Bangor Public Schools

Financial Report

with Supplemental Information

June 30, 2008

Bangor Public Schools

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Independent Auditor's Report

To the Board of Education
Bangor Public Schools

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bangor Public Schools as of June 30, 2008 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Praxity

To the Board of Education
Bangor Public Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bangor Public Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2008 on our consideration of Bangor Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 opinions 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.

Plante & Moran, PLLC

November 12, 2008

This section of Bangor Public Schools' (the "School District") 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 Bangor Public Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and 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 fund - the General Fund - with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

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

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

Reporting the School District as a Whole - 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 nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and 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.

Reporting the School District's Most Significant Funds - 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 other funds to help it control and manage money for particular purposes (the Hot Lunch Fund is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as Debt Service Funds). 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 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 assets and liabilities. 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 and 2007:

TABLE 1	Governmental Activities	
	2008	2007
	(in millions)	
Assets		
Current and other assets	3.7	$ 4.1
Capital assets	11.3	12.1
Total assets	15.0	16.2
Liabilities		
Current liabilities	2.0	2.0
Long-term liabilities	7.4	7.8
Total liabilities	9.4	9.8
Net Assets		
Invested in property and equipment - Net of related debt	3.7	4.1
Restricted	0.2	0.2
Unrestricted	1.7	2.1
Total net assets	**$ 5.6**	**$ 6.4**

The above analysis focuses on the net assets (see Table 1). The change in net assets of the School District's governmental activities is discussed below (see Table 2). The School District's net assets were $5.6 million at June 30, 2008. Capital assets, net of related debt totaling $3.7 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. The debt will be repaid from property taxes levied for 2004 bonds, state funds, and unrestricted resources as the debt service comes due. Restricted net assets, which are not significant, are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets ($1.7 million) was unrestricted.

The $1.7 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 statement of activities (see Table 2), which shows the changes in net assets for fiscal years ended June 30:

TABLE 2	Governmental Activities	
	2008	2007
	(in millions)	
Revenue		
Program revenue:		
Charges for services	$ 0.2	$ 0.1
Federal grants and entitlements	1.7	2.2
State categoricals	0.8	1.0
Operating grants	0.1	0.1
General revenue:		
Property taxes	1.6	1.4
State foundation allowance	8.7	9.1
Other	0.1	0.1
Total revenue	13.2	14.0
Functions/Program Expenses		
Instruction	8.2	8.7
Support services	4.4	4.8
Community services	-	-
Food services	0.7	0.7
Athletics	0.3	0.3
Interest on long-term debt	0.3	0.3
Depreciation (unallocated)	0.1	0.1
Total expenses	14.0	14.9
Decrease in Net Assets	**$ (0.8)**	**$ (0.9)**

As reported in the statement of activities, the cost of all of our governmental activities this year was $14.0 million. Certain activities were partially funded from those who benefited from the programs ($0.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions ($2.6 million). We paid for the remaining "public benefit" portion of our governmental activities with $1.6 million in taxes, $8.7 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

The School District experienced a decrease in net assets. Key reasons for this decrease in net assets were increased health and retirement costs, continued increases in utility and fuel costs, and the loss of students. The reduction in the net assets was anticipated.

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 School 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 $1.8 million, which is a decrease of $0.4 million from last year. The primary reason for this decrease is as follows:

In the 2004 Capital Projects Fund, the fund balance decreased approximately $30,000 to $0 since this project has been completed.

Our Special Revenue Funds showed a decrease of $0.05 million. This was due to higher than expected food costs, a reduction of student enrollment which resulted in fewer meals being served, a large number of snow days when no meals were served, and higher personnel costs. The General Fund showed a decrease of $0.35 million. Most of the decrease was due to a reduction in students and increased health, retirement, and utility costs. The General Fund also received less in federal grants compared to the previous year and had to supplement some of the programs this year. Durant debt obligations are funded by annual state appropriation, and no fund balance exists at year end. General Fund fund balance is available to fund costs related to allowable school operating purposes. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

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 supplemental information of these financial statements.

There were revisions made to the 2007-2008 General Fund original budget, although not significant in total. Budgeted revenues remained constant from the original adopted budget. Budgeted revenues were reduced for the reduction of our student count and a reduction of federal grants.

Budgeted expenditures remained constant.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2008, the School District had $11.3 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment, net of accumulated depreciation. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately $0.8 million, or 6.6 percent, from last year.

	2008	2007
Land	$ 116,632	$ 116,632
Buildings and building improvements	18,184,053	18,178,358
Furniture and equipment	103,988	103,988
Transportation	1,030,249	1,030,249
Technology	714,198	613,021
Total capital assets	**$ 20,149,120**	**$ 20,042,248**

This year's decrease was partially due to fewer additions and increased depreciation from the year ended June 30, 2007.

We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had $7.4 million in bonds outstanding versus $7.6 million in the previous year. Those bonds consisted of the following:

	2008	2007
General obligation bonds	**$ 7,432,649**	**$ 7,612,649**

The State limits the amount of general obligation debt that schools can issue 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 unqualified general obligation debt of $7.4 million is significantly below this statutorily imposed limit.

Other obligations include accrued vacation pay, sick leave, and retirement incentives. 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 consider many factors when setting the School District's 2008-2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008-2009 fiscal year is 25 percent and 75 percent of the February 2008 and September 2008 student counts, respectively. The 2008-2009 budget was adopted in June 2008, based on an estimate of students that will be enrolled in September 2008. Approximately 77 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, School 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 2008-2009 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2008-2009 budget. Once the final student count and related per pupil funding are validated, state law requires the School District to amend the budget if actual School 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. If a future revenue-estimating conference determines funds are not sufficient to fund the appropriation, the legislature must revise the appropriation, or proration of state aid will occur. The impact on the School District of the State's potential revenue shortfall is not known.

Bangor Public Schools

Statement of Net Assets
June 30, 2008

	Governmental Activities
Assets	
Cash and investments (Note 3)	$ 1,289,270
Receivables - Net (Note 4)	2,378,691
Inventories	8,116
Prepaid costs	580
Capital assets - Net (Note 5)	11,330,689
Total assets	15,007,346
Liabilities	
Accounts payable	294,364
Accrued payroll and other liabilities	1,279,547
Long-term liabilities (Note 7):	
Due within one year	418,522
Due in more than one year	7,419,337
Total liabilities	9,411,770
Net Assets	
Investment in capital assets - Net of related debt	3,672,530
Restricted:	
Debt service	190,411
Capital projects	5
Unrestricted	1,732,630
Total net assets	**$ 5,595,576**

The Notes to Financial Statements are an Integral Part of this Statement.

Bangor Public Schools

Statement of Activities
Year Ended June 30, 2008

		Program Revenues		Governmental Activities
	Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs				
Primary government - Governmental activities:				
Instruction	$ 8,163,976	$ -	$ 2,033,627	$ (6,130,349)
Support services	4,449,067	-	-	(4,449,067)
Food services	692,061	136,648	517,310	(38,103)
Athletics	283,882	47,835	-	(236,047)
Community services	18,342	-	-	(18,342)
Interest on long-term debt	347,909	-	-	(347,909)
Depreciation (unallocated)	100,720	-	-	(100,720)
Total governmental activities	**$ 14,055,957**	**$ 184,483**	**$ 2,550,937**	(11,320,537)
General revenues:				
Property taxes, levied for general purposes				1,134,511
Property taxes, levied for debt services				489,907
State aid not restricted to specific purposes				8,747,906
Interest and investment earnings				57,629
Other				38,192
Total general revenues				10,468,145
Change in Net Assets				(852,392)
Net Assets - Beginning of year				6,447,968
Net Assets - End of year				**$ 5,595,576**

The Notes to Financial Statements are an Integral Part of this Statement.

Bangor Public Schools

Governmental Funds
Balance Sheet
June 30, 2008

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments (Note 3)	$ 1,080,497	$ 208,773	$ 1,289,270
Receivables - Net (Note 4)	2,378,338	353	2,378,691
Due from other funds (Note 6)	-	37,205	37,205
Inventories	-	8,116	8,116
Prepaid costs	580	-	580
Total assets	**$ 3,459,415**	**$ 254,447**	**$ 3,713,862**
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 290,188	$ 4,883	$ 295,071
Accrued payroll and other liabilities	1,224,877	-	1,224,877
Due to other funds (Note 6)	33,883	2,615	36,498
Deferred revenue (Note 4)	336,829	-	336,829
Total liabilities	1,885,777	7,498	1,893,275
Fund Balances			
Reserved:			
Encumbrances	78,385	-	78,385
Inventories and prepaid costs	580	8,116	8,696
Debt service	-	190,411	190,411
Bonded capital projects	-	5	5
Unreserved - Undesignated, reported in:			
General Fund	1,494,673	-	1,494,673
Special Revenue Funds	-	48,417	48,417
Total fund balances	1,573,638	246,949	1,820,587
Total liabilities and fund balances	**$ 3,459,415**	**$ 254,447**	**$ 3,713,862**

The Notes to Financial Statements are an Integral Part of this Statement.

Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2008

Fund Balance - Total Governmental Funds		$ 1,820,587
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds:		
Cost of capital assets	$ 20,149,120	
Accumulated depreciation	(8,818,431)	11,330,689
Other long-term assets not available to pay current period are expenditures, therefore are deferred in the governmental funds		336,829
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:		
Bond, notes, and installment purchases		(7,603,489)
Compensated absences		(73,736)
Retirement incentives		(160,634)
Accrued interest payable is not included as a liability in governmental funds		(54,670)
Net Assets - Governmental Activities		**$ 5,595,576**

The Notes to Financial Statements are an Integral Part of this Statement.

Bangor Public Schools

Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2008

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Local sources	$ 1,276,191	$ 628,531	$ 1,904,722
State sources	9,550,943	20,596	9,571,539
Federal sources	1,196,854	496,714	1,693,568
Interdistrict sources	41,034	-	41,034
Total revenue	12,065,022	1,145,841	13,210,863
Expenditures			
Current:			
Instruction	7,642,198	-	7,642,198
Support services	4,266,263	-	4,266,263
Community services	600	-	600
Food service	-	692,061	692,061
Athletics	283,882	-	283,882
Debt service:			
Principal	70,360	180,000	250,360
Interest	33,541	312,025	345,566
Other	-	250	250
Capital outlay	136,041	1,891	137,932
Total expenditures	12,432,885	1,186,227	13,619,112
Excess of Expenditures Over Revenue	(367,863)	(40,386)	(408,249)
Other Financing Sources			
Transfers in (Note 6)	8,750	-	8,750
Transfers out (Note 6)	-	(8,750)	(8,750)
Total other financing sources (uses)	8,750	(8,750)	-
Net Change in Fund Balances	(359,113)	(49,136)	(408,249)
Fund Balances - Beginning of year	1,932,751	296,085	2,228,836
Fund Balances - End of year	**$ 1,573,638**	**$ 246,949**	**$ 1,820,587**

The Notes to Financial Statements are an Integral Part of this Statement.

Bangor Public Schools

Governmental Funds
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds		$ (408,249)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense	$ (827,634)	
Capitalized capital outlay	106,872	(720,762)
Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection		(7,298)
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		(2,343)
Repayment of debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		250,360
Compensated absences are recorded when earned in the statement of activities; in the current year, more was earned than was paid out		(633)
Retirement incentives are recorded in the statement of activities when incurred; they are not reported in the governmental funds until paid		36,533
Change in Net Assets of Governmental Activities		**$ (852,392)**

The Notes to Financial Statements are an Integral Part of this Statement.

Bangor Public Schools

Fiduciary Fund
Statement of Fiduciary Assets and Liabilities
June 30, 2008

	Student Activities Agency Fund
Assets	
Cash and investments (Note 3)	$ 75,049
Accounts receivable	28,517
Total assets	**$ 103,566**
Liabilities	
Accounts payable	$ 1,703
Due to other funds	707
Due to student groups	101,156
Total liabilities	**$ 103,566**

The Notes to Financial Statements are an Integral Part of this Statement.

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Bangor Public Schools (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Government Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter is excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Financial Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

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

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental fund:

The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

Additionally, the School District reports the following fund types:

The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted to expenditures for food service activities. Any operating deficit generated by this fund is the responsibility of the General Fund.

The 2004 Capital Projects Fund is used to record bond proceeds, related investment income, and disbursement of invoices specifically designated for various improvements at the elementary school. The fund will operate until the purpose for which it was created is accomplished.

The School District maintains two governmental Debt Service Funds, which account for property tax and other revenue legally restricted for payment of long-term debt. In the current year, one of these funds, the Durant Debt Service Fund, had no activity and no balances at the end of the year.

The Student Activities Agency Fund is maintained to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash includes cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Note 1 - Summary of Significant Accounting Policies (Continued)

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes are billed and become a lien on December 1 of the following year. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

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

Compensated Absences and Retirement Incentives - The liability for compensated absences reported in the district-wide financial statement consists of earned but unused accumulated sick and incentive days leave benefits. The liability for retirement incentives reported in the district-wide financial statements consists of payments due to individuals who were eligible and elected to accept the incentive offer. A liability for these amounts is reported in governmental funds as it comes due for payment.

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. The face amount of debt issued is reported as other financing sources.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data - Comparative data is not included in the School District's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner, which did not result in a significant change in the budgeted amounts.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end, if any, are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be re-appropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant expenditure budget variances. Debt service expenditures are included within the function level for budget purposes, but are reported separately on the governmental funds statement of revenue, expenditures, and changes in fund balance.

Note 3 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated two banks for the deposit of its funds.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of $480,610 had $321,845 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law, and by prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. The School District does not have any investments with custodial credit risk as of year end.

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does restrict investment maturities to within two years of the date of purchase for investments other than commercial paper, which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by requiring the assessment of risks of the investments held and reporting of such risks to the board for evaluation.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

At year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Maturities	Rating	Rating Organization
Michigan Liquid Asset Fund	$ 1,019,306	N/A	AAAm	S&P

Concentration of Credit Risk - The School District places no limit on the amount the School District may invest in any one issuer. The School District's policy minimizes concentration of credit risk by requiring the assessment of risks of the investments held and reporting of such risks to the board for evaluation.

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

Note 4 - Receivables

Receivables as of year end for the School District's individual major funds and the nonmajor funds in the aggregate are as follows:

	General Fund	Nonmajor Funds	Fiduciary Funds	Total
Receivables:				
Accounts	$ -	$ 353	$ 28,517	$ 28,870
Intergovernmental	2,378,338	-	-	2,378,338
Less allowance for uncollectibles	-	-	-	-
Net receivables	$ 2,378,338	$ 353	$ 28,517	$ 2,407,208

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Grant payments not considered available to liquidate liabilities of the current period	$ 336,829	$ -

Note 5 - Capital Assets

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

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Capital assets not being depreciated -				
Land	$ 116,632	$ -	$ -	$ 116,632
Capital assets being depreciated:				
Building and building improvements	18,178,358	5,695	-	18,184,053
Furniture and equipment	103,988	-	-	103,988
Transportation	1,030,249	-	-	1,030,249
Technology	613,021	101,177	-	714,198
Subtotal	19,925,616	106,872	-	20,032,488
Accumulated depreciation:				
Building and building improvements	6,896,585	719,238	-	7,615,823
Furniture and equipment	75,269	8,999	-	84,268
Transportation	579,713	75,316	-	655,029
Technology	439,230	24,081	-	463,311
Subtotal	7,990,797	827,634	-	8,818,431
Net capital assets being depreciated	11,934,819	(720,762)	-	11,214,057
Net governmental capital assets	$ 12,051,451	$ (720,762)	$ -	$ 11,330,689

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:	
Instruction	$ 557,678
Support services	151,494
Community services	17,742
Unallocated	100,720
Total governmental activities	$ 827,634

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2009	$ 297,038	$ 328,865	$ 625,903
2010	279,448	304,870	584,318
2011	287,615	294,669	582,284
2012	266,141	284,752	550,893
2013	263,247	275,693	538,940
2014-2018	1,480,000	1,223,312	2,703,312
2019-2023	1,865,000	892,026	2,757,026
2024-2028	2,350,000	441,700	2,791,700
2029-2031	515,000	23,116	538,116
Total	$ 7,603,489	$ 4,069,003	$ 11,672,492

Governmental Activities

General obligation bonds consist of the following:

$123,036 Durant Non-Plaintiff Bond issue, due in variable principal payments through 2013; interest at 4.76 percent	$ 72,649
$7,910,000 2004 School Building and Site serial bonds due in varying annual installments of $180,000 to $515,000 through May 2029; interest from 3.0 percent to 4.5 percent	7,360,000
Total bonded debt	$ 7,432,649

Durant Non-Plaintiff Bond - Included in the governmental activities general obligation bonds shown above is the Durant Non-Plaintiff Bond. Periodic total payments (principal and interest) of $8,640 to $58,051 associated with this bond are funded by the State of Michigan via specifically appropriated state aid and will not require any School District debt levy or utilization of any other School District financial resources.

Note 7 - Long-term Debt (Continued)

Notes and installment purchases consist of the following:

				Remaining to Maturity	
Date	Original Amount	Due Date	Interest Rate	Interest	Principal
February 2006	$ 128,524	April 2011	3.99	$ 4,543	$ 76,313
February 2007	125,500	February 2012	4.14	7,519	94,527
Total	$ 254,024			$ 12,062	$ 170,840

Note 8 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for property loss, torts, errors and omissions, dental, vision, and certain employees' health insurance, and participates in the SET-SEG risk pool for claims relating to employee injuries (workers' compensation) and certain employees' health insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment healthcare plans. That report is available on the web at http://www.michigan.gov/orsschools, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate was 11.19 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 10.17 percent for the period from October 1, 2007 through June 30, 2008. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's required and actual contributions to the plan for the years ended June 30, 2008, 2007, and 2006 were $752,320, $841,518, and $737,400, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.55 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 6.55 percent for the period from October 1, 2007 through June 30, 2008. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2008, 2007, and 2006 were $472,680, $508,482, and $512,600, respectively.

Required Supplemental Information

Bangor Public Schools

Required Supplemental Information
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	$ 1,193,854	$ 1,303,403	$ 1,276,191	$ (27,212)
State sources	10,079,128	9,543,365	9,550,943	7,578
Federal sources	1,676,588	1,423,257	1,196,854	(226,403)
Interdistrict sources	55,000	55,000	41,034	(13,966)
Total revenue	13,004,570	12,325,025	12,065,022	(260,003)
Expenditures - Current				
Instruction:				
Basic programs	6,684,699	6,964,577	6,519,320	(445,257)
Added needs	1,205,327	1,124,478	1,162,386	37,908
Support services:				
Pupil	317,927	316,867	307,311	(9,556)
Instructional staff	377,504	381,141	375,955	(5,186)
General administration	1,240,113	1,158,317	1,112,364	(45,953)
School administration	920,063	882,211	842,487	(39,724)
Operations and maintenance	1,251,037	1,254,042	1,221,193	(32,849)
Transportation	667,120	624,986	607,387	(17,599)
Community services	1,000	-	600	600
Athletics	348,530	296,791	283,882	(12,909)
Total expenditures	13,013,320	13,003,410	12,432,885	(570,525)
Other Financing Sources -				
Transfers from other funds	8,750	8,750	8,750	-
Net Change in Fund Balance	-	(669,635)	(359,113)	310,522
Fund Balance - July 1, 2007	1,932,751	1,932,751	1,932,751	-
Fund Balance - June 30, 2008	**$ 1,932,751**	**$ 1,263,116**	**$ 1,573,638**	**$ 310,522**

Other Supplemental Information

Bangor Public Schools

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	Special Revenue	Capital Projects	Debt Service Funds	
	Hot Lunch Fund	2004 Capital Projects	2004 Debt Service	Total
Assets				
Cash and investments	$ 15,492	$ 1,743	$ 191,538	$ 208,773
Receivables - Net	353	-	-	353
Due from other funds	37,205	-	-	37,205
Inventories	8,116	-	-	8,116
Total assets	**$ 61,166**	**$ 1,743**	**$ 191,538**	**$ 254,447**
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 4,633	$ -	$ 250	$ 4,883
Due to other funds	-	1,738	877	2,615
Total liabilities	4,633	1,738	1,127	7,498
Fund Balances				
Reserved:				
Inventories	8,116	-	-	8,116
Debt service	-	-	190,411	190,411
Capital projects	-	5	-	5
Unreserved - Undesignated, reported in Special Revenue Fund	48,417	-	-	48,417
Total fund balances	56,533	5	190,411	246,949
Total liabilities and fund balances	**$ 61,166**	**$ 1,743**	**$ 191,538**	**$ 254,447**

Bangor Public Schools

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2008

	Special Revenue	Capital Projects	Debt Service Funds	
	Hot Lunch Fund	2004 Capital Projects Fund	2004 Debt Service	Total
Revenue				
Local	$ 136,966	$ -	$ 491,565	$ 628,531
State	20,596	-	-	20,596
Federal	496,714	-	-	496,714
Total revenue	654,276	-	491,565	1,145,841
Expenditures				
Current - Food services	692,061	-	-	692,061
Debt service:				
Principal	-	-	180,000	180,000
Interest	-	-	312,025	312,025
Other		-	250	250
Capital outlay	1,891	-	-	1,891
Total expenditures	693,952	-	492,275	1,186,227
Excess of Expenditures Over Revenue	(39,676)	-	(710)	(40,386)
Other Financing Uses - Transfers out	(8,750)	-	-	(8,750)
Net Change in Fund Balances	(48,426)	-	(710)	(49,136)
Fund Balances - Beginning of year	104,959	5	191,121	296,085
Fund Balances - End of year	**$ 56,533**	**$ 5**	**$ 190,411**	**$ 246,949**

Other Supplemental Information
Schedule of Bonded Indebtedness
Year Ended June 30, 2008

June 30	Durant Principal	2004 School Building and Site Bonds Principal
2009	$ 41,842	$ 205,000
2010	7,173	220,000
2011	7,515	230,000
2012	7,872	240,000
2013	8,247	255,000
2014	-	270,000
2015	-	280,000
2016	-	295,000
2017	-	310,000
2018	-	325,000
2019	-	340,000
2020	-	355,000
2021	-	370,000
2022	-	390,000
2023	-	410,000
2024	-	430,000
2025	-	450,000
2026	-	470,000
2027	-	490,000
2028	-	510,000
2029	-	515,000
Total	**$ 72,649**	**$ 7,360,000**
Principal payments due	May 15	May 1
Interest payments due	May 15	May 1 and November 1
Interest rate	4.76%	3.00% to 4.50%
Original issue	**$ 123,036**	**$ 7,910,000**

Bangor Public Schools

Federal Awards
Supplemental Information
June 30, 2008

Bangor Public Schools

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Independent Auditor's Report

To the Board of Education
Bangor Public Schools

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Bangor Public Schools as of and for the year ended June 30, 2008, which collectively comprise Bangor Public Schools' basic financial statements, and have issued our report thereon dated November 12, 2008. Those basic financial statements are the responsibility of the management of Bangor Public Schools. Our responsibility was to express opinions on those basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bangor Public Schools' basic financial statements. The accompanying schedule of expenditures of federal awards and reconciliation of financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The information in these schedules 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.

Plante & Moran, PLLC

November 12, 2008

Praxity

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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
Bangor Public Schools

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Bangor Public Schools as of and for the year ended June 30, 2008, which collectively comprise Bangor Public Schools' basic financial statements, and have issued our report thereon dated November 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 Bangor Public Schools' 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 Bangor Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bangor Public Schools' 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 that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency and a deficiency that we consider to be a material weakness.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the control deficiency described in the accompanying schedule of findings and questioned costs as item 08-02 to be a significant deficiency in internal control over financial reporting.

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To the Board of Education
Bangor Public Schools

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 entity'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 the deficiency described in the schedule of findings and questioned costs as item 08-01 constitutes a material weakness.

Compliance and Other Matters

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

We noted certain other matters that we reported to the management of Bangor Public Schools in a separate letter dated November 12, 2008.

Bangor Public Schools' responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs as items 08-01 and 08-02 have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Plante & Moran, PLLC

November 12, 2008

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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
Bangor Public Schools

Compliance

We have audited the compliance of Bangor Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2008. The major federal program of Bangor Public Schools is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Bangor Public Schools' management. Our responsibility is to express an opinion on Bangor Public Schools' compliance based on our audit.

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

In our opinion, Bangor Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 08-03.

Praxity

To the Board of Education
Bangor Public Schools

Internal Control Over Compliance

The management of Bangor Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bangor Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

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 controls. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 08-03 to be a significant deficiency.

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. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

Bangor Public Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Bangor Public Schools' response and, accordingly, we express no opinion on it.

To the Board of Education
Bangor Public Schools

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

Plante & Moran, PLLC

November 12, 2008

Bangor Public Schools

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures
Clusters:			
Child Nutrition Cluster - U.S. Department of Agriculture -			
Passed through the Michigan Department of Education:			
National School Breakfast Program - 2007-2008	10.553	$ 111,395	$ -
National School Lunch Program - 2007-2008	10.555	302,690	-
Summer Food Service Program - USDA Agreement	10.559	40,151	-
Total Child Nutrition Cluster		454,236	-
Medicaid Cluster - U.S. Department of Health and Human Services -			
Passed through the Van Buren County ISD - Medicaid Outreach:	93.778		
2006-2007		14,046	14,046
2007-2008		10,601	-
Total Medicaid Cluster		24,647	14,046
Other federal awards:			
U.S. Department of Education:			
Passed through the Michigan Department of Education:			
Title I:	84.010		
Project number 071530 0607		594,310	442,108
Project number 081530 0708		586,865	-
Total Title I		1,181,175	442,108
Migrant:	84.011		
Project number 071890 0607		77,772	77,193
Project number 071830 2007		90,118	12,169
Project number 081890 0708		55,474	-
Project number 081830 2008		137,993	-
Total Migrant		361,357	89,362
Title V - Project number 80250-0708	84.298	3,968	-
English Language Acquisition - Title III:	84.365		
Project number 060580 0607		20,238	11,355
Project number 070580 0607		21,424	17,890
Project number 080580 0708		25,075	-
Total English Language Acquisition		66,737	29,245
Title VIB Rural and Low Income - Project number 080660 0708	84.358	44,393	-

See Notes to Schedule of Expenditures of Federal Awards.

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Accrued (Deferred) Revenue at July 1, 2007	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2008
$ -	$ -	$ 111,395	$ 111,395	$ -
-	-	302,690	302,690	-
-	-	40,151	40,151	-
-	-	454,236	454,236	-
2,633	-	2,633	-	-
-	-	9,034	10,601	1,567
2,633	-	11,667	10,601	1,567
60,903	-	199,245	138,342	-
-	-	276,338	450,532	174,194
60,903	-	475,583	588,874	174,194
5,310	(3,038)	2,272	-	-
12,169	-	77,275	65,106	-
-	-	25,464	55,474	30,010
-	-	-	45,088	45,088
17,479	(3,038)	105,011	165,668	75,098
-	-	2,537	2,537	-
13,193	-	13,193	-	-
16,446	-	19,980	3,534	-
-	-	8,793	25,075	16,282
29,639	-	41,966	28,609	16,282
-	-	39,326	39,326	-

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures
Other federal awards (Continued):			
U.S. Department of Education (Continued):			
Passed through the Michigan Department of Education (Continued):			
Title II, Part A Regular:	84.367		
Project number 70520 0607		$ 171,008	$ 171,008
Project number 80520 0708		56,332	-
Total Title II, Part A Regular		227,340	171,008
Technology Literacy Challenge Grants - Project number 084290 0708	84.318	5,744	-
Safe and Drug-free Schools and Communities:	84.186		
Project number 062860 0607		1,231	1,231
Project number 072860 0708		6,500	-
Project number 082860 0708		11,874	-
Total Safe and Drug-free Schools and Communities		19,605	1,231
Adult Education:	84.002		
Project number 081120 8500377		16,900	-
Project number 081130 810627		59,100	-
Total Adult Education		76,000	-
Total noncluster programs passed through the Michigan Department of Education		1,986,319	732,954
Passed through the Van Buren County ISD - Vocational Education - Basic Grants to States - Project number 84048a	84.048	865	-
Passed through Western Michigan University - The Gear-up Partnership 00-05:	84.334		
Project number P334A000121 0506		442,270	81,416
Project number P334A000121 0607		201,119	167,798
Project number P334A000121 0607		376,742	343,817
Project number P334A000121 0708		167,398	-
Total Gear-up Partnership		1,187,529	593,031
Total U.S. Department of Education noncluster programs		3,174,713	1,325,985
U.S. Department of Agriculture - Passed through the Michigan Department of Education - Food Distribution:	10.550		
Entitlement commodities - 2007-2008		41,633	-
Bonus commodities - 2007-2008		845	-
Total Food Distribution		42,478	-
Total federal awards		$ 3,696,074	$ 1,340,031

See Notes to Schedule of Expenditures of Federal Awards.

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2008

Accrued (Deferred) Revenue at July 1, 2007	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2008
$ 8,193	$ -	$ 8,193	$ -	$ -
-	-	23,311	56,087	32,776
8,193	-	31,504	56,087	32,776
-	-	5,744	5,744	-
1,231	-	1,231	-	-
-	-	6,500	6,500	-
-	-	10,360	10,360	-
1,231	-	18,091	16,860	-
-	-	11,767	14,843	3,076
-	-	59,100	59,100	-
-	-	70,867	73,943	3,076
117,445	(3,038)	790,629	977,648	301,426
-	-	865	865	-
388,958	-	388,958	-	-
167,798	-	201,119	33,321	-
343,817	-	177,132	29,645	196,330
-	-	-	140,514	140,514
900,573	-	767,209	203,480	336,844
1,018,018	(3,038)	1,558,703	1,181,993	638,270
-	-	41,633	41,633	-
-	-	845	845	-
-	-	42,478	42,478	-
$ 1,020,651	**$ (3,038)**	**$ 2,067,084**	**$ 1,689,308**	**$ 639,837**

Bangor Public Schools

Reconciliation of Basic Financial Statements
Federal Revenue with Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Revenue from federal sources - As reported on financial statements (includes all funds)	$ 1,693,568
Add various grant expenditures incurred, but not recognized as revenue on basic financial statements as of June 30, 2008 in accordance with GASB No. 33	336,829
Adjustment to prior year Migrant (84.011) expenditures	3,038
Less various grant expenditures incurred in the year ended June 30, 2007, but deferred on basic financial statements in accordance with GASB No. 33, and recognized as revenue in the year ended June 30, 2008	(344,127)
Federal expenditures per the schedule of expenditures of federal awards	**$ 1,689,308**

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Bangor Public Schools and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

Note 3 - Grant Section Auditor's Report

Management has utilized Form R-7120 and the cash management system (CMS) grant auditor report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

Note 4 - Adjustments and Transfers

During the year ended June 30, 2008, there were adjustments of $3,038 in the Migrant grant (CFDA 84.011), reflecting an adjustment of prior year's expenditures.

Bangor Public Schools

Schedule of Findings and Questioned Costs
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? X Yes ____ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes ____ None reported

Noncompliance material to financial statements noted? ____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes ____ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X Yes ____ No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
84.010	Title I

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? X Yes ____ No

Section II - Financial Statement Audit Findings

Reference Number	Findings
08-01	**Finding Type** - Material weakness **Criteria** - Bangor Public Schools (the "School District") should have a procedure in place to review and reconcile fixed asset schedules received from the third party to ensure accurate reporting in the government-wide statements. **Condition** - The School District did not properly analyze the reports received from the third party, and consequently did not record accumulated depreciation properly in the government-wide statements. **Context** - An adjustment was made to accumulated depreciation for approximately $325,000 in the government-wide statements. **Cause and Effect** - Ineffective review of third-party reports resulted in the understatement of accumulated depreciation in the government-wide statements. **Recommendation** - We recommend that management perform a thorough review of fixed asset reports received from the third party. **Views of Responsible Officials and Planned Corrective Actions** - The business manager will take a more active role in reviewing the fixed asset reports from the third party.
08-02	**Finding Type** - Significant deficiency **Criteria** - The School District should maintain a proper segregation of duties. **Condition** - The responsibility to perform bank reconciliations and post general journal entries, both those related to the bank reconciliations and other manual entries in general, was assigned to one individual. No independent review was performed of either the journal entries or the bank reconciliations. **Context** - There were no errors noted in our audit testing of the year-end bank reconciliations. Other mitigating oversight controls were noted to be in place.

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
08-02 (Continued)	**Cause and Effect** - The School District does not have a proper segregation of duties in place and, as a result, an error could go undetected. **Recommendation** - We recommend the duties of performing bank reconciliations and posting of general journal entries be split among different individuals. In addition, bank reconciliations and general journal entry postings should be reviewed by an independent knowledgeable person. **Views of Responsible Officials and Planned Corrective Actions** - The School District is currently assessing the organization of the central office staff and their duties and responsibilities.

Section III - Federal Program Audit Findings

Reference Number	Findings
08-03	**Program Name** - 84.010 Title I, U.S. Department of Education, passed through Michigan Department of Education **Finding Type** - Noncompliance condition and significant deficiency **Criteria** - In accordance with OMB Circular A-87, Attachment B, if an employee is charged solely to one federal program or a single cost objective, the School District is required to obtain certification twice a year, signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Because the School District is operating this grant under a school-wide program, all activities in each school-wide building are considered a single cost objective; therefore, semiannual time certifications are required for anyone charged to Title I in a school-wide building. **Condition** - The School District obtained one certification during the fiscal year for employees charged 100 percent to Title I, but not semiannual certifications. The School District did not obtain certifications for co-funded employees in school-wide buildings, nor was an alternative form of after-the-fact verification obtained for co-funded salaried employees. **Questioned Costs** - None **Context** - The School District had other evidence/documentation supporting that service was provided by the employees, such as time records, evaluations, assigned duties, and contract language. **Cause and Effect** - The School District did not have a system in place to monitor this compliance requirement and ensure that time certifications are completed as necessary. **Recommendation** - We recommend that the School District implement a system to obtain semiannual time certifications from all employees charged solely to one federal program or single cost objective, including those employees in school-wide buildings charged to Title I. **Views of Responsible Officials and Planned Corrective Actions** - We will obtain semiannual time certifications for employees charged to one federal program and certifications from co-funded employees in school-wide buildings.

Bangor Public Schools

Report to the Board of Education

June 30, 2008

plante moran

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To the Board of Education
Bangor Public Schools

We have recently completed our audit of the basic financial statements of Bangor Public Schools for the year ended June 30, 2008. In addition to our audit report, we are providing the following results of the audit, recommendations, and informational comments which impact Bangor Public Schools:

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We are grateful for the opportunity to be of service to Bangor Public Schools. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

November 12, 2008

Praxity

plante moran

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Results of the Audit

November 12, 2008

To the Board of Education
Bangor Public Schools

We have audited the financial statements of Bangor Public Schools (the "School District") for the year ended June 30, 2008 and have issued our report thereon dated November 12, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 2, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the School District. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the School District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the School District's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated November 12, 2008 regarding our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. This letter is included in the supplemental schedule of federal awards (single audit report), and we recommend that the matters we have noted there receive your careful consideration.

Praxity
MEMBER

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of the School District, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 16, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates affecting the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no sensitive disclosures affecting the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated November 12, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the School District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School District, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the School District's auditors.

As required by OMB Circular A-133, we have also completed an audit of the federal programs administered by the School District. The results of that audit are provided to the Board of Education in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 dated November 12, 2008.

To the Board of Education
Bangor Public Schools

November 12, 2008

This information is intended solely for the use of the Board of Education and management of Bangor Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

Jeffrey L. Egberts, CPA

Other Recommendations

Other Recommendations

As part of our audit process, we assessed information technology general controls as part of our overall assessment of internal controls. Resulting from that assessment, we have identified opportunities for the School District to strengthen IT-related internal controls. The primary goal of internal control is to provide reasonable (as opposed to absolute) protection to the School District and its assets and financial information. We appreciate that the School District has limited resources and must look to maximize the benefits from the resources it utilizes. With that in mind, we offer recommendations for the following information technology control features for the School District's consideration as it continues to improve its operations (specific recommendations for each item below have been communicated to management):

- User Access
- Authentication Controls - Passwords
- Environmental Controls

Informational Items

State Aid Issues

2008/2009

For 2008/2009, the governor and Legislature continued to work through the State's budget issues. Once again, schools were asked to establish budgets without knowing the level of funding to be provided by the state. In July 2008, a compromise was reached.

Foundation Allowance

The budget agreement provides for a $112 increase (1.55 percent increase) in the School District's foundation allowance. As part of the agreement, the State continued with its sliding scale equity payment concept within the foundation formula, with the increase being $56-$112 per pupil depending on the size of an individual district's foundation allowance. The new basic foundation is $8,489 and the lowest foundation allowance is now $7,316.

Retirement Rate

The 2008/2009 retirement rate has been determined. The rate for the fiscal year beginning October 1, 2008 will be 16.54 percent.

Kindergarten Full-funding "Intent" Language

As part of the budget plan, the amendments to the State Aid Act include "intent language" to move toward a full-day kindergarten requirement. Essentially the language provides that, beginning in fiscal year 2009-2010, half-day developmental kindergarten programs would be funded at 50 percent (current law fully funds those programs). In addition, kindergarten programs would be fully funded in fiscal year 2010-2011 if they operated for 60 percent of a day, and fully funded in fiscal year 2011-2012 if they operated for 70 percent of a day.

As the State's budget year moves forward, it will monitor the revenue intake with periodic revenue-estimating conferences. State law requires that the appropriations cannot exceed revenue estimates. As a result, it is possible that there could be reductions in district funding if the State is not able to generate the funding levels identified in the May 2008 revenue-estimating conference.

Recent Auditing Pronouncements

The standards initially effective for June 30, 2008 audits continue the process of redefining how the audit is to be conducted. These standards have changed much of what occurs during the audit process and what is provided to the Board of Education and others charged with governance.

Statement on Auditing Standards Nos. 104 to 111 - The Risk Assessment Standards - The AICPA issued Statements on Auditing Standards (SAS 104 to SAS 111) that have substantially affected the auditing process. The effective date for all school district audits is for the audit of the financial statements for the year ended June 30, 2008. These standards essentially redefine the audit process from start to finish and the ramifications for the audit process are substantial.

The new standards primarily require:

- The auditor to obtain a deeper understanding of (1) the district and its internal control, for purposes of identifying the risks of material misstatement in the financial statements and (2) what the district is doing to mitigate those risks
- A more rigorous assessment of the risks of material misstatement based on that understanding, with additional emphasis on significant risks that call for special audit consideration
- A clearer linkage between the assessed risks and the audit procedures performed, including tests of controls and substantive tests, in response to those risks

We invested substantial resources into the redesign of our audit process to conform to these requirements. Our ultimate goal, as in the past, is to provide a quality audit, in full conformance with the requirements, which is tailored to the unique environment for Michigan schools. As a result, our 2008 audit process included many new features and elements. We worked with the School District to understand the elements, involved it in the information gathering process, and performed audit tests focused on the risks embedded in the School District's financial statements. To provide the School District with as much lead time as possible in the data gathering process, we reviewed the information needs and provided the School District with the necessary tools. We appreciate that change can be difficult and time consuming. Our goal was to insure any changes made were done with a purpose and the changes focused on issues directly impacting your School District.

Public Act 106 of 2007

In October 2007, the State of Michigan enacted the Public Employees Health Benefit Act. This act was intended to promote greater opportunities for public school districts to control the escalating costs of health benefits provided to school district staff. The act provides for changes in the three following areas:

- Mandates solicitation of competitive bids for health insurance at least once every three years, or when a plan is enacted or substantially modified
- Mandates the release of individual district claims data by existing providers
- Allows for districts to form and participate in health insurance pools

The act is not intended to replace a school district's collective bargaining activities, but has created many more alternatives to the programs currently used in most districts. We encourage you to explore the cost-saving options now available. We would be happy to assist you in evaluating your best options to provide optimal health coverage for your staff at competitive prices.

Michigan Business Tax Changes Impacting Public Schools

The State of Michigan has recently replaced the Michigan single business tax with the new Michigan business tax (MBT). Two provisions of the new MBT will impact K-12 funding.

The MBT expands the existing community foundation credit to include educational foundations. If your educational foundation meets certain specified criteria, business donors can receive an MBT credit equal to 50 percent of their contribution, limited to 5 percent of the donor's tax liability or $5,000. This provision will provide tax incentives to businesses to support educational foundations, and, as a result, could lead to enhanced funding to the School District.

The MBT also provides for personal property tax relief to businesses. Businesses will receive a 24 mill reduction on industrial personal property and a 12 mill reduction on commercial personal property. Most districts will experience a substantial reduction in personal property tax receipts. To offset this reduction, the MBT requires the State to make specific payments to the School Aid Fund. It remains uncertain exactly how these funding changes will impact individual districts, and the resulting cash flow may be delayed as the payments migrate to the 11 monthly state aid payments. We encourage you to closely monitor these changes and adjust your budgeting and cash flow plans accordingly.

Recent IRS Changes to Deferred Compensation Rules

The IRS recently announced a change in position surrounding staff who choose to be paid over a 12-month period rather than over the shorter school year. Under the change, the employee will not be considered to have a "deferred compensation" arrangement if:

- The payment of any recurring compensation is not deferred beyond the last day of the 13th month following the beginning of the school year
- The amount deferred from one taxable year to the next is not more than the general dollar deferral limit in effect under Code Section 402(g) (currently, $15,500 in 2008) for the calendar year in which the school year begins.
- Prior to this notice, the IRS had taken the position that if an employee elected to be paid over a 12-month period rather than over the shorter school year, the employee had deferred compensation. As a result, both the school district and the employee needed to comply with the requirements of Code Section 409A, which governed deferred compensation arrangements.

The result of this new notice will "eliminate the possibility of additional tax under 457(f) and 409 for most teachers and schools," according to the IRS. Taxpayers can rely on Notice 2008-62 immediately, "beginning with the first taxable year that includes July 1, 2008.

403(b) Annuity Plans

The IRS has finalized regulations that will require schools to take more responsibility in the operation and compliance of their 403(b) arrangements, including operating the plans under a written document. The regulations have a delayed effective date of January 1, 2009. Districts will want to carefully balance the degree of involvement versus delegation as they implement a compliance strategy. It will be important to establish a district plan document and implement vendor agreements that establish the responsibilities of the School District and the vendor to eliminate confusion and provide a compliance road map. Watch for updates in Plante & Moran's *School Advisor* or in an *Alert* publication.

Currently, the IRS is reviewing 403(b) plans for compliance with the universal availability eligibility requirements. The universal availability rule generally requires that all employees have the right to make salary deferral contributions to the 403(b) plan, with few exceptions. Further, the final regulations reduce the number of exemptions from this requirement.