Central Montcalm Public School
Stanton, Michigan

FINANCIAL STATEMENTS

June 30, 2008

Central Montcalm Public School

Stanton, Michigan

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June 30, 2008

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Central Montcalm Public School

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Central Montcalm Public School
Stanton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Montcalm Public School as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Central Montcalm Public School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Central Montcalm Public School as of June 30, 2008, 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 September 12, 2008, on our consideration of Central Montcalm Public School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 management'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 Central Montcalm Public School's 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 supplementary 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

September 12, 2008

Central Montcalm Public School

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

This section of the Central Montcalm Public School's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

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 Central Montcalm Public School 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 a longer-term view of those 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 (major) fund, the General Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary (Student Activities Agency) net assets, presents 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 School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements 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 to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided, the condition of the district's assets and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

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

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

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

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2008, with comparative information as of June 30, 2007:

Table 1

	Statement of Net Assets	
	June 30, 2008 *(millions)*	June 30, 2007 *(millions)*
Assets		
Current and other assets	$ 6.0	$ 6.4
Capital Assets	25.0	25.6
Total Assets	31.0	32.0
Liabilities		
Current Liabilities	4.9	5.3
Noncurrent Liabilities	20.4	21.4
Total Liabilities	25.3	26.7
Net Assets		
Invested in capital assets, net of related debt	4.0	3.7
Restricted	0.3	0.3
Unrestricted	1.4	1.3
	$ 5.7	$ 5.3

The analysis in Table 1 focuses on the net assets of the district. The affect on net assets as a result of the fiscal year activities is reflected in Table 2.

Central Montcalm Public School

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

The School District's net assets were $5.3 million at June 30, 2007, and $5.7 million at June 30, 2008, (Table 1). The $400,000 increase in net assets is mainly due to excess asset depreciation over capital expenditures of ($1.4) million, additional accrued interest expense on the School Bond Loan Fund ($.1) million and long-term debt principal retirement of $1 million.

Capital assets, net of related debt totaling $4.0 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Capital assets also reflect investments in capital assets from operating funds. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Durant loan obligations of the State are included in Long-Term obligations of the School District. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. Restricted Net Assets reflect the Debt Service fund balances less accrued interest on long-term debt as of June 30, 2008. Unrestricted Net Assets reflect those assets available to the school district for use in its operation.

The $1.4 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the condensed statement of activities (Table 2), which shows the changes in net assets for fiscal year 2007/08. Depreciation costs are allocated to areas of activities (Instruction, Support Services, Food Services, etc.). This allocation of depreciation expense is intended to reflect the true cost of these activities.

Governmental Activities
(in millions)

Table 2

	Year Ended, June 30, 2008	Year Ended, June 30, 2007
Revenue		
Program Revenues:		
Charges for services	$ 0.4	$ 0.4
Operating Grants	2.6	2.4
General Revenues:		
Property Taxes	3.2	3.0
State foundation allowance	12.0	12.1
Other	0.2	0.2
Total Revenue	18.4	18.1
Functions/Program Expenses		
Instruction	9.5	10.5
Support Services	5.6	5.7
Food Services	0.8	0.7
Athletics and community service	0.2	0.3
Payments to other districts	0.0	0.2
Interest and costs on long-term debt	1.0	1.0
Interest and costs on long-term debt	0.9	1.0
Total Expenses	18.0	18.4
Increase (Decrease) in Net Assets	$ 0.4	$(0.3)

The 2007/08 fiscal year presented a number of challenges for the school district, particularly in the General Fund. It was anticipated that expenses would outpace revenues. There continues to be a strain on the State's ability to adequately fund public schools. Expenses continue to increase without a corresponding increase in revenues. Other factors that affect the value of Net Assets are year-to-year fund balances in the debt service funds, amounts of debt outstanding, as well as the fund balance in the School Service funds at year-end.

As reported in the Statement of Activities, the cost of all of our *governmental* activities this year was $18.0 million. Certain activities were partially funded from those who benefited from the programs ($.4 million charges for services) or by other governments and organizations that subsidized certain programs with operating grants and contributions ($2.6 million). We paid for the remaining "public benefit" portion of our governmental activities with $3.2 million in taxes (for General & Debt funds) and $12.0 million in State foundation allowance and other revenues, i.e., interest and general entitlements. The decrease in Net Assets is mainly due to excess depreciation over capital expenditures ($1.4 million) and additional accrued interest expense on the School Bond Loan Fund ($.1 million)

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

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of 2.1 million, which is an increase of approximately $142,000 from last year. The primary reason for the increase was the District's close monitoring of the budget and overall cost containment during uncertain times.

Our Special Revenue Funds remained relatively constant. Special Revenue Funds include the Food Service, Athletics, and Community Service Funds. The Food Service Fund did have an increase to fund balance of approximately $7,000 due to an increase in meal sales and controlling of overall costs in this fund.

General Fund Budgetary Highlights

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

There were minor revisions made to the 2007-2008 General Fund original budget. The total expenditure budget was amended approximately $.2 million to cover expenditures that were anticipated for capital outlay, increased substitute teacher costs and hiring two additional teachers.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2008, the School District had approximately $35.0 million invested in a broad range of net capital assets, including land, buildings, vehicles, furniture, and equipment (net of accumulated depreciation). This amount represents a net increase (including additions and disposals) of approximately $250,000 from last year net capital assets. Below is the historical cost of all District Capital assets:

	2008	2007
Land	$ 12,802	$ 12,802
Buildings and building improvements	30,445,382	30,367,314
Buses and other vehicles	1,334,793	1,265,818
Furniture and equipment	3,256,971	3,139,163
Total historical cost	$ 35,049,948	$ 34,785,097

There was $10,019,171 in accumulated depreciation on these assets at June 30, 2008, to bring them to a net book value of $25,030,777. See the notes to the financial statements for more details related to capital assets.

This year's additions to historical cost of approximately $264,851 included miscellaneous equipment, buses, and building improvements. No new debt was issued for these additions.

Debt

At the end of this year, the School District had almost $21.1 million in bonds and other obligations outstanding versus almost $22.1 million in the previous year. Those debts consisted of the following:

	2008	2007
General Obligation Bonds	$ 18,314,104	$ 18,974,104
School Bond Loan	2,656,642	2,871,215
Employee compensated absences	239,914	235,620
Capitalized bond items less deferred amounts	58,446	61,368
Total	$ 21,269,106	$ 22,142,307

The State limits the amount of general obligation debt that schools can issue up to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding qualified general obligation debt of approximately $18 million is below this statutorily imposed limit.

Other obligations including accrued vacation pay and sick leave are reported as required by GASB. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2008/09 fiscal year budgets. 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 2009 fiscal year is 25 percent and 75 percent of the February 2008 and September 2008 student counts, respectively. The 2008/09 budget was adopted in June 2008, based on an estimate of students that will be enrolled in September 2008. Approximately 86 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. Based on early enrollment data at the start of the 2008/09 school year, we anticipate that the fall student count will be approximately 30 less than the number used in creating the 2007/08 budget. 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 health 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. The State periodically holds a revenue-estimating conference to estimate revenues.

Contacting the District's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Business Office.

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989-831-5243

BASIC FINANCIAL STATEMENTS

Central Montcalm Public School

STATEMENT OF NET ASSETS

June 30, 2008

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	$ 2,796,174
Investments	590,623
Accounts receivable	1,766
Interest receivable	5,236
Due from other governmental units	2,578,121
Prepaids	17,174
Inventories	15,236
Total current assets	6,004,330
Noncurrent assets	
Capital assets not being depreciated	12,802
Capital assets, net of accumulated depreciation	25,017,975
Total noncurrent assets	25,030,777
TOTAL ASSETS	31,035,107
LIABILITIES	
Current liabilities	
Accounts payable	112,858
Accrued payroll	968,506
Other accrued liabilities	744,316
Unearned revenue	62,754
Accrued interest payable	172,652
Short-term note payable	2,000,000
Current portion of compensated absences	117,967
Current portion of long-term debt	745,918
Total current liabilities	4,924,971
Noncurrent liabilities	
Compensated absences	121,947
Noncurrent portion of long-term debt	20,283,274
Total noncurrent liabilities	20,405,221
TOTAL LIABILITIES	25,330,192
NET ASSETS	
Invested in capital assets, net of related debt	4,001,585
Restricted for debt service	288,808
Unrestricted	1,414,522
TOTAL NET ASSETS	$ 5,704,915

See accompanying notes to financial statements.

Central Montcalm Public School

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenues and Changes in Net Assets: Governmental Activities
Expenses				
Instruction	$ 9,482,320	$ -	$ 1,508,543	$ (7,973,777)
Supporting services	5,614,526	-	618,624	(4,995,902)
Food service	780,039	299,763	485,686	5,410
Athletics	209,998	40,032	-	(169,966)
Community services	24,561	26,203	-	1,642
Interest and costs on long-term debt	1,023,054	-	-	(1,023,054)
Unallocated depreciation	876,464	-	-	(876,464)
TOTAL EXPENSES	$ 18,010,962	$ 365,998	$ 2,612,853	(15,032,111)
General Revenues				
Property taxes				3,202,752
State school aid - unrestricted				12,051,411
Investment earnings				89,372
Miscellaneous				94,476
TOTAL GENERAL REVENUES				15,438,011
NET CHANGE IN NET ASSETS				405,900
Net assets, beginning of year				5,299,015
Net assets, end of year				$ 5,704,915

See accompanying notes to financial statements.

Central Montcalm Public School

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2008

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 2,424,882	$ 371,292	$ 2,796,174
Investments	370,623	220,000	590,623
Accounts receivable	481	1,285	1,766
Interest receivable	4,474	762	5,236
Due from other funds	9	1,449	1,458
Due from other governmental units	2,572,726	5,395	2,578,121
Prepaids	14,838	2,336	17,174
Inventories	2,585	12,651	15,236
TOTAL ASSETS	$ 5,390,618	$ 615,170	$ 6,005,788
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ 106,118	$ 6,740	$ 112,858
Accrued payroll	964,432	4,074	968,506
Other accrued liabilities	743,322	994	744,316
Deferred revenue	62,754	-	62,754
Due to other funds	-	1,458	1,458
Short-term note payable	2,000,000	-	2,000,000
TOTAL LIABILITIES	3,876,626	13,266	3,889,892
FUND BALANCES			
Reserved for			
Inventories and prepaids	17,423	14,987	32,410
Debt service	-	461,460	461,460
Unreserved			
Designated for capital projects	-	14,663	14,663
Undesignated, reported in:			
General fund	1,496,569	-	1,496,569
Special revenue funds	-	110,794	110,794
TOTAL FUND BALANCES	1,513,992	601,904	2,115,896
TOTAL LIABILITIES AND FUND BALANCES	$ 5,390,618	$ 615,170	$ 6,005,788

See accompanying notes to financial statements.

Central Montcalm Public School

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

June 30, 2008

Total fund balance - governmental funds		$ 2,115,896
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	$ 35,049,948	
Accumulated depreciation is	(10,019,171)	
		25,030,777
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	(21,029,192)	
Accrued interest payable on long-term debt	(172,652)	
Compensated absences	(239,914)	
		(21,441,758)
Net assets of governmental activities		$ 5,704,915

See accompanying notes to financial statements.

Central Montcalm Public School

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

Year Ended June 30, 2008

	General	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES			
Local sources	$ 1,493,255	$ 2,254,321	$ 3,747,576
State sources	13,200,571	36,247	13,236,818
Federal sources	712,218	449,439	1,161,657
TOTAL REVENUES	15,406,044	2,740,007	18,146,051
EXPENDITURES			
Current			
Instruction	9,583,939	-	9,583,939
Supporting services	5,773,464	-	5,773,464
Food service	-	780,039	780,039
Athletics	-	209,998	209,998
Community service	-	24,561	24,561
Debt service	-	1,902,872	1,902,872
TOTAL EXPENDITURES	15,357,403	2,917,470	18,274,873
TOTAL REVENUES OVER (UNDER) EXPENDITURES	48,641	(177,463)	(128,822)
OTHER FINANCING SOURCES (USES)			
Other transactions	270,811	-	270,811
Transfers in	-	168,910	168,910
Transfers out	(168,910)	-	(168,910)
TOTAL OTHER FINANCING SOURCES (USES)	101,901	168,910	270,811
NET CHANGE IN FUND BALANCES	150,542	(8,553)	141,989
Fund balances, beginning of year	1,363,450	610,457	1,973,907
Fund balances, end of year	$ 1,513,992	$ 601,904	$ 2,115,896

See accompanying notes to financial statements.

Central Montcalm Public School

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

Year Ended June 30, 2008

Net change in fund balances - total governmental funds		$ 141,989
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	$ 264,851	
Depreciation expense	(876,464)	
Excess of depreciation expense over capital outlay		(611,613)
Repayment of long-term debt and borrowing of long-term debt is reported as expenditures 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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. In the current year, these amounts consisted of:		
Net effect of long-term debt principal retirements and related items	1,004,601	
Bond proceeds (accrued SBLF interest)	(127,106)	
Excess of principal retirements and related items over bond proceeds		877,495
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	2,323	
(Increase) in compensated absences	(4,294)	
		(1,971)
Change in net assets of governmental activities		$ 405,900

See accompanying notes to financial statements.

Central Montcalm Public School

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	Agency Fund
ASSETS	
Cash	$ 63,749
Investments	75,000
TOTAL ASSETS	$ 138,749
LIABILITIES	
Due to student activities	$ 138,749

See accompanying notes to financial statements.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Central Montcalm Public School (the District) have been prepared in conformity with accounting principles generally accepted in the Unites 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 Unites States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Central Montcalm Public School (primary government). The District has no activities that would be classified as component units.

Based upon the application of these criteria, the financial statements of the District contain all the funds controlled by the District.

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 non-fiduciary 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 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 non-major funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Non-major 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 fund of the District is:

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

3. Measurement Focus

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 to the district-wide statements are provided that explain the differences in detail.

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.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

4. 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.

5. Budgets and Budgetary Accounting

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

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

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

a. The Superintendent 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.

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 at 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 16, 2008.

6. Cash, Cash Equivalents, and Investments

Cash consists of checking accounts. Cash equivalents are recorded at market value and consist of certificate of deposit with an original maturity of less than 90 days. Investments consist of certificates of deposit with an original maturity of more than 90 days.

7. 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 governmental funds balance sheet.

8. 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 payments results in the final two (2) payments, related to the fiscal year ended June 30, 2008, to be paid in July and August 2008. The total amount of $2,578,121 due from other governmental units consists of $2,386,057 and $192,064 related to State Aid and grant and local programs, respectively.

9. Inventories

Inventories are stated at cost on a first in/first out basis. The General Fund inventory consists of paper. 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.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. 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 five (5) years. 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 capital 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.

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 building improvements	20-50 years
Buses and other vehicles	5-10 years
Furniture and equipment	5-15 years

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

11. 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.

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 2005, 2007, 2008, and a portion of May 15, 2009 is shown as a noncurrent liability due to the State of Michigan deferring the payments during this time period until May 15, 2012.

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 Funds 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 December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is 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.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Property Taxes - continued

The District levies taxes of $18.00 per $1,000 of taxable valuation on nonhomestead property for general governmental services and $7 per $1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. 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 state wide 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, 2008, the foundation allowance was based on the average of pupil membership counts taken in September 2007 and February 2007. The average calculation was weighted 75% for the September 2007 count and 25% for the February 2007 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 which are not expended by the close of the fiscal year are recorded as deferred revenue.

17. 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 part of the reconciliation to the district-wide financial statements.

18. 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 financial statements.

19. Comparative Data

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

NOTE B: CASH AND CASH EQUIVALENTS

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.

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, 2008, the carrying amount of the District's deposits was $3,525,496 and the bank balance was $3,736,087, of which $430,588 was covered by federal depository insurance. The balance of $3,305,499 was uninsured and uncollateralized. The District had $50 of imprest cash on hand as of June 30, 2008.

Interest rate risk

The District has adopted a policy that indicates how 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 limiting the weighted average maturity of its investment portfolio to less than a given period of time.

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Concentration of credit risk

The District has adopted a policy that indicates how 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 has adopted a policy that indicates how the District will minimize custodial credit risk. Custodial credit risk is the risk of loss due to the failure of the security issuer or backer. The Board policy limits 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 the Board approved policy.

As of June 30, 2008, the cash and cash equivalents referred to above have been reported in the cash and cash equivalents captions in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	$ 2,796,174	$ 63,749	$ 2,859,923
Investments	590,623	75,000	665,623
	$ 3,386,797	$ 138,749	$ 3,525,546

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

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets not being depreciated				
Land	$ 12,802	$ -	$ -	$ 12,802
Capital assets being depreciated				
Buildings and building improvements	30,367,314	78,068	-	30,445,382
Buses and other vehicles	1,265,818	68,975	-	1,334,793
Furniture and equipment	3,139,163	117,808	-	3,256,971
Subtotal	34,772,295	264,851	-0-	35,037,146
Less accumulated depreciation for:				
Buildings and building improvements	(5,893,954)	(601,123)	-	(6,495,077)
Buses and other vehicles	(831,315)	(78,457)	-	(909,772)
Furniture and equipment	(2,417,438)	(196,884)	-	(2,614,322)
Total accumulated depreciation	(9,142,707)	(876,464)	-0-	(10,019,171)
Net capital assets being depreciated	25,629,588	(611,613)	-0-	25,017,975
Capital assets, net	$ 25,642,390	$(611,613)	$ -0-	$ 25,030,777

NOTE C: CAPITAL ASSETS - CONTINUED

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, 2008.

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Amounts Due within One Year
1999 General Obligation Bonds	$ 1,120,000	$ -	$ 560,000	$ 560,000	$ 560,000
2005 Refunding Bonds	17,710,000	-	100,000	17,610,000	100,000
1998 Durant Resolution Bonds	144,104	-	-	144,104	82,996
Michigan School Bond Loans					
Principal and interest	2,871,215	127,106	341,679	2,656,642	-
Capitalized bond items	783,243	-	37,297	745,946	37,297
Compensated Absences	235,620	489,588	485,294	239,914	117,967
	22,864,186	616,694	1,524,270	21,956,606	898,260
Less: deferred amounts on refunding	721,875	-	34,375	687,500	34,375
	$22,142,307	$ 616,694	$ 1,489,885	$21,269,106	$ 863,885

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

Advanced Refunding - Prior

The District defeased a portion of the 1999 General Obligation Bonds which are due and payable May 1, 2010 through May 1, 2019. 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 payments. The District issued 2005 Refunding Bonds in the amount of $17,810,000 to fund escrow amounts and pay the cost of issuance of the refunding bonds, to pay a portion of the remaining balances of the 1999 School Building and Site Bonds. Accordingly, the trust account assets and liabilities for the defeased bond are not included in the District's financial statements. At June 30, 2008, bonds due and payable from May 1, 2010 through May 1, 2029 for the 1999 General Obligation Bonds in the amount of $16,985,000 are considered defeased.

General Obligation Bonds

$22,585,000 1999 School Building and Site Bonds dated November 1, 1999, due in an annual installment of $560,000 on May 1, 2009, with interest of 6.50 percent, payable semi-annually	$ 560,000
$17,810,000 2005 Refunding Bonds dated March 30, 2005, due in annual installments ranging from $100,000 to $950,000 through May 1, 2029, with interest ranging from 3.25 to 5.00 percent, payable semi-annually	17,610,000
	18,170,000

NOTE D: LONG-TERM DEBT - CONTINUED

Resolution Bonds

$244,052 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments ranging from $12,373 to $58,305 with interest of 4.761353 percent, payable annually. Repayment on this bond has been suspended until 2009.	$ 144,104
	$18,314,104

Michigan School Bond Loans

The School District borrows 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 4.25 to 4.75 percent.

The School District paid $202,978 in principal and $138,701 in interest during this fiscal year but had an additional $127,106 of accrued interest added to the loan on the outstanding balance during the year. The balances at June 30, 2008, are as follows:

Loan balance	$ 2,562,648
Interest balance	99,994
	$ 2,656,642

Compensated Absences - In accordance with District personnel policies and/or contracts negotiated with various employee groups of the District, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts:

Teachers will be paid for a maximum of 145 days unused sick days based on years of service at a range of $35 - $45 per unused sick day accumulated.

All other staff will be paid $30 per unused sick day accumulated.

The superintendent's, administrators', and other union exempt employees' maximum sick and vacation pay is based on individual agreements.

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, 2008, 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.

A summary of the calculated amounts of accrued compensated absences and related payroll taxes as of June 30, 2008, which have been recorded in the district-wide financial statements, is as follows:

	Vested Employees	Nonvested Employees	Total
Compensated absences	$ 77,827	$ 145,038	$ 222,865
Payroll taxes	5,954	11,095	17,049
	$ 83,781	$ 156,133	$ 239,914

NOTE D: LONG-TERM DEBT - CONTINUED

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
2009	$ 82,996	$ 32,153	$ 660,000	$ 861,663
2010	14,229	2,910	950,000	822,013
2011	14,906	2,232	935,000	788,763
2012	15,615	1,522	925,000	753,700
2013	16,358	779	920,000	716,700
2014-2018	-	-	4,480,000	2,984,900
2019-2023	-	-	4,330,000	1,889,000
2024-2028	-	-	4,165,000	821,750
2029	-	-	805,000	40,250
	$ 144,104	$ 39,596	$18,170,000	$ 9,678,739

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

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.

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2008, are as follows:

Due to General fund from:	
Nonmajor governmental funds	$ 9
Due to nonmajor governmental funds from:	
Nonmajor governmental funds	$ 1,449

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	$ 168,910

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, 2002, 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, 2008, was $8,589,161 of which $6,353,319 was for members who have elected the MIP option; the District's total payroll was $8,592,678.

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.

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

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987, to December 31, 1989, and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated wage; 3% of the first $5,000; 3.6% of $5,001 through $15,000; 4.3% of all wages over $15,000.

For the period of July 1, 2007 to September 30, 2007, the District was required by State statute to contribute 17.74% of covered compensation and for the period of October 1, 2007 to June 30, 2008, the District was required by State statute to contribute 16.72% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2008, and the previous two (2) years is as follows:

June 30,	MIP Contributions	District Contributions	Total Contributions
2008	$ 274,855	$ 1,457,081	$ 1,731,936
2007	239,497	1,461,001	1,700,498
2006	255,255	1,447,673	1,702,928

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

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
2008	4.0 %	17.0 %
2007	4.0	17.4
2006	4.0	16.0

NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS

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. Designated fund balance in the Fund financial statements indicates that portion of fund balance which the District has set aside for specific purposes.

The following are the fund balances reserve as of June 30, 2008:

General Fund	
Reserved for inventories and prepaids	$ 17,423
Special Revenue Fund	
Food Service	
Reserved for inventories and prepaids	14,987
Debt Service Funds	
1999 Debt Fund	
Reserved for debt service	29,403
2005 Debt Fund	
Reserved for debt service	432,057
	461,460
	$ 493,870

The following is the fund balance designation as of June 30, 2008:

Capital Projects Funds	
Designated for capital projects	$ 14,663

NOTE I: RESTRICTED NET ASSETS

Restrictions of net assets shown in the District-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 are the various net asset restrictions as of June 30, 2008:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for Debt Service	$ 288,808

NOTE J: RISK MANAGEMENT

The District is exposed to various risks of loss including losses related to the District's employer's liability, auto, property, crime, inland marine, boiler and machinery, and storage tanks for which the District carries commercial insurance.

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. In the event the pool's claims ad expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

NOTE K: 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 nonplaintiff District an agreed upon amount for past underfunding of special education. Central Montcalm Public School, a nonplaintiff District, was awarded $488,104 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 L: SHORT-TERM NOTES

On August 20, 2007, the School issued a short-term State School Aid Anticipation Note in the amount of $2,000,000 for the purpose of funding operating expenditures until the 2007 State Aid payments resumed. This short-term note, which had a net outstanding balance of $2,063,550 (principal and accrued interest expense payable) at June 30, 2008, is reported in the General Fund under the caption short-term notes payable and the applicable accrued interest under the caption other accrued liabilities. The outstanding balance was paid August 20, 2008.

NOTE M: SUBSEQUENT EVENT

On August 20, 2008, the District received funds from the Michigan Municipal Bond Authority short-term cash flow borrowing program. The loan in the amount of $2,000,000 was for the purpose of funding operating expenditures until the fiscal year 2009 State Aid payments resume. Future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

NOTE N: CONTINGENT LIABILITY

There are potential legal actions pending with the District. Due to the inconclusive nature of many of the actions, it is not possible for Legal Counsel to determine the probable outcome or a reasonable estimate of the District's potential liability, if any. Those actions for which a reasonable estimate can be determined of the District's potential liability and that would not be covered by insurance and reserves, if any, are considered by District Management and Legal Counsel to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

Central Montcalm Public School

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local sources	$ 1,483,242	$ 1,499,404	$ 1,493,255	$ (6,149)
State sources	12,764,387	13,138,694	13,200,571	61,877
Federal sources	755,359	721,639	712,218	(9,421)
TOTAL REVENUES	15,002,988	15,359,737	15,406,044	46,307
EXPENDITURES				
INSTRUCTION				
Basic programs	7,256,727	7,440,261	7,319,256	121,005
Added needs	2,009,334	2,335,524	2,264,683	70,841
TOTAL INSTRUCTION	9,266,061	9,775,785	9,583,939	191,846
SUPPORTING SERVICES				
Pupil	645,195	594,804	583,434	11,370
Instructional staff	418,977	367,679	340,486	27,193
General administration	504,721	513,821	475,023	38,798
School administration	1,332,552	1,310,295	1,277,047	33,248
Business and central services	2,912,520	2,870,257	2,839,341	30,916
Capital outlay	128,358	264,963	258,133	6,830
TOTAL SUPPORTING SERVICES	5,942,323	5,921,819	5,773,464	148,355
TOTAL EXPENDITURES	15,208,384	15,697,604	15,357,403	340,201
TOTAL REVENUES OVER (UNDER) EXPENDITURES	(205,396)	(337,867)	48,641	386,508
OTHER FINANCING SOURCES (USES)				
Other transactions	251,000	215,000	270,811	55,811
Transfers to other funds	(449,071)	(412,561)	(168,910)	243,651
TOTAL OTHER FINANCING SOURCES (USES)	(198,071)	(197,561)	101,901	299,462
NET CHANGE IN FUND BALANCE	(403,467)	(535,428)	150,542	685,970
Fund balance, beginning of year	1,363,450	1,363,450	1,363,450	-0-
Fund balance, end of year	$ 959,983	$ 828,022	$ 1,513,992	$ 685,970

OTHER SUPPLEMENTARY INFORMATION

Central Montcalm Public School

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2008

	Special Revenue Funds		
	Food Service	Athletics	Community Service
ASSETS			
Cash and cash equivalents	$ 108,370	$ 5,565	$ 1,559
Investments	-	-	-
Accounts receivable	85	-	1,200
Interest receivable	-	-	-
Due from other funds	1,318	61	-
Due from other governmental units	5,395	-	-
Prepaids	2,336	-	-
Inventories	12,651	-	-
TOTAL ASSETS	$ 130,155	$ 5,626	$ 2,759
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ 6,685	$ 55	$ -
Accrued payroll	991	3,083	-
Other accrued liabilities	242	752	-
Due to other funds	-	-	951
TOTAL LIABILITIES	7,918	3,890	951
FUND BALANCES			
Reserved for inventories and prepaids	14,987	-	-
Reserved for debt service	-	-	-
Unreserved			
Designated for capital projects	-	-	-
Undesignated, reported in special revenue funds	107,250	1,736	1,808
TOTAL FUND BALANCES	122,237	1,736	1,808
TOTAL LIABILITIES AND FUND BALANCES	$ 130,155	$ 5,626	$ 2,759

Debt Service Funds		Capital Projects Fund	
1999 Debt	2005 Debt	Public Improvement	Total
$ 29,333	$ 211,365	$ 15,100	$ 371,292
-	220,000	-	220,000
-	-	-	1,285
-	762	-	762
70	-	-	1,449
-	-	-	5,395
-	-	-	2,336
-	-	-	12,651
$ 29,403	$ 432,127	$ 15,100	$ 615,170
$ -	$ -	$ -	$ 6,740
-	-	-	4,074
-	-	-	994
-	70	437	1,458
-0-	70	437	13,266
-	-	-	14,987
29,403	432,057	-	461,460
-	-	14,663	14,663
-	-	-	110,794
29,403	432,057	14,663	601,904
$ 29,403	$ 432,127	$ 15,100	$ 615,170

Central Montcalm Public School

Nonmajor Governmental Funds

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

Year Ended June 30, 2008

	Special Revenue Funds		
	Food Service	Athletics	Community Service
REVENUES			
Local sources	$ 301,469	$ 40,032	$ 26,259
State sources	36,247	-	-
Federal sources	449,439	-	-
TOTAL REVENUE	787,155	40,032	26,259
EXPENDITURES			
Current			
Food service	780,039	-	-
Athletics	-	209,998	-
Community service	-	-	24,561
Debt service	-	-	-
TOTAL EXPENDITURES	780,039	209,998	24,561
TOTAL REVENUES OVER (UNDER) EXPENDITURES	7,116	(169,966)	1,698
OTHER FINANCING SOURCES			
Transfers from other funds	-	168,910	-
NET CHANGE IN FUND BALANCES	7,116	(1,056)	1,698
Fund balances, beginning of year	115,121	2,792	110
Fund balances, end of year	$ 122,237	$ 1,736	$ 1,808

Debt Service Funds		Capital Projects Fund	
1999 Debt	2005 Debt	Public Improvement	Total
$ 765,741	$ 1,120,452	$ 368	$ 2,254,321
-	-	-	36,247
-	-	-	449,439
765,741	1,120,452	368	2,740,007
-	-	-	780,039
-	-	-	209,998
-	-	-	24,561
781,336	1,121,536	-	1,902,872
781,336	1,121,536	-0-	2,917,470
(15,595)	(1,084)	368	(177,463)
-	-	-	168,910
(15,595)	(1,084)	368	(8,553)
44,998	433,141	14,295	610,457
$ 29,403	$ 432,057	$ 14,663	$ 601,904

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REPORT ON INTERNAL CONTROL 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
Central Montcalm Public School
Stanton, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Montcalm Public School as of and for the year ended June 30, 2008, which collectively comprise Central Montcalm Public School's basic financial statements and have issued our report thereon dated September 12, 2008. 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 *Governmental Auditing Standards*, issued by the Comptroller of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

2007-2 FRAUD RISK MANAGEMENT PROGRAM

Condition: During the course of our audit, we noted that the District has not developed or implemented a fraud risk management program. This issue was noted and reported in our audit comments last year.

Criteria: Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

2007-2 FRAUD RISK MANAGEMENT PROGRAM - CONTINUED

Effect: Due to the District not developing a fraud risk assessment and monitoring program it is unable to assess the District's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

Recommendation: We recommend that the District develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

Corrective Action Response: Neola submitted a fraud policy to consider that was dated February 2008. It was reviewed and edited before the first reading of the Board which occurred July 14, 2008. At the Board meeting of August 18, 2008, the Board did its second review and adoption of the policy.

2008-1 ATHLETIC DEPOSITS

Condition: During the course of our audit, it was noted that on two (2) separate occasions out of the ten (10) deposits that were tested from the Athletic Department there were differences between the amount reported and the amount deposited. The amounts collected and deposited to the bank were greater than the calculated amounts based on the number of tickets sold and the price of each ticket. There was also one (1) occasion when the deposit did not indicate the number of tickets sold.

Criteria: The number of tickets sold multiplied by the price of each ticket should equal the deposit to the bank.

Effect: The District's reconciliation process was not working appropriately.

Recommendation: We recommend that the District continue to perform reconciliations of the tickets sold to the bank deposit. Also, we recommend that any variances continue to be investigated and documented.

Corrective Action Response: The District will continue to work with and monitor individuals responsible for athletic gate receipts. We will ensure that procedures are being followed and that tickets sold are reconciling with bank deposits.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Central Montcalm Public School's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that none of the significant deficiencies described above are considered 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Central Montcalm Public School's responses to the findings identified in our audit are described above. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the administration and Board of Education of Central Montcalm Public School, the federal awarding agencies, others within the District, and the pass-through entities 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

September 12, 2008

Central Montcalm Public School

SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS (FEDERAL AWARDS)

June 30, 2008

Central Montcalm Public School

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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

To the Board of Education
Central Montcalm Public School
Stanton, Michigan

Compliance

We have audited the compliance of Central Montcalm Public School 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, 2008. Central Montcalm Public School's 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 is the responsibility of Central Montcalm Public School management. Our responsibility is to express an opinion on Central Montcalm Public School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and 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 a major Federal program occurred. An audit includes examining, on a test basis, evidence about Central Montcalm Public School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Central Montcalm Public School's compliance with those requirements.

In our opinion, Central Montcalm Public School 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, 2008.

Internal Control Over Compliance

The management of Central Montcalm Public School 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 Central Montcalm Public School's 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 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Central Montcalm Public School's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

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

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 Central Montcalm Public School as of and for the year ended June 30, 2008, and have issued our report thereon dated September 12, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Central Montcalm Public School's 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 Central Montcalm Public School, others within the District, the pass-through entities, and the 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

September 12, 2008

Central Montcalm Public School

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education			
E.S.E.A. Title I	84.010		
2007-08 Regular - Part A		0815300708	$ 513,285
2005-06 Carryover - Part A		0615300607	77,208
2006-07 Regular - Part A		0715300607	393,818
			984,311
Adult Education - State Admin	84.002		
2007-08		081130711107	75,000
2006-07		061130711107	119,000
2006-07		071130711107	44,600
			238,600
Special Education	84.027		
Service Provider Self Review		0704400607	
2006-07			4,500
Title V	84.298		
2007-08		0802500708	3,507
Technology Literacy Challenge Grants	84.318		
2007-08		0842900708	4,495
Improving Teacher Quality	84.367		
2006-07		0705200607	98,963
2005-06		0605200607	44,648
2007-08		0805200708	115,352
			258,963
Passed Through State Department of Education and Kent Intermediate School District			
Drug-Free Program	84.186		
2007-08		0728600708	8,440
2006-07		0628600607	7,640
			16,080
TOTAL U.S. DEPARTMENT OF EDUCATION			1,510,456

(Memo Only) Prior Years' Expenditures	Restated Balance July 1, 2007 Accrued or (Deferred) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2008 Accrued or (Deferred) Revenue
$ -	$ -	$ 365,848	$ 495,525	$ 129,677
77,208	23,250	23,250	-	-0-
380,516	163,641	176,787	13,146	-0-
457,724	186,891	565,885	508,671	129,677
-	-	39,333	75,000	35,667
119,000	81,960	81,960	-	-0-
44,600	21,110	21,110	-	-0-
163,600	103,070	142,403	75,000	35,667
4,450	4,450	4,450	-	-0-
-	-	3,040	3,040	-0-
-	-	2,257	2,257	-0-
84,993	18,619	20,131	1,512	-0-
44,648	19,966	19,966	-	-0-
-	-	95,019	113,298	18,279
129,641	38,585	135,116	114,810	18,279
-	-	-	8,440	8,440
7,640	2,500	2,500	-	-0-
7,640	2,500	2,500	8,440	8,440
763,055	335,496	855,651	712,218	192,063

Central Montcalm Public School

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2008

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education			
School Breakfast Program	10.553 (f) (e)		
2007-08		081970	$ 89,824
2006-07		071970	94,738
			184,562
Passed Through State Department of Education			
National School Lunch Program	10.555 (f) (e)		
2007-08		081950, 081960	267,977
2006-07		071950, 071960	284,792
			552,769
Food Donation [a]	10.550		
Entitlement commodities		59125	46,084
Bonus commodities		59125	1,708
			47,792
TOTAL U.S. DEPARTMENT OF AGRICULTURE			785,123
TOTAL FEDERAL AWARDS			$ 2,295,579

(Memo Only) Prior Years' Expenditures	Restated Balance July 1, 2007 Accrued or (Deferred) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2008 Inventory/ Cash or (Payables)
$ -	$ -	$ 89,824	$ 89,824	$ -0-
85,353	-	9,385	9,385	-0-
85,353	-0-	99,209	99,209	-0-
-	-	267,977	267,977	-0-
250,331	-	34,461	34,461	-0-
250,331	-0-	302,438	302,438	-0-
-	-	46,084	46,084 (c)	-0-
-	-	1,708	1,708 (c)	-0-
-0-	-0-	47,792	47,792	-0-
335,684	-0-	449,439	449,439	-0-
$ 1,098,739	$ 335,496	$ 1,305,090	$ 1,161,657 (b)	$ 192,063
		(d)	(g)	

Central Montcalm Public School

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of June 30, 2008, 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 Reports 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 cumulative payment amounts in the Grants Section Auditors Report and the "paid during date range" amounts on the Grant Auditor Report combined, less the receipt adjustments for grants that overlapped from prior years as follows:

Grant #	Payment Amounts Per Reports	Less: Prior Year Receipts	Cash Receipts Per Current SEFA
061130611106	$ 45,300	$(45,300)	$ -0-
061130711107	119,000	(37,040)	81,960
071130711107	44,600	(23,490)	21,110
0542900405	6,865	(6,865)	-0-
0542900506	5,047	(5,047)	-0-
0502500506	2,661	(2,661)	-0-
0502500405	8,550	(8,550)	-0-

(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.

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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
Central Montcalm Public School
Stanton, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Montcalm Public School, Michigan as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 12, 2008. 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 Central Montcalm Public School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described as 2007-2 and 2008-1 in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that none of the significant deficiencies described in the Schedule of Findings are 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

The District's responses to the findings identified in our audit are described in the Schedule of Findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the administration, the Board of Education of Central Montcalm Public School, others within the District, the pass-through entities, 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

September 12, 2008

Central Montcalm Public School

SCHEDULE OF FINDINGS

Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified			
Internal control over financial reporting:				
Material weakness(es) identified?	_____	Yes	X	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	X	Yes	_____	None reported
Noncompliance material to financial statements noted?	_____	Yes	X	No

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?	_____	Yes	X	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____	Yes	X	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____	Yes	X	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 & 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000			
Auditee qualified as low-risk auditee?	X	Yes	_____	No

Section II - Financial Statement Findings

2007-2 FRAUD RISK MANAGEMENT PROGRAM

Condition: During the course of our audit, we noted that the District has not developed or implemented a fraud risk management program. This issue was noted and reported in our audit comments last year.

Criteria: Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Section II - Financial Statement Findings - Continued

2007-2 FRAUD RISK MANAGEMENT PROGRAM - CONTINUED

Effect: Due to the District not developing a fraud risk assessment and monitoring program it is unable to assess the District's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

Recommendation: We recommend that the District develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

Corrective Action Response: Neola submitted a fraud policy to consider that was dated February 2008. It was reviewed and edited before the first reading of the Board which occurred July 14, 2008. At the Board meeting of August 18, 2008, the Board did its second review and adoption of the policy.

2008-1 ATHLETIC DEPOSITS

Condition: During the course of our audit, it was noted that on two (2) separate occasions out of the ten (10) deposits that were tested from the Athletic Department there were differences between the amount reported and the amount deposited. The amounts collected and deposited to the bank were greater than the calculated amounts based on the number of tickets sold and the price of each ticket. There was also one (1) occasion when the deposit did not indicate the number of tickets sold.

Criteria: The number of tickets sold multiplied by the price of each ticket should equal the deposit to the bank.

Effect: The District's reconciliation process was not working appropriately.

Recommendation: We recommend that the District continue to perform reconciliations of the tickets sold to the bank deposit. Also, we recommend that any variances continue to be investigated and documented.

Corrective Action Response: The District will continue to work with and monitor individuals responsible for athletic gate receipts. We will ensure that procedures are being followed and that tickets sold are reconciling with bank deposits.

Section III - Federal Award Findings and Questioned Costs

None

Central Montcalm Public School

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2008

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

2007-1 PREPARATION OF FINANCIAL STATEMENTS

Condition: As part of the audit process, the District, as well as most governments, have historically relied on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally. Under the new auditing standards this is now a control deficiency that the District does not have the technical expertise to prepare the audited financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Resolution: This issue has been resolved for the current audit.

2007-2 FRAUD RISK MANAGEMENT PROGRAM

Condition: During the course of our audit, we noted that the District has not developed or implemented a fraud risk management program.

Resolution: The District did not adopt an anti-fraud program in fiscal year 2008. This issue has been repeated in 2008.

2007-3 ATHLETIC DEPOSITS

Condition: During the course of our audit, we noted that on two (2) separate occasions, the deposits from the Athletic Department were short. The amount collected and deposited to the bank was less than it should have been based on the number of tickets sold and the price of each ticket.

Resolution: This exact issue was not noted during the current year but an athletics deposit issue is noted as 2008-1 that is similar.

2007-4 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities of the General Fund and two Special Revenue Funds.

Resolution: This issue has been resolved for the current audit.