	155,329	25,001
Educational media services	33,126	32,901	32,888	13
Supervision/direction of instructional staff	73,136	72,805	72,555	250
Board of education	37,400	50,900	50,613	287
Executive administation	172,940	171,730	171,683	47
Principal	190,070	189,850	187,943	1,907
Fiscal services	62,580	56,200	56,000	200
Other business services	12,500	17,500	17,464	36
Operations and mainenance	456,350	441,532	438,792	2,740
Public transportation services	168,350	202,280	202,117	163
Information management services	89,492	91,895	89,831	2,064
Pupil accounting	2,293	3,100	3,096	4
Community services	-	1,307	641	666
Other Districts	23,000	30,848	32,298	(1,450)
Total supporting services	1,537,387	1,648,286	1,613,594	34,692
Total expenditures	**3,698,755**	**3,978,519**	**3,928,603**	**49,916**
Revenues over (under) expenditures	46,126	(13,368)	6,010	19,378
Other financing sources (uses)				
Transfers out	(143,626)	(160,961)	(160,958)	3
Proceeds from purchase agreement	97,500	97,500	96,300	(1,200)
Total other financing source (uses)	**(46,126)**	**(63,461)**	**(64,658)**	**(1,197)**
Net change in fund balance	-	**(76,829)**	**(58,648)**	**18,181**
Fund balance, beginning of year	331,478	331,478	331,478	-
Fund balance, end of year	**$ 331,478**	**$ 254,649**	**$ 272,830**	**$ 18,181**

(Concluded)

WALKERVILLE PUBLIC SCHOOLS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

	Special Revenue		Debt Service			Capital Projects	
	Food Service	Athletics	Energy Conservation Bonds	2005 Refunding Bonds	Debt Service	Public Improvement	Total
ASSETS							
Assets							
Cash and cash equivalents	$ 7,197	$ 2,528	$ 1,099	$ -	$ 50,298	$ -	$ 61,122
Due from other funds	714	5,800	-	-	8,671	8,946	24,131
Due from other governmental units	10,350	-	-	-	-	-	10,350
Inventory	4,161	-	-	-	-	-	4,161
TOTAL ASSETS	$ 22,422	$ 8,328	$ 1,099	$ -	$ 58,969	$ 8,946	$ 99,764
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	$ 6,864	$ 4,508	$ -	$ -	$ 8,671	$ -	$ 20,043
Due to other funds	15,347	-	-	-	10	-	15,357
Total liabilities	22,211	4,508	-	-	8,681	-	35,400
Fund balances							
Reserved for capital projects	-	-	-	-	-	8,946	8,946
Reserved for debt service	-	-	1,099	-	50,288	-	51,387
Unreserved	211	3,820	-	-	-	-	4,031
Total fund balances	211	3,820	1,099	-	50,288	8,946	64,364
TOTAL LIABILITIES AND FUND BALANCES	$ 22,422	$ 8,328	$ 1,099	$ -	$ 58,969	$ 8,946	$ 99,764

WALKERVILLE PUBLIC SCHOOLS

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

For the Year Ended June 30, 2005

	Special Revenue		Debt Service			Capital Projects	
	Food Service	Athletics	Energy Conservation Bonds	2005 Refunding Bonds	Debt Service	Public Improvement	Total
Revenue							
Local sources	$ 23,008	$ 16,909	$ -	$ -	$ 132,750	$ -	$ 172,667
State sources	13,697	-	-	-	-	-	13,697
Federal sources	139,501	-	-	-	-	-	139,501
Total revenue	176,206	16,909	-	-	132,750	-	325,865
Expenditures							
Current:							
Supporting services	-	-	-	74,095	-	-	74,095
Food service activities	200,692	-	-	-	-	-	200,692
Athletic activities	-	86,583	-	-	-	-	86,583
Debt service							
Payment to escrow	-	-	-	-	7,000	-	7,000
Principal	-	-	-	-	84,439	-	84,439
Interest	-	-	11,709	-	103,331	-	115,040
Total expenditures	200,692	86,583	11,709	74,095	194,770	-	567,849
Revenue over (under) expenditures	(24,486)	(69,674)	(11,709)	(74,095)	(62,020)	-	(241,984)
Other financing sources							
Transfers in	24,380	69,697	12,808	-	54,073	-	160,958
Bond Issue	-	-	-	1,680,000	-	-	1,680,000
Premium on Bonds	-	-	-	8,725	-	-	8,725
Payment to escrow	-	-	-	(1,614,630)	-	-	(1,614,630)
Total Other financing Sources	24,380	69,697	12,808	74,095	54,073	-	235,053
Net change in fund balances	(106)	23	1,099	-	(7,947)	-	(6,931)
Fund balances, beginning of year	317	3,797	-	-	58,235	8,946	71,295
Fund balances, end of year	$ 211	$ 3,820	$ 1,099	$ -	$ 50,288	$ 8,946	$ 64,364

WALKERVILLE PUBLIC SCHOOLS

Food Service Fund
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual

For the Year Ended June 30, 2005

	Budget			Variance
	Original Amount	Amended Amount	Actual Amount	Positive (Negative)
Revenue				
Local				
Meal receipts	$ 31,000	$ 21,500	$ 23,008	$ 1,508
State match	16,000	14,000	13,697	(303)
Federal aid	128,000	140,720	139,501	(1,219)
Total revenues	175,000	176,220	176,206	(14)
Expenditures				
Current				
Salaries and wages	64,030	82,070	80,456	1,614
Fringe benefits	39,620	26,620	28,960	(2,340)
Non-food supplies	4,000	4,000	5,422	(1,422)
Food and milk	70,250	87,250	82,383	4,867
Contracted services	250	250	600	(350)
Miscellaneous	500	500	1,653	(1,153)
Capital outlay	-	-	1,218	(1,218)
Total expenditures	178,650	200,690	200,692	(2)
Revenue over (under) expenditures	(3,650)	(24,470)	(24,486)	(16)
Other financing sources				
Transfers in	-	24,380	24,380	-
Net change in fund balance	(3,650)	(90)	(106)	(16)
Fund balance, beginning of year	317	317	317	-
Fund balance, end of year	$ (3,333)	$ 227	$ 211	$ (16)

WALKERVILLE PUBLIC SCHOOLS

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

For the Year Ended June 30, 2005

	Budget			Variance
	Original Amount	Amended Amount	Actual Amount	Positive (Negative)
Revenues				
Local				
Ticket sales	$ 8,000	$ 8,000	$ 13,897	$ 5,897
Pop machine	2,500	2,500	2,804	304
Other	100	100	208	108
Total revenues	10,600	10,600	16,909	6,309
Expenditures				
Current				
Salaries and wages	46,020	46,020	47,552	(1,532)
Fringe benefits	11,420	11,420	11,421	(1)
Contracted services	14,215	14,215	12,824	1,391
Supplies	13,500	13,500	12,134	1,366
Equipment	4,000	4,000	1,067	2,933
Dues and fees	1,200	1,200	1,585	(385)
Total expenditures	90,355	90,355	86,583	3,772
Revenue under expenditures	(79,755)	(79,755)	(69,674)	10,081
Other financing sources				
Transfers in	79,755	79,755	69,697	(10,058)
Net change in fund balance	-	-	23	23
Fund balance, beginning of year	3,797	3,797	3,797	-
Fund balance, end of year	$ 3,797	$ 3,797	$ 3,820	$ 23

WALKERVILLE PUBLIC SCHOOLS

Statement of Changes in Assets and Liabilities
Agency Fund

For the Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Subtractions	Balance June 30, 2005
Assets				
Cash and cash equivalents	$ 13,887	$ 36,258	$ 35,406	$ 14,739
Total assets	**$ 13,887**	**$ 36,258**	**$ 35,406**	**$ 14,739**
Liabilities				
Art	$ 235	$ 1,164	$ 125	$ 1,274
Band Uniforms & Supplies	-	600	478	122
Business Club	6	1	-	7
Class of 1995	242	-	-	242
Class of 1996	442	-	-	442
Class of 1998	377	-	-	377
Class of 2000	72	-	-	72
Class of 2002	2	-	-	2
Class of 2003	-	-	-	-
Class of 2004	1,104	-	752	352
Class of 2005	92	8,345	8,385	52
Class of 2006	854	6,139	5,290	1,703
Class of 2007	862	107	51	918
Class of 2008	648	3,073	1,427	2,294
Class of 2009	80	326	24	382
Community Education	3	-	-	3
French Club	48	-	-	48
Girls Junior Varsity Team Camp	1,167	1,227	1,192	1,202
Interest earned, bank charges and administrative costs	36	-	36	-
Journalism	106	-	-	106
Miscellaneous	-	1,869	(719)	2,588
National Honor Society	151	1,289	1,273	167
Student Council	878	465	632	711
Yearbook	3,170	1,287	3,611	846
Boys Basket Ball	216	-	-	216
Wildcat Express	303	127	322	108
Athletics	1,118	2,730	3,848	-
Softball	1,615	1,325	2,660	280
Media Tech	60	287	122	225
Total liabilities	**$ 13,887**	**$ 30,361**	**$ 29,509**	**$ 14,739**

WALKERVILLE PUBLIC SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	APPROVED GRANT AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE JULY 1, 2004	CASH RECEIVED	EXPENDITURES (MEMO ONLY PRIOR YEAR(S)	EXPENDITURES YEAR ENDED JUNE 30, 2005	ACCRUED (DEFERRED) REVENUE JUNE 30, 2005
U.S. Department of Education								
Passed through Michigan Department of Education								
Title 1, Part A	84.010	041520 0405	$ 3,000	$ -	$ 2,631	$ -	$ 3,000	$ 369
Title 1, Part A	84.010	041530 0304	167,849	526	9,038	159,337	8,512	-
Title 1, Part A	84.010	041530 0405	1,750	-	1,750	-	1,750	-
Title 1, Part A	84.010	051530 0405	158,688	-	149,500	-	158,688	9,188
Title I Part D Delinquent	84.010	041700 0304	77,751	(5,324)	26,314	46,113	31,638	-
Title I Part D Delinquent	84.010	041700 0405	6,245	-	6,245	-	6,245	-
Title I Part D Delinquent	84.010	051700 0405	34,750	-	29,871	-	33,201	3,330
Total			450,033	(4,798)	225,349	205,450	243,034	12,887
Migrant Education - School Year Migrant	84.011	041890 0304	79,839	(7,036)	8,584	64,219	15,620	-
Migrant Education - School Year Migrant	84.011	051890 0405	90,876	-	90,876	-	90,876	-
Migrant Education - Summer Migrant Education	84.011	041830 2004	76,624	10,380	56,624	30,380	46,244	-
Migrant Education - Summer Migrant Education	84.011	051830 2005	75,738	-	15,260	-	27,683	12,423
Total			323,077	3,344	171,344	94,599	180,423	12,423
Improving Teacher Quality	84.367	040520 0304	32,264	231	260	32,235	29	-
Improving Teacher Quality	84.367	050520 0405	32,048	-	32,048	-	32,048	-
Total			64,312	231	32,308	32,235	32,077	-
Technology Literacy Challenge Grants	84.318	054290 0405	4,033	-	4,033	-	4,033	-
Title V	84.298	040250 0304	8,147	(2,596)	(986)	6,537	1,610	-
Title V	84.298	040250 0405	3,238	-	3,238	-	3,238	-
Title V	84.298	050250 0405	7,202	-	6,397	-	6,397	-
Total			18,587	(2,596)	8,649	6,537	11,245	-
Comp Sch Reform Demonstration Grant	84.332	031870 0304	117,599	(8,362)	26,916	82,321	35,278	-
Comp Sch Reform Demonstration Grant	84.332	041870 0405	116,570	-	80,071	-	83,705	3,634
Total			234,169	(8,362)	106,987	82,321	118,983	3,634
English Language Acquisition	84.365	040580 0304	26,411	9,426	12,202	23,635	2,776	-
English Language Acquisition	84.365	040580 0405	155	-	155	-	155	-
English Language Acquisition	84.365	050580 0405	35,774	-	13,542	-	29,380	15,838
Total			62,340	9,426	25,899	23,635	32,311	15,838
Passed through Muskegon ISD								
Drug Free Formula Grant	84.186A	057860	3,787	-	3,787	-	3,787	-
Passed through OceanalSD								
IDEA - Flow Through	84.027		7,696	-	7,696	-	7,696	-
Direct funding								
Rural Education Achievement Program	84.358	2004	7,851	-	3,252	-	3,438	186
TOTAL U.S. DEPARTMENT OF EDUCATION			1,175,885	(2,755)	589,304	444,777	637,027	44,968
U.S. Department of Agriculture								
Passed through Michigan Department of Education								
Summer Food Meals	10.559	040900	9,506	3,232	9,505	-	6,273	-
Summer Food Meals	10.559	050900	6,062	-	6,062	-	8,706	2,644
Summer Food Meals	10.559	041900	1,579	-	1,579	-	1,579	-
			17,147	3,232	17,146	-	16,558	2,644
Breakfast 041970	10.553	041970	5,177	-	5,177	-	5,177	-
Breakfast 031970	10.553	051970	26,596	-	26,596	-	26,596	-
Total			31,773	-	31,773	-	31,773	-
Sect 4 Lunches	10.555	041950	1,725	-	1,725	-	1,725	-
Sect 11 Free and Reduced	10.555	041960	13,328	-	13,328	-	13,328	-
Sect 4 all Lunches	10.555	031950	8,688	-	8,688	-	8,688	-
Sect 11 Free and Reduced	10.555	031960	61,389	-	61,389	-	61,389	-
Total			85,130	-	85,130	-	85,130	-
Food Distribution								
Entitlement	10.550		5,469	-	5,469	-	5,469	-
Bonus Commodities	10.550		571	-	571	-	571	-
Total			6,040	-	6,040	-	6,040	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			140,089	3,232	140,089	-	139,501	2,644

WALKERVILLE PUBLIC SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	APPROVED GRANT AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE JULY 1, 2004	CASH RECEIVED	EXPENDITURES (MEMO ONLY PRIOR YEAR(S)	EXPENDITURES YEAR ENDED JUNE 30, 2005	ACCRUED (DEFERRED) REVENUE JUNE 30, 2005
U.S. Department of Interior								
Passed through Ocreana County National Forest	11.000		$ 19,900	$ -	$ 19,900	$ -	$ 19,900	$ -
TOTAL U.S. DEPARTMENT OF THE INTERIOR			19,900	-	19,900	-	19,900	-
Total Federal Awards			$ 1,335,874	$ 477	$ 749,293	$ 444,777	$ 796,428	$ 47,612

Notes to Schedule of Expenditures of Federal Awards

1. This schedule is presented on the accrual basis of accounting.
2. Expenditures in this schedule are in agreement with amounts reported in the financial statements and the financial reports submitted with the Michigan Department of Education.
3. The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this schedule for USDA donated food commodities.
4. The amounts reported on the R7120 (Grants Section Auditor's Report) reconcile with this schedule.
5. Expenditures include spoilage or pilferage.

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

October 21, 2005

Board of Education
Walkerville Public Schools
Walkerville, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of ***Walkerville Public Schools*** as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 21, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered ***Walkerville Public Schools'*** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Walkerville Public Schools' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2005-1

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition referenced above is not a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of Walkerville Public Schools in a separate letter dated October 21, 2005.

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Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Education, management, 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.

Rehmann Lohan

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

October 21, 2005

Board of Education
Walkerville Public Schools
Walkerville, Michigan

Compliance

We have audited the compliance of ***Walkerville Public Schools*** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2005. ***Walkerville Public Schools'*** 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 its major federal programs is the responsibility of ***Walkerville Public Schools'*** management. Our responsibility is to express an opinion on ***Walkerville Public Schools'*** compliance based on our audit.

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

In our opinion, ***Walkerville Public Schools*** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

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Internal Control Over Compliance

The management of ***Walkerville Public Schools*** 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 ***Walkerville Public Schools'*** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Walkerville Public Schools, Michigan's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as 2005-1.

A material weakness is a reportable 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 noncompliance with the applicable requirements of laws, regulation, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition referenced above is not a material weakness.

This report is intended solely for the information and use of the Board of Education, management, 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.

Rehmann Robson

WALKERVILLE PUBLIC SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2005

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	____ yes _X_ no
Reportable condition(s) identified not considered to be material weaknesses?	_X_ yes ____ none reported
Noncompliance material to financial statements noted?	____ yes _X_ no

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	____ yes _X_ no
Reportable condition(s) identified not considered to be material weaknesses?	_X_ yes ____ none reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	____ yes _X_ no

Identification of major programs:

CFDA Number(s)	**Name of Federal Program or Cluster**
84.010	Title I

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	_X_ yes ____ no

WALKERVILLE PUBLIC SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FOR THE YEAR ENDED JUNE 30, 2005

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDING AND QUESTIONED COSTS

Finding 2005-1

Internal Controls

Finding:	A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.
Effect:	The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the general ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of accounting duties substantially increases control over errors without duplication of effort.
Recommendation:	The School District's separation of duties within the Business Office is due to the small number of staff employed. The cost/benefit of accomplishing the desired segregation of duties has been considered. The School District's Business Office, consisting of one employee, attempts to separate the duties of depositing cash and/or signing checks with that of preparing the bank reconciliation and posting transactions to the general ledger. The Superintendent is extensively involved in the purchasing cycle and thorough review of transactions is completed by the Board of Education.

WALKERVILLE PUBLIC SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED JUNE 30, 2005

SECTION IV – PRIOR YEAR FINDINGS

Finding 2004-1

The District has adopted procedures where the Superintendent is reviewing additional accounting records, although the number of staff employed in the business office remains small enough to warrant a segregation of duties finding.

* * * * * *

REHMANN ROBSON
Certified Public Accountants
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October 21, 2005

Board of Education
Walkerville Public Schools
Walkerville, Michigan

In planning and performing our audit of the financial statements of Walkerville Public Schools for the year ended June 30, 2005, we considered the District's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following paragraphs summarize our comments and suggestions regarding those matters. This letter does not affect our report dated October 21, 2005 on the financial statements of Walkerville Public Schools. Our comments are as follows:

STUDENT ACTIVITIES ACCOUNT

During our audit, we noted that reimbursement procedures are not consistent. We understand that the District is in the process of developing written procedures for these transactions. We recommend that the following elements be a part of that document. The District should inform employees that reimbursement will not be made without supporting documentation in the form of a receipt or invoice. We also advise that the same employee does not both request and approve a reimbursement. The appropriate supervisor should sign off on the request before the check is sent to the business office to be stamped.

SEGREGATION OF DUTIES

We understand that segregation of duties is limited in a District with such a small staff. Nevertheless, we recommend that the District capitalize on any opportunity to segregate the record keeping, custody, and authorization functions between employees. Currently, mail receipts are received, processed, and deposited by the same employee. We recommend that an independent employee, such as the business office assistant, open all mail receipts and record them in a list format. A copy of the list along with the actual receipts can then be forward on to the business manager for processing. Before depositing the cash, the receipt listing should be compared to the deposit slip by an independent employee.

Payroll procedures can be segregated in a similar manner. It is important that the payroll functions be delegated among business office employees. For example, if the business manager is going to process the pay runs, the Superintendent should make a final approval. In addition, the office assistant or another independent employee should do the disbursing of checks.

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TIMLINESS OF ACCOUNT RECONCILIATION

We noted in our audit that the cash account is not reconciled to the bank statement on a timely basis. This is an essential step in cash management. In addition, many banks will not correct an error if it is discovered after an unreasonable amount of time has passed. At a minimum, these reconciliations should be compared to the bank statement and signed off by an independent employee such as the Superintendent.

Rehmann Lohan