# Potterville Public Schools
# Potterville, Michigan

## FINANCIAL STATEMENTS

## June 30, 2006

Potterville Public Schools

Potterville, Michigan

BOARD OF EDUCATION

June 30, 2006

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Potterville Public Schools

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Potterville Public Schools
Potterville, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Potterville Public Schools as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Potterville Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Potterville Public Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2006 on our consideration of Potterville Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matter. The purpose of that report is to describe the scope and testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The administration's discussion and analysis and budgetary comparison information, as identified in the table of contents, 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 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 Potterville Public Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 3, 2006

# Administration's Discussion and Analysis
# For Fiscal Year Ended June 30, 2006

This section of Potterville Public Schools' annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Potterville Public Schools, a K-12 school district located in Eaton County, Michigan, is in its third year under the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Potterville Public Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

## 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 Potterville Public Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and the General Capital Projects Sinking Fund individually, and the Special Revenue Funds, Debt Service Funds, and other Capital Project Funds collectively as other nonmajor governmental funds. The remaining statements, the Statement of Fiduciary Net Assets, and the Statement of Changes in Fiduciary Net Assets, present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

## District-Wide Financial Statements

One of the most important questions asked about the School District 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, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to 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 - the difference between assets and liabilities, as reported in the Statement of Net Assets - as 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 generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall 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 of the School District's services, including instruction, supporting services, community services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

The District-wide financial statements are full accrual basis statements. They report all the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-wide financial statements.

## Fund Financial Statements

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, the Special Revenue (School Service) Funds which are comprised of: Food Service and Athletics, and Capital Project Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

## District Financial Activities:

The recent good health of the District's finances can be credited to the following innovative management approaches during a time of restricted state funding due to a weak economy and significant tax reductions at the state level:

- A board policy which requires a balanced budget with a fund balance goal of 15 percent of annual expenditures.
- Utilization of a total cost compensation approach for the negotiation of employee contracts with the District's five employee groups.

## Summary of Net Assets:

The following summarizes the net assets as of June 30, 2006 and 2005:

Condensed Statement of Net Assets
as of June 30, 2005 and 2006

| | Governmental Activities 2005 | Governmental Activities 2006 |
|---|---|---|
| **Assets** | | |
| Current and Other Assets | $ 2,660,143 | $ 2,349,113 |
| Capital Assets | 14,502,372 | 14,333,917 |
| **Total Assets** | **17,162,515** | **16,683,030** |
| **Liabilities** | | |
| Current Liabilities | 1,691,850 | 1,613,625 |
| Noncurrent Liabilities | 14,116,474 | 14,113,282 |
| **Total Liabilities** | 15,808,324 | **15,726,907** |
| **Net Assets** | | |
| Invested in capital assets, net of related debt | 360,382 | 175,975 |
| Restricted for sinking fund activity | 329,850 | 232,663 |
| Unrestricted | 663,959 | 547,485 |
| **Total Net Assets** | **$ 1,354,191** | **$ 956,123** |

**Analysis of Financial Position:**

As detailed above, the District shows a positive total net asset value of $956,123 for the fiscal year ended June 30, 2006. This statement has been affected by the following factors:

- Major construction projects became necessary to replace worn out facilities to meet the needs of students. Construction of new facilities and major modifications to other facilities began in 1999 and continued through the 2005-2006 year.
- Significant debt, ($12.4 million) was incurred by the District in 1999 to pay for the facility modification projects and principal and interest payments are significant annually. Also it is necessary for the District to borrow annually from the State of Michigan School Bond Loan Fund in order to even out the debt payment requirements.

**Results of Operations:**

For the fiscal year ended June 30, 2006 and 2005, the District-wide results of operations were:

Condensed Statement of Activities
Year Ended June 30, 2005 and 2006

| | Governmental Activities 2005 | Governmental Activities 2006 |
|---|---|---|
| **Revenues:** | | |
| Program Revenues | | |
| Charges for Service | $ 418,267 | $ 442,112 |
| Operating Grants | 773,784 | 682,736 |
| General Revenues | | |
| Property Taxes | 1,198,824 | 1,261,791 |
| State School Aid-unrestricted | 5,742,251 | 5,953,245 |
| Other | 1,104,452 | 1,262,453 |
| **Total Revenues** | **9,237,578** | **9,602,337** |
| **Functions/Program Expenses:** | | |
| Instruction | 4,908,379 | 5,053,376 |
| Supporting services | 2,683,109 | 2,765,888 |
| Community services | 393,802 | 410,238 |
| Food service | 233,254 | 247,090 |
| Athletics | 196,764 | 237,777 |
| Payment to other districts | 172,622 | 123,956 |
| Interest on long-term debt | 559,472 | 695,740 |
| Unallocated depreciation | 465,730 | 466,340 |
| **Total Expenses** | **9,613,132** | **10,000,405** |
| **(Decrease) in Net Assets** | **$( 375,554 )** | **$( 398,068 )** |

## Analysis of Results of Operations:

During fiscal year ended June 30, 2006, the District's net assets decreased by $398,068. Several factors which helped cause the reduction are discussed in the following sections.

**A. Governmental Fund Operating Results**

The District's expenditures from governmental fund operations exceeded revenues by $230,820 for the fiscal year ended June 30, 2006. Further discussion of the District's operating results is available in the section entitled "Results of 2005-2006 Operations" located on the following pages.

**B. Depreciation Expense**

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2005-2006, district assets depreciated in the amount of $466,340 and only $297,885 in new assets were capitalized causing a reduction in net district assets of $168,455.

**C. Long-Term Debt Activities**

The District reduced its long-term debt obligation during 2005-2006 by making principal payments amounting to $350,419. Additional debt of $366,371 in the form of principal and interest accrued on outstanding debt was incurred by the District during the fiscal year through the State of Michigan School Bond Loan Fund and accrued severance pay decreased by $14,298. As a result of these activities, net district long-term debt liabilities increased by $1,654.

## Results of 2005-2006 Operations

During fiscal year ended June 30, 2006, the District net assets decreased by $398,068. A few additional significant factors affecting net assets during the year are discussed below:

### A. General Fund Operations

The General Fund is the main fund for the District and includes all the costs related to educating the students of the Potterville Public Schools such as: Salaries and benefits for Teachers, Classroom Parapros, Administrators, Secretaries, Custodians, Maintenance staff, Librarians, Counselors, Bus Drivers and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's revenues exceeded expenditures from General Fund operations by $1,831 for the fiscal year ended June 30, 2006. The General Fund as of June 30, 2006, has a fund balance of $823,727 or 9.77% of expenditures for the 2005-2006 fiscal year.

### B. Debt Service Fund Operations

The Debt Service Funds consist of three separate debt funds as follows: 1999 Debt, 2001 Debt, and Durant Debt. The Debt Service Funds are set up to collect taxes and State aid and pay annual debt payments. At June 30, 2006, the Debt Service Funds had $80,819 in fund equity available for future bond payments.

The School District levies taxes to make debt payment obligations. If taxes levied are not sufficient the School District will borrow funds from the Michigan School Bond Loan Fund. Any funds borrowed from the Michigan School Bond Loan Fund will be paid back toward the end of the bond obligations. In the fiscal year ended June 30, 2006, the School District borrowed $366,371 (principal $261,231 and accrued interest of $105,140) and the School District has a total obligation of $2,841,829 to pay back to the Michigan School Bond Loan Fund including interest. The District also had Durant resolution bonds and accrued severance pay outstanding at June 30, 2006, which totaled $384,003.

The District made principal payments on bonded, long-term debt obligations that reduced the amount of the District's long-term liabilities as follows:

| | Principal Balance June 30, 2005 | Principal Payments | Principal Balance June 30, 2006 |
|---|---|---|---|
| 1998 Durant Bonds | $ 71,532 | $ 5,419 | $ 66,113 |
| 1999 Bonds | 2,040,000 | 310,000 | 1,730,000 |
| 2001 Bonds | 9,555,000 | 35,000 | 9,520,000 |
| Total long-term bond obligations | **$ 11,666,532** | **$ 350,419** | **$ 11,316,113** |

See Note D for additional details related to long-term debt.

**C. School Service Funds**

The Potterville Public Schools also has school service funds that include the following: Food Service Fund and Athletics Fund.

The Food Service Fund is a fund that reports the food service program activities. In 2005-2006 the Food Service Fund had revenues of $257,510 and expenditures of $247,090. The Food Service Fund is self-supporting and reimburses the General Fund for all identified overhead costs associated with its operation. The Food Service Fund had a fund balance of $42,405.

The Athletics Fund includes all costs for high school and middle school athletic programs including the cost for coaches, officials, supplies, tournaments, and miscellaneous. Transportation cost is accounted for in the General Fund. In 2005-2006 the Athletics Fund had revenues of $244,321 and expenditures of $237,777. The Athletics Fund generated $78,235 in revenue from gate receipts, passes, fees, donations, and other miscellaneous items. The Athletics Fund must be a balanced budget and the District contributed $166,086 from the General Fund to balance the fund. The Athletics Fund had a fund balance of $18,454.

**D. Net Investment in Capital Assets**

The District's net investment in capital assets decreased by $168,455 during the fiscal year. This can be summarized as follows:

| | Balance June 30, 2005 | Net Change | Balance June 30, 2006 |
|---|---|---|---|
| Capital assets | $ 20,566,029 | $ 235,200 | $ 20,801,229 |
| Less: accumulated depreciation | ( 6,063,657 ) | ( 403,655 ) | ( 6,467,312 ) |
| Net investment in capital outlay | **$ 14,502,372** | **$( 168,455 )** | **$ 14,333,917** |

In 1999, Potterville Public Schools voters approved a $12,425,000 general obligation bond issue. The proceeds from those bond issues were used for constructing new facilities and additions and partial remodeling of existing school facilities, and equipping and re-equipping facilities.

## IMPORTANT ECONOMIC FACTORS

### A. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

a. State of Michigan State Aid Act per student foundation allowance.
b. Student Enrollment - Blended at 75 percent of prior year's fall count and 25 percent of prior year's winter count.
c. The District's nonhomestead property valuation.

### B. Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Potterville Public Schools foundation allowance was $6,890 per student for the 2005-2006 school year. This is an increase of $175 from Potterville Public Schools 2004-05 foundation allowance of $6,715 per student.

### C. Student Enrollment

The District's student enrollment for the fall count of 2005-2006 was 911 students. The District's enrollment increased slightly from the prior school year's student count. The following summarizes fall student enrollments in the past five years:

| | Student FTE | FTE Change from Prior Year |
|---|---|---|
| 2005-2006 | 911 | 3 |
| 2004-2005 | 908 | (14) |
| 2003-2004 | 922 | 19 |
| 2002-2003 | 903 | 20 |
| 2001-2002 | 883 | N/A |

### D. Property Taxes levied for General Operations (General Fund Nonhomestead Taxes)

For the year ended June 30, 2006, the District levied 17.7372 mills of property taxes for operations (General Fund) on nonhomestead properties. The prior year's levy was 18.0000 mills of property taxes for operations (General Fund) on nonhomestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's nonhomestead property tax revenue for 2005-2006 fiscal year was $456,126. The nonhomestead tax revenue increased by 2.2% over the prior year, in part due to growth of nonhomestead properties.

### E. Debt Fund Property Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and nonhomestead.

For 2005-2006 the District's debt millage levy was 7.35 mills, which generated revenue of $709,186.

For 2005-2006 the District's sinking fund millage levy was 1.00 mills, which generated revenue of $96,480.

## GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

Listed below is an analysis of the original budget and final budget to the final actual for the last two (2) years.

### General Fund Expenditures and Other Uses Budget vs. Actual

| Fiscal Year | Original Budget | Final Budget | Actual | Variances: Actual & Original Budget | Variances: Actual & Final Budget |
|---|---|---|---|---|---|
| 2004-2005 | 8,217,377 | 8,521,496 | 8,229,571 | (.1%) | 3.4% |
| 2005-2006 | 8,579,688 | 8,651,570 | 8,433,172 | 1.7% | 2.5% |

### General Fund Revenues and Other Sources, Budget vs. Actual

| Fiscal Year | Original Budget | Final Budget | Actual | Variances: Actual & Original Budget | Variances: Actual & Final Budget |
|---|---|---|---|---|---|
| 2004-2005 | 8,218,770 | 8,291,047 | 8,175,421 | (.5%) | (1.4%) |
| 2005-2006 | 8,339,770 | 8,522,923 | 8,435,003 | 1.1% | (1.0%) |

### Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Potterville Public Schools amends its budget periodically during the school year. The June 2006 budget amendment was the final budget for the fiscal year.

### General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

| | | Percent |
|---|---|---|
| Total Expenditures Original Budget | $ 8,579,688 | 100.0 |
| Total Expenditures Final Budget | 8,651,570 | 100.8 |
| Increase in Budget Expenditures | $ 71,882 | 0.8 |

The District's actual expenditures were less than the final budget by $218,398 or 2.6 percent.

There was less than a 1% net change in the final expenditure budget compared to the originally adopted budget. This immaterial change proves that administration and the Board devote a significant amount of time in developing good, sound budgets at the inception of each fiscal year.

**Revenue Change from Original to Final Budget:**

| | | Percent |
|---|---|---|
| Total Revenues Original Budget | $ 8,339,770 | 100.0 |
| Total Revenues Final Budget | 8,522,923 | 102.2 |
| Increase in Budget Revenues | $ 183,153 | 2.2 |

The District's final actual general fund revenues differed from the final budget by $87,920 a variance of (1.0%) from the final budget.

The Final revenue budget reflects an increase in Federal Funding for WIA Youth compared to the original budget of approximately $150,000, which makes up a majority of the revenue budget increase.

**Additional Economic Factors and Next Year's Budgets and Rates**

Our elected officials and administration considered many factors when setting the School District's 2007 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent and 75 percent of the February 2006 and September 2006 student counts, respectively. The 2007 fiscal year budget was adopted in June 2006, based on an estimate of students that will be enrolled in September 2006. Approximately 80 percent to 85 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Potterville Public Schools, 420 N. High Street, Potterville, Michigan 48876.

# BASIC FINANCIAL STATEMENTS

Potterville Public Schools

STATEMENT OF NET ASSETS

June 30, 2006

| | Governmental Activities |
|---|---|
| ASSETS | |
| Current assets | |
| Cash and cash equivalents | $ 962,116 |
| Accounts receivable | 18,391 |
| Taxes receivable | 78,851 |
| Due from other governmental units | 1,283,470 |
| Prepaids | 750 |
| Inventory | 5,535 |
| Total current assets | 2,349,113 |
| Noncurrent assets | |
| Capital assets not being depreciated | 7,793 |
| Capital assets, net of accumulated depreciation | 14,326,124 |
| Total noncurrent assets | 14,333,917 |
| TOTAL ASSETS | 16,683,030 |
| LIABILITIES | |
| Current liabilities | |
| Accounts payable | 90,316 |
| Notes payable | 360,000 |
| Accrued payroll | 411,359 |
| Other accrued liabilities | 251,087 |
| Due to other governmental units | 30,137 |
| Deferred revenue | 3,275 |
| Current portion of accrued interest payable | 95,881 |
| Current portion of compensated absences | 15,894 |
| Current portion of long-term debt | 355,676 |
| Total current liabilities | 1,613,625 |
| Noncurrent liabilities | |
| Noncurrent portion of accrued interest payable | 9,020 |
| Noncurrent portion of compensated absences | 301,996 |
| Noncurrent portion of long-term debt | 13,802,266 |
| Total noncurrent liabilities | 14,113,282 |
| TOTAL LIABILITIES | 15,726,907 |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 175,975 |
| Restricted for sinking fund activity | 232,663 |
| Unrestricted | 547,485 |
| TOTAL NET ASSETS | $ 956,123 |

See accompanying notes to financial statements.

Potterville Public Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

| | Expenses | Program Revenues | | Net (Expense) Revenues and Changes in Net Assets |
|---|---|---|---|---|
| | | Charges for Services | Operating Grants | Governmental Activities |
| Expenses | | | | |
| Instruction | $ 5,053,376 | $ 16 | $ 102,504 | $ (4,950,856) |
| Supporting services | 2,765,888 | - | 198,748 | (2,567,140) |
| Community services | 410,238 | 202,447 | 285,420 | 77,629 |
| Food Service | 247,090 | 161,446 | 96,064 | 10,420 |
| Athletics | 237,777 | 78,203 | - | (159,574) |
| Payments to other districts | 123,956 | - | - | (123,956) |
| Interest and charges on long-term debt | 695,740 | - | - | (695,740) |
| Unallocated depreciation | 466,340 | - | - | (466,340) |
| TOTAL EXPENSES | $ 10,000,405 | $ 442,112 | $ 682,736 | (8,875,557) |
| General Revenues | | | | |
| Property taxes | | | | 1,261,791 |
| State school aid - unrestricted | | | | 5,953,245 |
| Investment earnings | | | | 37,689 |
| Special Education county allocation | | | | 78,794 |
| Payments from other districts | | | | 1,131,992 |
| Miscellaneous | | | | 13,978 |
| TOTAL GENERAL REVENUES | | | | 8,477,489 |
| EXCESS OF REVENUES (UNDER) EXPENSES | | | | (398,068) |
| Net assets, beginning of year | | | | 1,354,191 |
| Net assets, end of year | | | | $ 956,123 |

See accompanying notes to financial statements.

Potterville Public Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2006

| | General | General Projects (Sinking Fund) | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and cash equivalents | $ 608,882 | $ 230,114 | $ 123,120 | $ 962,116 |
| Accounts receivable | 16,168 | 947 | 1,276 | 18,391 |
| Taxes receivable | 29,087 | 5,946 | 43,818 | 78,851 |
| Due from other funds | 3,482 | - | - | 3,482 |
| Due from other governmental units | 1,283,094 | - | 376 | 1,283,470 |
| Preapids | 750 | - | - | 750 |
| Inventory | - | - | 5,535 | 5,535 |
| TOTAL ASSETS | $ 1,941,463 | $ 237,007 | $ 174,125 | $ 2,352,595 |
| LIABILITIES AND FUND BALANCE | | | | |
| LIABILITIES | | | | |
| Accounts payable | $ 64,878 | $ 4,344 | $ 21,094 | $ 90,316 |
| Notes payable | 360,000 | - | - | 360,000 |
| Accrued payroll | 411,359 | - | - | 411,359 |
| Other accrued liabilities | 251,087 | - | - | 251,087 |
| Due to other governmental units | 30,137 | - | - | 30,137 |
| Due to other funds | - | - | 3,482 | 3,482 |
| Deferred revenue | 275 | - | 3,000 | 3,275 |
| TOTAL LIABILITIES | 1,117,736 | 4,344 | 27,576 | 1,149,656 |
| FUND BALANCE | | | | |
| Reserved for | | | | |
| Inventory | - | - | 5,535 | 5,535 |
| Debt service | - | - | 80,819 | 80,819 |
| Unreserved | | | | |
| Undesignated, reported in: | | | | |
| General fund | 823,727 | - | - | 823,727 |
| Special revenue funds | - | - | 55,324 | 55,324 |
| Capital projects fund | - | 232,663 | 4,871 | 237,534 |
| TOTAL FUND BALANCE | 823,727 | 232,663 | 146,549 | 1,202,939 |
| TOTAL LIABILITIES AND FUND BALANCE | $ 1,941,463 | $ 237,007 | $ 174,125 | $ 2,352,595 |

See accompanying notes to financial statements.

Potterville Public Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH THE STATEMENT OF NET ASSETS

June 30, 2006

| | | |
|---|---|---|
| **Total fund balance - governmental funds** | | $ 1,202,939 |
| Amounts reported for the governmental activities in the statement of net assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. | | |
| The cost of capital assets is | $ 20,801,229 | |
| Accumulated depreciation is | (6,467,312) | |
| | | 14,333,917 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. | | |
| Long-term liabilities at year-end consist of: | | |
| Bonds and loans payable | 14,157,942 | |
| Accrued interest payable on long-term debt | 104,901 | |
| Compensated absences | 317,890 | |
| | | (14,580,733) |
| **Net assets of governmental activities** | | $ 956,123 |

See accompanying notes to financial statements.

Potterville Public Schools

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

Year Ended June 30, 2006

| | General | General Projects (Sinking Fund) | Nonmajor Governmental Funds | Totals Governmental Funds |
|---|---|---|---|---|
| REVENUES | | | | |
| Local sources | $ 1,905,978 | $ 104,757 | $ 945,016 | $ 2,955,751 |
| State sources | 6,033,228 | - | 21,495 | 6,054,723 |
| Federal sources | 495,797 | - | 96,065 | 591,862 |
| OTHER FINANCING SOURCES | | | | |
| Transfers from other funds | - | - | 166,086 | 166,086 |
| Loan proceeds | - | - | 261,231 | 261,231 |
| TOTAL REVENUES AND OTHER FINANCING SOURCES | 8,435,003 | 104,757 | 1,489,893 | 10,029,653 |
| EXPENDITURES | | | | |
| Current | | | | |
| Instruction | 5,002,549 | - | - | 5,002,549 |
| Supporting services | 2,730,343 | - | - | 2,730,343 |
| Community services | 410,238 | | - | 410,238 |
| Food service | - | - | 247,090 | 247,090 |
| Athletics | - | - | 237,777 | 237,777 |
| Debt service | | | | |
| Principal retirement | - | - | 350,419 | 350,419 |
| Interest, fiscal and other charges | - | - | 593,460 | 593,460 |
| Capital outlay | - | 201,944 | 196,611 | 398,555 |
| OTHER FINANCING USES | | | | |
| Transfers to other funds | 166,086 | - | - | 166,086 |
| Payments to other districts | 123,956 | - | - | 123,956 |
| TOTAL EXPENDITURES AND OTHER FINANCING USES | 8,433,172 | 201,944 | 1,625,357 | 10,260,473 |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | 1,831 | (97,187) | (135,464) | (230,820) |
| Fund balances, beginning of year | 821,896 | 329,850 | 282,013 | 1,433,759 |
| Fund balances, end of year | $ 823,727 | $ 232,663 | $ 146,549 | $ 1,202,939 |

See accompanying notes to financial statements.

Potterville Public Schools

RECONCILIATION OF THE CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

June 30, 2006

| | | |
|---|---|---|
| **Net change in fund balances - total governmental funds** | | $ (230,820) |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are: | | |
| Capital outlay | $ 297,885 | |
| Depreciation expense | (466,340) | |
| Excess of depreciation expense over capital outlay | | (168,455) |
| Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of: | | |
| Bond principal retirement | 350,419 | |
| Bond proceeds (including SBLF accrued interest) | (366,371) | |
| Excess of bond proceeds over principal retirement | | (15,952) |
| Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of: | | |
| Decrease in accrued interest payable on long-term debt | 2,861 | |
| Decrease in compensated absences | 14,298 | |
| | | 17,159 |
| **Change in net assets of governmental activities** | | $ (398,068) |

See accompanying notes to financial statements.

Potterville Public Schools

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

| | Agency Fund |
|---|---|
| ASSETS | |
| Cash | $ 42,153 |
| LIABILITIES | |
| Due to student groups | |
| Elementary | $ 4,390 |
| Middle School | 14,966 |
| High School | 22,797 |
| TOTAL LIABILITIES | $ 42,153 |

See accompanying notes to financial statements.

## NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Potterville Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Potterville Public Schools (primary government). The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The governmental fund financial statements present the District's individual major fund and aggregated nonmajor funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major funds of the District are:

a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

## NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

b. General Projects (Sinking Fund) - The General Projects (Sinking Fund) is used to record transactions relative to the expansion or improvement of the facilities of the District, not recorded in the 1999 Bond Projects Fund.

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue Funds. All unexpended appropriations lapse at fiscal year end.

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

a. The Business Manager submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.

b. Public hearings are conducted to obtain taxpayer comments.

## NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Budgets and Budgetary Accounting - continued

c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.

d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.

e. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.

f. The budget, as presented, has been amended in a legally permissible manner. Two (2) supplemental appropriations were made during the year with the final amendments being approved June 30, 2006.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, money market accounts, and pooled investment funds. Cash equivalents are recorded at market value.

6. 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" and "due to other funds" on the balance sheet.

7. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid resulted in two (2) payments related to the fiscal year ended June 30, 2006, being paid in July and August 2006. The total amount of $1,283,470 due from other governmental units consists of $1,097,407 and $186,063 related to State Aid and grant and local programs, respectively.

8. Inventory

Inventory is stated at cost on a first in/first out basis. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than $5,000 and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

## NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Capital Assets - continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

| | |
|---|---|
| Buildings and additions | 50 years |
| Equipment and furniture | 3 - 20 years |
| Vehicles | 8 years |

The District has no assets that would be classified as infrastructure assets.

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

11. Short-Term Note Obligations

Short-term debt is recognized as a liability of a governmental fund and is included on the balance sheet of the applicable fund. During the current year the District borrowed funds to meet short-term cash flow borrowing needs. The final payment is due and payable in August 2006, and anticipated State Aid and other funds on hand are expected to be sufficient to cover this commitment.

12. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements in two components: the portion of accrued interest payable that is due within one year is reported as a current liability, the remaining amount that is not due within one year has been reported as a noncurrent liability. The interest payable on the Durant Resolution bonds that were due May 15, 2003 through May 15, 2005 is shown as a noncurrent liability due to the Sate of Michigan deferring the payments during this time period until May 15, 2012. Normal payments on the Durant bonds resumed in the current year.

13. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

14. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied. Uncollected amounts as of year-end are reported as taxes receivable.

## NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Property Taxes - continued

The District levies taxes of $17.7372 per $1,000 of taxable valuation on nonhomestead property for general governmental services and $7.35 per $1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service and $1.00 per $1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for sinking fund activities. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

15. State Foundation Revenue

Beginning with 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 statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenues 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, 2006, the foundation allowance was based on the average of pupil membership counts taken in September and February of 2005. The average calculation was weighted 75% for the September 2005 count and 25% for the February 2005 count.

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 nonhomestead 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 nine (9) payments made during the year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

16. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year are recorded as deferred revenue.

17. County Special Education Revenue Allocation

The District continued to receive revenue based on excess funds remaining from a Countywide Special Education millage approved in prior years.

The millage was collected by Eaton Intermediate School District (EISD) and the payments to the District were based on EISD's previous year-end fund balance. Based on Countywide approval from all local districts within the County and the EISD, a predetermined fund equity amount has been established for equity that will remain at the EISD. The remaining excess will be allocated to all local districts within the County. The allocation is paid pro rata based upon the K-12 pupil enrollment, including Special Education students enrolled at EISD, of the District compared to the total County wide enrollment, along with a component for each local districts added special education costs incurred by each district. The K-12 enrollment for the District is defined as the blended official count for the State foundation grant.

18. Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers. Transfers are netted as a part of the reconciliation to the district-wide financial statements.

## NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

19. Comparative Data

Comparative data for the prior year has not been presented in each of the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

20. Federal Programs

Federal programs are accounted for in the General Fund and specific Special Revenue Funds. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the combined financial statements.

## NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. 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.

2. Certificates of deposit 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.

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

4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.

5. United States government or federal agency obligation repurchase agreements.

6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.

7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.

8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to $100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of $100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

## NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it.

As of June 30, 2006, the carrying amount of the District's deposits was $273,422 and the bank balance was $557,246, of which $400,000 was covered by federal depository insurance. The balance of $157,246 was uninsured and uncollateralized.

Investments

As of June 30, 2006, the District had the following investments:

| Investment type | Fair value | Bank Balance | Weighted Average Maturity (years) |
|---|---|---|---|
| Uncategorized pooled investments | $ 730,847 | $ 730,847 | Less than 12 Months Average |

Credit risk

State law limits investments in certain types of investments to a prime or better rating issue by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, the District's investment in uncategorized pooled investments (Michigan Liquid Asset Fund Plus) was rated AAA by Standard and Poor's.

Interest rate risk

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

Concentration of credit risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with Board approved policy.

The cash and cash equivalents and investments referred to above have been reported on the financial statements based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2006:

| | Governmental Activities | Fiduciary Funds | Total |
|---|---|---|---|
| Cash and cash equivalents | $ 962,116 | $ 42,153 | $ 1,004,269 |

## NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

## NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

| | Balance July 1, 2005 | Additions | Deletions | Balance June 30, 2006 |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Land | $ 7,793 | $ - | $ - | $ 7,793 |
| Capital assets being depreciated | | | | |
| Buildings and additions | 18,859,102 | 281,234 | 21,968 | 19,118,368 |
| Equipment, furniture, and other assets | 999,560 | 14,151 | - | 1,013,711 |
| Vehicles | 699,574 | 2,500 | 40,717 | 661,357 |
| Totals at historical cost | 20,558,236 | 297,885 | 62,685 | 20,793,436 |
| Less accumulated depreciation for: | | | | |
| Buildings and additions | (4,961,732) | (331,069) | (21,968) | (5,270,833) |
| Equipment, furniture, and other assets | (541,263) | (95,034) | - | (636,297) |
| Vehicles | (560,662) | (40,237) | (40,717) | (560,182) |
| Total accumulated depreciation | (6,063,657) | (466,340) | (62,685) | (6,467,312) |
| Net capital assets being depreciated | 14,494,579 | (168,455) | -0- | 14,326,124 |
| Capital assets, net | $14,502,372 | $(168,455) | $ -0- | $14,333,917 |

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

## NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2006.

| | Balance July 1, 2005 | Additions | Deletions | Balance June 30, 2006 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| 1998 Durant Resolution Bonds | $ 71,532 | $ - | $ 5,419 | $ 66,113 | $ 5,676 |
| 1999 School Building and Site General Obligation Bonds | 2,040,000 | - | 310,000 | 1,730,000 | 310,000 |
| 2001 Refunding Bonds | 9,555,000 | - | 35,000 | 9,520,000 | 40,000 |
| Michigan School Bond Loans - Principal and interest | 2,475,458 | 366,371 | - | 2,841,829 | - |
| Severance pay | 332,188 | - | 14,298 | 317,890 | 15,894 |
| | $14,474,178 | $ 366,371 | $ 364,717 | $14,475,832 | $ 371,570 |

## NOTE D: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds

| | |
|---|---|
| $12,425,000 School Buildings and Site General Obligation Bonds dated December 1, 1999, due in annual installments ranging from $310,000 to $490,000 through May 1, 2011, with interest ranging from 5.150 to 6.625 percent, payable semi-annually. | $ 1,730,000 |
| $9,660,000 Refunding Bonds dated February 14, 2001, due in annual installments ranging from $40,000 to $535,000 through May 1, 2029, with interest ranging from 4.00 to 5.15 percent, payable semi-annually. | 9,520,000 |
| Resolution Bonds | |
| $111,968 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments from $5,676 to $26,453, with interest of 4.761353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan. | 66,113 |
| | $11,316,113 |

Michigan School Bond Loans

The School District has borrowed on various occasions from the Michigan School Bond Loan Fund. Repayment is due when the School District has funds available as determined by the State of Michigan. Interest accrues on the unpaid balance. During the year the interest rate ranged from 3.125 to 4.500 percent.

The School District has borrowed $261,231 in principal during this fiscal year. The balances at June 30, 2006, are as follows:

| | |
|---|---|
| Loan balance | $ 2,542,167 |
| Interest balance | 299,662 |
| | $ 2,841,829 |

Severance Pay - In recognition of services to the District, a severance payment is made to eligible employees with at least ten (10) years of service according to their respective employment contracts as follows:

Teachers

Eligible teachers will be paid for a maximum of one hundred sixty-two days of accumulated sick leave at a rate of $45 a day.

Administrators and certain central office employees

Eligible administrators and central office employees will be paid up to a maximum of one hundred twenty days of accumulated sick leave at a rate based on their daily rate of pay.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who currently are not vested are calculated taking total unused sick pay amounts at June 30, 2006 for all nonvested employees and multiplying it by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

## NOTE D: LONG-TERM DEBT - CONTINUED

Administrators and certain central office employees - continued

A summary of the calculated amounts of accrued severance pay and related payroll taxes as of June 30, 2006, which has been recorded in the district-wide financial statements, is as follows:

| | Vested Employees | Nonvested Employees | Total |
|---|---|---|---|
| Severance pay | $ 294,420 | $ 880 | $ 295,300 |
| Payroll taxes | 22,523 | 67 | 22,590 |
| | $ 316,943 | $ 947 | $ 317,890 |

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

| Year Ending June 30, | Durant Resolution Bonds | | General Obligation Bonds | |
|---|---|---|---|---|
| | Principal | Interest | Principal | Interest |
| 2007 | $ 5,676 | $ 2,185 | $ 350,000 | $ 573,648 |
| 2008 | 5,948 | 1,915 | 350,000 | 552,672 |
| 2009 | 26,453 | 10,653 | 350,000 | 530,923 |
| 2010 | 6,527 | 1,335 | 355,000 | 508,735 |
| 2011 | 6,839 | 1,024 | 535,000 | 490,857 |
| 2012-2016 | 14,670 | 1,056 | 2,665,000 | 2,070,169 |
| 2017-2021 | - | - | 2,065,000 | 1,429,800 |
| 2022-2026 | - | - | 2,540,000 | 776,878 |
| 2027-2029 | - | - | 1,500,000 | 153,985 |
| | $ 66,113 | $ 18,168 | $11,250,000 | $ 7,087,667 |

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation.

It is not possible to project a payment schedule for the Michigan School Bond Loans due to the varying interest rates and timing of repayments. As a result, it is not included in the schedule above.

Advance Refunding - Prior

On February 14, 2001 the District defeased the portion of the 1999 School Building and Site Bonds which are due and payable May 1, 2012 through May 1, 2029. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2001 Refunding Bonds in the amount of $9,660,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2006, bonds due and payable May 1, 2012 through May 1, 2029 for the 1999 School Building and Site Bonds in the amount of $8,835,000 are considered defeased.

## NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2006 are as follows:

| | |
|---|---|
| Due to general fund from: | |
| Nonmajor governmental funds | $ 3,482 |

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

## NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

| | |
|---|---|
| Transfers to nonmajor governmental funds from: | |
| General Fund | $ 166,086 |

## NOTE G: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPSERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2003, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

The payroll for employees covered by the MPSERS for the year ended June 30, 2006 was $4,957,742 of which $3,458,430 was for members who have elected the MIP option; the District's total payroll was $5,108,525.

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. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. 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 credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years 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 (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) 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 (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

## NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

The MPSERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

For the period of July 1, 2005 to September 30, 2005, the District was required by State statute to contribute 14.87% of covered compensation for all wages to the Plan. For the period of October 1, 2005 to June 30, 2006, the District was required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2006 and the previous two (2) years is as follows:

| June 30, | MIP Contributions | District Contributions | Total Contributions |
|---|---|---|---|
| 2006 | $ 134,566 | $ 795,500 | $ 930,066 |
| 2005 | 130,809 | 711,895 | 842,704 |
| 2004 | 123,416 | 624,819 | 748,235 |

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

| June 30, | MIP Contributions | District Contributions |
|---|---|---|
| 2006 | 4.0 % | 16.0 % |
| 2005 | 4.0 | 14.5 |
| 2004 | 4.0 | 13.0 |

## NOTE H: FUND BALANCE RESERVES

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of June 30, 2006:

| | |
|---|---|
| Special Revenue Funds | |
| Food Services | |
| Reserved for inventory | $ 5,535 |
| Debt Service Funds | |
| Reserved for debt retirement | 80,819 |
| | $ 86,354 |

## NOTE I: RISK MANAGEMENT

The District also participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, fleet, liability, in-land marine, crime, equipment breakdown, and employee dishonesty. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. The District has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The District has no liability for additional assessments based on claims filed against the pool nor do they have any right to dividends.

## NOTE J: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplantiff District an agreed upon amount for past under funding of special education. Potterville Public Schools, a nonplantiff District, was awarded $111,968 in the settlement. The funds are being paid as follows:

a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.

b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriate. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

## NOTE K: BONDED CONSTRUCTION FUNDS

The Capital Project Funds of the District include the capital projects activities funded by the $12,425,000 School Building and Site General Obligation Bonds dated December 1, 1999. The remaining funding for the activities recorded within the Capital Project Funds are funded by local revenues from local millage for a bond sinking fund and other local revenue such as interest, general fund transfers, etc. For these projects recorded within the Capital Project Funds, the District has, based on our testing of a sample of transactions from the inception of these projects, complied with the applicable provisions of Sections 1351 (a) and 1212 of the Revised School Code, and the Michigan Department of Treasury Letter 01-95, in the current year and all applicable prior years.

The Capital Projects Funds include capital project activities funded in part with the above-mentioned bonds issued and sinking fund amounts levied after May 1, 1994. The following is a summary of the revenue and expenditures in the Capital Projects Funds from the inception of each fund as it relates to these bond issues through the current fiscal year. These amounts relate to cumulative project-to-date revenues/expenditures through the period ended June 30, 2006.

| | General Projects (Sinking Fund) | 1999 Bond Project | Total |
|---|---|---|---|
| Revenues | $ 1,288,224 | $13,115,077 | $14,403,301 |
| Expenditures | $ 1,055,561 | $13,110,206 | $14,165,767 |

## NOTE L: SHORT-TERM NOTES

On August 20, 2005, the District paid off the 2004 State Aid Note with a principal amount of $250,000 and interest of $3,914. On August 20, 2005, the District issued a short-term State School Aid Anticipation Note in the amount of $360,000 for the purpose of funding operating expenditures until the fiscal year 2006 State Aid payments resumed. The outstanding balance was scheduled to be paid off on August 18, 2006.

## NOTE M: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the District's budgeted expenditures in the General Fund have been shown at the functional level. The General Fund budget is adopted at the functional classification level.

During the year ended June 30, 2006, the District incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

| | Amounts Appropriated | Amounts Expended | Variance |
|---|---|---|---|
| General Fund | | | |
| Other supporting services | | | |
| Security services | $ 19,381 | $ 21,799 | $ 2,418 |

## NOTE N: SUBSEQUENT EVENTS

After the year ended June 30, 2006, the following subsequent event occurred:

On August 18, 2006, the District issued a State School Aid Anticipation Note in the amount of $360,000 for the purpose of funding operating expenditures until the fiscal year 2007 State Aid payments start October 2006. This short-term note will be paid off when the District accumulates sufficient State Aid revenues.

## NOTE O: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2006:

| | |
|---|---|
| PRIMARY GOVERNMENT | |
| Governmental activities | |
| Restricted for Sinking Fund purposes | $ 232,663 |

# REQUIRED SUPPLEMENTARY INFORMATION

Potterville Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| REVENUES | | | | |
| Local sources | $ 1,827,175 | $ 1,922,345 | $ 1,905,978 | $ (16,367) |
| State sources | 6,097,321 | 6,032,460 | 6,033,228 | 768 |
| Federal sources | 415,274 | 568,118 | 495,797 | (72,321) |
| TOTAL REVENUES | 8,339,770 | 8,522,923 | 8,435,003 | (87,920) |
| EXPENDITURES | | | | |
| INSTRUCTION | | | | |
| Basic programs | | | | |
| Elementary | 1,304,802 | 1,284,669 | 1,275,493 | 9,176 |
| Middle school | 1,139,645 | 1,073,570 | 1,060,066 | 13,504 |
| High school | 1,635,329 | 1,727,579 | 1,711,915 | 15,664 |
| Total basic programs | 4,079,776 | 4,085,818 | 4,047,474 | 38,344 |
| Added needs | | | | |
| Special education | 778,410 | 809,786 | 790,278 | 19,508 |
| Compensatory education | 112,869 | 108,902 | 97,434 | 11,468 |
| Total added needs | 891,279 | 918,688 | 887,712 | 30,976 |
| Adult and continuing education | 75,144 | 76,931 | 67,363 | 9,568 |
| TOTAL INSTRUCTION | 5,046,199 | 5,081,437 | 5,002,549 | 78,888 |
| SUPPORTING SERVICES | | | | |
| Student services | | | | |
| Guidance services | 161,955 | 144,227 | 143,565 | 662 |
| Speech therapist | 35,450 | 26,998 | 24,988 | 2,010 |
| Social work services | 114,719 | 108,462 | 101,751 | 6,711 |
| Total student services | 312,124 | 279,687 | 270,304 | 9,383 |
| Instructional staff | | | | |
| Teacher consultant | 100,056 | 100,179 | 99,627 | 552 |
| Pupil support services | 372 | 868 | 843 | 25 |
| Improvement of instruction | 32,475 | 35,009 | 32,433 | 2,576 |
| Technology assisted instruction | 1,000 | - | - | -0- |
| Supervisor and director of instruction | 246,390 | 241,501 | 225,988 | 15,513 |
| Education media services | 112,902 | 108,953 | 108,156 | 797 |
| Total instructional staff | 493,195 | 486,510 | 467,047 | 19,463 |

Potterville Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2006

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| SUPPORTING SERVICES -CONTINUED | | | | |
| General administration | | | | |
| Board of education | $ 40,716 | $ 44,743 | $ 42,246 | $ 2,497 |
| Executive administration | 142,443 | 101,232 | 100,589 | 643 |
| Total general administration | 183,159 | 145,975 | 142,835 | 3,140 |
| School administration | 580,270 | 588,170 | 578,191 | 9,979 |
| Business | | | | |
| Fiscal services | 149,404 | 139,529 | 137,313 | 2,216 |
| Other business services | 27,954 | 34,385 | 32,984 | 1,401 |
| Total business | 177,358 | 173,914 | 170,297 | 3,617 |
| Operations and maintenance | 753,365 | 789,215 | 766,843 | 22,372 |
| Transportation | 259,756 | 273,104 | 261,213 | 11,891 |
| Other supporting services | | | | |
| Staff/personnel services | 5,000 | 13,221 | 10,786 | 2,435 |
| Security services | 14,850 | 19,381 | 21,799 | (2,418) |
| Support technology services | 59,927 | 45,710 | 41,028 | 4,682 |
| Total other supporting services | 79,777 | 78,312 | 73,613 | 4,699 |
| TOTAL SUPPORTING SERVICES | 2,839,004 | 2,814,887 | 2,730,343 | 84,544 |
| COMMUNITY SERVICES | | | | |
| General community services | 7,954 | 5,480 | 4,610 | 870 |
| Community daycare | 179,319 | 178,803 | 169,539 | 9,264 |
| Other community services | 128,555 | 277,721 | 236,089 | 41,632 |
| TOTAL COMMUNITY SERVICES | 315,828 | 462,004 | 410,238 | 51,766 |
| TOTAL EXPENDITURES | 8,201,031 | 8,358,328 | 8,143,130 | 215,198 |

Potterville Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2006

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| OTHER FINANCING USES | | | | |
| Transfers to other funds | $ 166,690 | $ 166,690 | $ 166,086 | $ 604 |
| Payments to other districts | 211,967 | 126,552 | 123,956 | 2,596 |
| TOTAL OTHER FINANCING USES | 378,657 | 293,242 | 290,042 | 3,200 |
| TOTAL EXPENDITURES AND OTHER FINANCING USES | 8,579,688 | 8,651,570 | 8,433,172 | 218,398 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | (239,918) | (128,647) | 1,831 | 130,478 |
| Fund balance, beginning of year | 821,896 | 821,896 | 821,896 | -0- |
| Fund balance, end of year | $ 581,978 | $ 693,249 | $ 823,727 | $ 130,478 |

# OTHER SUPPLEMENTARY INFORMATION

Potterville Public Schools

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2006

| | Special Revenue Funds | | Debt Service Funds | | |
|---|---|---|---|---|---|
| | Food Service | Athletics | 1999 Debt | 2001 Debt | Durant Debt |
| ASSETS | | | | | |
| Cash and cash equivalents | $ 40,468 | $ 21,892 | $ 18,089 | $ 17,895 | $ - |
| Accounts receivable | - | 259 | 532 | 485 | - |
| Taxes receivable | - | - | 22,948 | 20,870 | - |
| Due from other governmental units | 376 | - | - | - | - |
| Inventory | 5,535 | - | - | - | - |
| TOTAL ASSETS | $ 46,379 | $ 22,151 | $ 41,569 | $ 39,250 | $ -0- |
| LIABILITIES AND FUND BALANCES | | | | | |
| LIABILITIES | | | | | |
| Accounts payable | $ 492 | $ 697 | $ - | $ - | $ - |
| Deferred revenue | - | 3,000 | - | - | - |
| Due to other funds | 3,482 | - | - | - | - |
| TOTAL LIABILITIES | 3,974 | 3,697 | -0- | -0- | -0- |
| FUND BALANCES | | | | | |
| Reserved for | | | | | |
| Inventory | 5,535 | - | - | - | - |
| Debt service | - | - | 41,569 | 39,250 | - |
| Unreserved | | | | | |
| Undesignated, reported in | | | | | |
| Special revenue funds | 36,870 | 18,454 | - | - | - |
| Capital projects fund | - | - | - | - | - |
| TOTAL FUND BALANCES | 42,405 | 18,454 | 41,569 | 39,250 | -0- |
| TOTAL LIABILITIES AND FUND BALANCES | $ 46,379 | $ 22,151 | $ 41,569 | $ 39,250 | $ -0- |

| Captial Project Funds | |
|---|---|
| 1999 Bond Projects | Total |
| $ 24,776 | $ 123,120 |
| - | 1,276 |
| - | 43,818 |
| - | 376 |
| - | 5,535 |
| $ 24,776 | $ 174,125 |
| | |
| $ 19,905 | $ 21,094 |
| - | 3,000 |
| - | 3,482 |
| 19,905 | 27,576 |
| | |
| - | 5,535 |
| - | 80,819 |
| | |
| - | 55,324 |
| 4,871 | 4,871 |
| 4,871 | 146,549 |
| $ 24,776 | $ 174,125 |

Potterville Public Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year ended June 30, 2006

| | Special Revenue Funds | | Debt Service Funds | | |
|---|---|---|---|---|---|
| | Food Service | Athletics | 1999 Debt | 2001 Debt | Durant Debt |
| REVENUES | | | | | |
| Local sources | $ 147,813 | $ 78,235 | $ 375,478 | $ 339,588 | $ - |
| State sources | 13,632 | - | - | - | 7,863 |
| Federal sources | 96,065 | - | - | - | - |
| OTHER FINANCING SOURCES | | | | | |
| Transfers from other funds | - | 166,086 | - | - | - |
| Loan proceeds | - | - | 72,246 | 188,985 | - |
| TOTAL REVENUES AND OTHER FINANCING SOURCES | 257,510 | 244,321 | 447,724 | 528,573 | 7,863 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Food service | 247,090 | - | - | - | - |
| Athletics | - | 237,777 | - | - | - |
| Debt service | | | | | |
| Principal retirement | - | - | 310,000 | 35,000 | 5,419 |
| Interest, fiscal and other charges | - | - | 117,271 | 473,745 | 2,444 |
| Capital outlay | - | - | - | - | - |
| TOTAL EXPENDITURES | 247,090 | 237,777 | 427,271 | 508,745 | 7,863 |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES | 10,420 | 6,544 | 20,453 | 19,828 | -0- |
| Fund balances, beginning of year | 31,985 | 11,910 | 21,116 | 19,422 | - |
| Fund balances, end of year | $ 42,405 | $ 18,454 | $ 41,569 | $ 39,250 | $ -0- |

| Capital Project Funds | |
|---|---|
| 1999 Bond Projects | Total |
| $ 3,902 | $ 945,016 |
| - | 21,495 |
| - | 96,065 |
| - | 166,086 |
| - | 261,231 |
| 3,902 | 1,489,893 |
| - | 247,090 |
| - | 237,777 |
| - | 350,419 |
| - | 593,460 |
| 196,611 | 196,611 |
| 196,611 | 1,625,357 |
| (192,709) | (135,464) |
| 197,580 | 282,013 |
| $ 4,871 | $ 146,549 |

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

To the Board of Education
Potterville Public Schools
Potterville, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Potterville Public Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 3, 2006. 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 Potterville 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. 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Potterville 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the administration and Board of Education of Potterville Public Schools, the Federal Awarding Agencies and the pass-through grantors and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 3, 2006

# Potterville Public Schools

## SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS (FEDERAL AWARDS)

June 30, 2006

Potterville Public Schools

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

Board of Education
Potterville Public Schools
Potterville, Michigan

## Compliance

We have audited the compliance of Potterville 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 is applicable to the major Federal program for the year ended June 30, 2006. Potterville Public Schools' major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major Federal programs are the responsibility of Potterville Public Schools' management. Our responsibility is to express an opinion on Potterville 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 Nonprofit 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 major Federal programs occurred. An audit includes examining, on a test basis, evidence about Potterville 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 Potterville Public Schools' compliance with those requirements.

In our opinion, Potterville Public Schools complied, in all material respects, with the requirements referred to above that are applicable to the major Federal programs for the year ending June 30, 2006.

## Internal Control Over Compliance

The management of Potterville 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 Potterville Public Schools' internal control over compliance with requirements that could have a direct and material effect on the major Federal programs 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to the major Federal programs 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 compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Potterville Public Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 3, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Potterville Public Schools' basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and administration of Potterville Public Schools, the pass-through grantors, and the Federal awarding agencies and is not intended to be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 3, 2006

Potterville Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2006

| Federal Grantor / Pass-Through Grantor Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Restated Program or Award Amount | (Memo Only) Prior Years' Expenditures | Balance July 1, 2005 Accrued or (Deferred) Revenue | Cash Receipts In-Kind Payments | Expenditures | Balance June 30, 2006 Accrued or (Deferred) Revenue |
|---|---|---|---|---|---|---|---|---|
| U.S. DEPARTMENT OF LABOR | | | | | | | | |
| Passed through Michigan Department of Career Development and Capital Area Michigan Works | | | | | | | | |
| WIA Youth Activities (e) | 17.259 | 5235 | $ 162,437 | $ - | $ - | $ 131,053 | $ 157,021 | $ 25,968 |
| U.S DEPARTMENT OF EDUCATION | | | | | | | | |
| Passed Through State Department of Education | | | | | | | | |
| ABE | 84.002 | | | | | | | |
| 2004-05 Instruction | | 051130511045 | 44,577 | 44,577 | 13,873 | 13,873 | - | -0- |
| 2005-06 Instruction | | 061130611046 | 36,000 | - | - | 25,701 | 35,846 | 10,145 |
| 2003-04 State Leadership Project | | 01150530060 | 980 | 980 | 540 | 540 | - | -0- |
| | | | 81,557 | 45,557 | 14,413 | 40,114 | 35,846 | 10,145 |
| E.S.E.A. Title I | 84.010 | | | | | | | |
| 2004-05 Regular - Part A | | 0515300405 | 68,445 | 68,445 | 3,210 | 3,210 | - | 0 |
| 2004-05 Carryover - Part A | | 0515300506 | 2,707 | - | - | 2,707 | 2,707 | -0- |
| 2005-06 Regular - Part A | | 0615300506 | 64,771 | - | - | 50,719 | 58,130 | 7,411 |
| | | | 135,923 | 68,445 | 3,210 | 56,636 | 60,837 | 7,411 |
| Handicapped Preschool & School Program | 84.027 | | | | | | | |
| 2005-06 | | 060440SPSR | 3,750 | - | - | 2,123 | 3,320 | 1,197 |
| Drug Free Schools and Communities | 84.184 | | | | | | | |
| 2003-04 | | 042600-0CS03 | 55,792 | 55,792 | 13,409 | 13,409 | - | -0- |
| Education for Homeless Children and Youths | 84.196 | | | | | | | |
| 2003-04 | | 0423200405-C | 23,946 | 23,946 | 19,467 | 19,467 | - | -0- |
| 2004-05 | | 0523200405 | 38,403 | 30,435 | 5,343 | 13,311 | 7,968 | -0- |
| 2004-05 | | 0523200506-C | 5,435 | - | - | 60 | 5,435 | 5,375 |
| 2005-06 | | 0623200506 | 56,395 | - | - | 24,736 | 34,798 | 10,062 |
| | | | 124,179 | 54,381 | 24,810 | 57,574 | 48,201 | 15,437 |
| Title V | 84.298 | | | | | | | |
| 2005-06 | | 0602500506 | 369 | - | - | 369 | 369 | -0- |

Potterville Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended June 30, 2006

| Federal Grantor / Pass-Through Grantor Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Restated Program or Award Amount | (Memo Only) Prior Years' Expenditures | Balance July 1, 2005 Accrued or (Deferred) Revenue | Cash Receipts In-Kind Payments | Expenditures | Balance June 30, 2006 Accrued or (Deferred) Revenue |
|---|---|---|---|---|---|---|---|---|
| U.S DEPARTMENT OF EDUCATION - CONTINUED | | | | | | | | |
| Passed Through State Department of Education - Continued | | | | | | | | |
| Technology Literacy Challenge Grants | 84.318 | | | | | | | |
| 2005-06 Ed Tech - Formula Grant | | 0642900506 | 1,208 | - | - | 1,208 | 1,208 | -0- |
| Improving Teacher Quality | 84.367 | | | | | | | |
| 2004-05 | | 0505200405 | 26,164 | 26,164 | 2,850 | 2,850 | - | -0- |
| 2004-05 | | 0505200506 | 5,683 | - | - | 5,682 | 5,682 | -0- |
| 2005-06 | | 0605200506 | 32,057 | - | - | 24,450 | 28,090 | 3,640 |
| | | | 63,904 | 26,164 | 2,850 | 32,982 | 33,772 | 3,640 |
| Passed Through State Department of Education and Eaton Intermediate School District Special Education 94-142 | | | | | | | | |
| Flow Through | 84.027 | | | | | | | |
| 2005-06 | | 8050060450 | 25,000 | - | - | - | 25,000 | 25,000 |
| 2005-06 | | 8050060450 | 4,025 | - | - | - | 2,464 | 2,464 |
| | | | 29,025 | - | - | - | 27,464 | 27,464 |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | 495,707 | 250,339 | 58,692 | 204,415 | 211,017 | 65,294 |
| U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | | | | | |
| Passed Through State Department of Career Development and Capital Area Michigan Works! | | | | | | | | |
| TANF Program | 93.558 | | | | | | | |
| 2006 Learn-to-Earn | | 6236 | 100,000 | - | - | 57,996 | 71,743 | 13,747 |
| 2005 Learn-to-Earn | | 5236 | 115,000 | 81,729 | 14,163 | 42,536 | 28,373 | -0- |
| | | | 215,000 | 81,729 | 14,163 | 100,532 | 100,116 | 13,747 |

Potterville Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended June 30, 2006

| Federal Grantor / Pass-Through Grantor Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Restated Program or Award Amount | (Memo Only) Prior Years' Expenditures | Balance July 1, 2005 Accrued or (Deferred) Revenue | Cash Receipts In-Kind Payments | Expenditures | Balance June 30, 2006 Accrued or (Deferred) Revenue |
|---|---|---|---|---|---|---|---|---|
| U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED | | | | | | | | |
| Passed Through State Department of Career Development and Capital Area Michigan Works! and Eaton Intermediate Schools District | | | | | | | | |
| TANF Program | 93.558 | | | | | | | |
| 2005-06 Learn-to-Earn | | 6237 | $ 25,000 | $ - | $ - | $ 17,518 | $ 18,786 | $ 1,268 |
| 2004-05 Learn-to-Earn | | 5237 | 25,000 | 18,722 | 1,745 | 7,922 | 6,177 | -0- |
| | | | 50,000 | 18,722 | 1,745 | 25,440 | 24,963 | 1,268 |
| TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | 265,000 | 100,451 | 15,908 | 125,972 | 125,079 | 15,015 |
| U.S. DEPARTMENT OF HOMELAND SECURITY | | | | | | | | |
| Passed through Michigan State Police and Eaton County | | | | | | | | |
| 2005 Homeland Security Grant | 97.004 | N/A | 6,000 | - | - | 2,680 | 2,680 | -0- |
| U.S. DEPARTMENT OF AGRICULTURE | | | | | | | | |
| Passed Through State Department of Education | | | | | | | | |
| School Breakfast Program | 10.553 (f) | | | | | | | |
| 2004-05 | | 051970 | 10,130 | 9,113 | - | 1,017 | 1,017 | -0- |
| :2005-06 | | 061970 | 12,385 | - | - | 12,385 | 12,385 | -0- |
| | | | 22,515 | 9,113 | -0- | 13,402 | 13,402 | -0- |
| National School Lunch Program | 10.555 (f) | | | | | | | |
| 2004-05 | | 051950, 051960 | 65,602 | 57,488 | - | 8,114 | 8,114 | -0- |
| 2005-06 | | 061950, 061960 | 63,206 | - | - | 63,206 | 63,206 | -0- |
| | | | 128,808 | 57,488 | -0- | 71,320 | 71,320 | -0- |
| Food Donation (c) | 10.550 | | | | | | | |
| Entitlement commodities | | 23090 | 9,819 | - | - | 9,819 | 9,819 (a) | -0- |
| Bonus commodities | | 23090 | 1,524 | - | - | 1,524 | 1,524 (a) | -0- |
| | | | 11,343 | -0- | -0- | 11,343 | 11,343 | -0- |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | | 162,666 | 66,601 | -0- | 96,065 | 96,065 | -0- |
| TOTAL FEDERAL AWARDS | | | $ 1,091,810 | $ 417,391 | $ 74,600 | $ 560,185 (d) | $ 591,862 (b) (g) | $ 106,277 |

Potterville Public Schools

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2006

## NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of June 30, 2006, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

## NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) through (g) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

(a) The current year expenditures for the Food Donation Program are determined based on the 2002/03 guidance provided in the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.

(b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.

(c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.

(d) The amounts reported in this schedule as cash received are in agreement with the current payment amounts in the Grants Section Auditor's Report.

(e) Denotes program tested as "major program".

(f) Denotes programs required to be clustered by the United States Department of Agriculture.

(g) Agrees to total revenues from Federal sources per financial statements.

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

Board of Education
Potterville Public Schools
Potterville, Michigan

We have audited the financial statements of Potterville Public Schools, Michigan as of and for the year ended June 30, 2006, and have issued our report thereon dated August 3, 2006. 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 Potterville Public Schools' 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 and administration of Potterville Public Schools, the pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 3, 2006

Potterville Public Schools

SCHEDULE OF FINDINGS

For the Year Ended June 30, 2006

## SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. There were no reportable conditions disclosed by the audit of the basic financial statements. We noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material effect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We did not disclose any findings related to internal controls or compliance related to the major program tested.

The major program tested to cover 25 percent of the total Federal expenditures was the WIA Youth Activities (CFDA 17.259) Program. Total Federal expenditures for the year ended June 30, 2006 for the major program was $157,021, which is approximately 27 percent of total Federal expenditures. Based on the criteria of OMB Circular A-133, Potterville Public Schools was determined to qualify as a low-risk auditee for the year ended June 30, 2006.

The District had no Type A programs. Programs of less than $300,000 were determined to be Type B programs.

## FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Control Over the Financial Statements.

None

Findings Related to Compliance with Requirements Related to the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

Potterville Public Schools

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2006

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.