

**Marcellus Community Schools
Marcellus, Michigan**

**Annual Financial Statements
and
Independent Auditors' Report**

June 30, 2012

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Marcellus Community Schools
Members of the Board of Education and Administration
June 30, 2012

Members of the Board of Education

Timothy Henry – President

Jeff Steinkraus – Vice President

Jane Butcbaker – Treasurer

Donna Brown – Secretary

Hugh Fair – Trustee

Joe Tone – Trustee

Darcie Walden – Trustee

Administration

Ron Herron – Superintendent

Nanette Pauley – Principal, Middle/High School

Mindy Bohan – Principal, Primary School

Don Price – Principal, Volinia Outcome

Independent Auditors' Report

To the Board of Education
Marcellus Community Schools
Marcellus, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Marcellus Community Schools as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Marcellus Community 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 Marcellus Community Schools as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 24, 2012 on our consideration of Marcellus Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marcellus Community Schools' financial statements as a whole. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and, other than the prior year information, was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Yeo & Yeo, P.C.

Kalamazoo, Michigan
August 24, 2012

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2012

This section of the Marcellus Community Schools annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2012. 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 the Marcellus Community School District financially as a whole. The *Government-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 government-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 non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The annual report is arranged as follows:

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 General Fund

Other Supplemental Information

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2012

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

The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information about the School District as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The statement of net assets includes all of the School District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

These two statements report the School District's net assets and how they have changed. Net assets – the difference between assets and liabilities, as reported in the statement of net assets – is one way to measure the School District's financial health, or position. Over time, increases or decreases in the School District's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, 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 many other funds to help it control and manage money for particular purposes (the Food Service Fund, for example) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

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

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2012

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

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended 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, 2012 and 2011.

TABLE 1

	Governmental Activities	
	2012	2011
Assets		
Current and other assets	\$ 2,017,412	\$ 2,313,876
Property and equipment	4,106,631	4,190,721
Total assets	6,124,043	6,504,597
Liabilities		
Current liabilities	1,159,974	1,876,938
Long-term liabilities	4,538,425	4,537,300
Total liabilities	5,698,399	6,414,238
Net Assets		
Invested in property and equipment – Net of related debt	(294,642)	(928,847)
Restricted		
Debt service	299,008	380,386
Capital projects	195,947	129,343
Unrestricted	225,331	509,477
Total net assets	\$ 425,644	\$ 90,359

The above analysis focuses on the net assets (see Table 1).

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2012

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 sources of revenue for the fiscal year 2011/12 and fiscal year 2010/11.

TABLE 2	Governmental Activities	
	2012	2011
Revenue		
Program Revenue		
Charges for services	\$ 124,360	\$ 143,703
Operating grants	1,002,771	1,310,790
General revenue		
Property taxes	1,922,355	1,852,155
State foundation allowance	4,739,087	5,249,478
Other	95,734	47,250
Insurance recoveries	-	90,348
Total Revenue	7,884,307	8,693,724
Functions/Program Expenses		
Instruction	4,090,504	4,327,653
Support services	2,712,938	2,879,133
Food services	331,574	371,307
Depreciation	195,951	182,731
Interest on long-term debt	218,055	245,496
Total Expenses	7,549,022	8,006,320
Increase in net assets	\$ 335,285	\$ 687,404

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.

**Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2012**

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 and may provide more insight into the School District's overall financial health.

In the General Fund, our fund balance decreased \$282,822 to \$329,083. This decrease in fund balance was less than budgeted as we were able to continue reduce expenses and with increased revenues from additional Edu Jobs federal funding. However, we continue to be extremely cautious about the economic downturn that continues within the state and local economy. Even though the economy has started to shown signs of recovery, the loss of tax base and students due to less employment opportunities in the State of Michigan will keep us focused on tighten controls on expenditures and finding new ways to increase our revenue streams to balance our budget.

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 adopted in June of 2012. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information section of these financial statements.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2012, the School District had \$10,983,052 invested in capital assets, including land, buildings, and furniture and equipment.

	2012	2011
Assets not being depreciated		
Land	\$ 100,000	\$ 100,000
Construction in progress	-	47,524
Building and building improvements	7,185,597	7,165,933
Furniture and equipment	2,929,025	2,839,264
Buses and other vehicles	768,430	772,438
Total capital assets	10,983,052	10,925,159
Less accumulated depreciation	(6,876,421)	(6,734,438)
Net capital assets	\$ 4,106,631	\$ 4,190,721

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2012

Long Term Debt and Other Obligations

At the end of this year, the School District had \$4,355,000 in General Obligation Bonds outstanding versus \$5,025,000 last year – a decrease of 13.33 percent. Other obligations include accrued vacation pay and sick leave. 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

The economy in the State of Michigan has shown some small signs of recovery however economic recovery will be long and difficult because of the major losses Michigan has suffered. Basic foundation revenues will, at best, be \$6,946 per pupil (a \$100 per pupil increase from the 2011-2012 school year). However, the combination of increased revenues, decreasing K-12 enrollments, and rapidly increasing costs for state retirement will continue to challenge the District's resources. With virtually no incoming cash during the August 20 through October 20 period, borrowing against state aid is still at \$1,100,000 for the 2012-2013 fiscal year. However, providing quality educational programs will continue to be the District's highest priority.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Superintendent's office at 305 W. Arbor, Marcellus, Michigan 49067.

Marcellus Community Schools
Statement of Net Assets
June 30, 2012

	Governmental Activities
Assets	
Cash	\$ 892,169
Due from other governmental units	1,032,159
Inventory	36,241
Other assets	56,843
Capital assets not being depreciated	100,000
Capital assets - net of accumulated depreciation	4,006,631
Total assets	6,124,043
Liabilities	
Accounts payable	244,499
State aid anticipation note payable	151,517
Due to other governmental units	102,001
Payroll deductions and withholdings	27,454
Accrued expenditures	248,538
Accrued salaries payable	385,965
Noncurrent liabilities	
Due in one year	704,034
Due in more than one year	3,834,391
Total liabilities	5,698,399
Net Assets	
Invested in capital assets, net of related debt	(294,642)
Restricted for:	
Food service	4,482
Debt service	299,008
Capital projects	195,947
Unrestricted	220,849
Total net assets	\$ 425,644

See Accompanying Notes to Financial Statements

Marcellus Community Schools
Statement of Activities
For the Year Ended June 30, 2012

	Program Revenues			Net Revenue (Expense) and Changes in Net Assets
Expenses	Charges for Services	Operating Grants and Contributions		
Functions/Programs				
Governmental activities				
Instruction	\$ 4,090,504	\$ -	\$ 631,077	\$ (3,459,427)
Supporting services	2,712,938	37,301	120,173	(2,555,464)
Food services	331,574	87,059	251,521	7,006
Unallocated depreciation	195,951	-	-	(195,951)
Interest on long-term debt	218,055	-	-	(218,055)
	<u>\$ 7,549,022</u>	<u>\$ 124,360</u>	<u>\$ 1,002,771</u>	<u>(6,421,891)</u>
General revenues				
Property taxes, levied for general purposes				916,528
Property taxes, levied for debt service				807,935
Property taxes, levied for sinking fund				197,892
State aid - unrestricted				4,739,087
Interest and investment earnings				34,856
Gain on sale of capital assets				8,000
Other				52,878
Total general revenues				6,757,176
Change in net assets				335,285
Net assets - beginning				90,359
Net assets - ending				\$ 425,644

See Accompanying Notes to Financial Statements

Marcellus Community Schools
Governmental Funds
Balance Sheet
June 30, 2012

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash	\$ 361,870	\$ 530,299	\$ 892,169
Due from other governmental units	1,029,245	2,914	1,032,159
Inventory	32,332	3,909	36,241
Total assets	<u>\$ 1,423,447</u>	<u>\$ 537,122</u>	<u>\$ 1,960,569</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 210,723	\$ 33,776	\$ 244,499
State aid anticipation note payable	151,517	-	151,517
Due to other governmental units	102,001	-	102,001
Payroll deductions and withholdings	27,454	-	27,454
Accrued expenditures	216,704	-	216,704
Accrued salaries payable	385,965	-	385,965
Total liabilities	<u>1,094,364</u>	<u>33,776</u>	<u>1,128,140</u>
Fund Balance			
Non-spendable			
Inventory	32,332	3,909	36,241
Restricted for:			
Food service	-	4,482	4,482
Debt service	-	299,008	299,008
Capital projects	-	195,947	195,947
Unassigned	296,751	-	296,751
Total fund balance	<u>329,083</u>	<u>503,346</u>	<u>832,429</u>
Total liabilities and fund balance	<u>\$ 1,423,447</u>	<u>\$ 537,122</u>	<u>\$ 1,960,569</u>

See Accompanying Notes to Financial Statements

Marcellus Community Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2012

Total fund balances for governmental funds	\$ 832,429
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	100,000
Capital assets - net of accumulated depreciation	4,006,631
Other long-term assets are not deferred in the governmental funds	
Bond issuance costs	56,843
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(31,834)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Compensated absences	(137,152)
Bonds payable	(4,396,700)
Other loans payable and liabilities	<u>(4,573)</u>
Net assets of governmental activities	<u>\$ 425,644</u>

Marcellus Community Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2012

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Local sources	\$ 1,080,235	\$ 1,094,788	\$ 2,175,023
State sources	5,177,263	50,027	5,227,290
Federal sources	234,832	232,898	467,730
Interdistrict sources	6,264	-	6,264
	<u>6,498,594</u>	<u>1,377,713</u>	<u>7,876,307</u>
Total revenues			
Expenditures			
Current			
Education			
Instruction	4,084,315	-	4,084,315
Supporting services	2,623,622	-	2,623,622
Food services	-	331,415	331,415
Capital outlay	54,251	132,512	186,763
Debt service			
Principal	19,706	693,190	712,896
Interest and other expenditures	7,522	228,193	235,715
	<u>6,789,416</u>	<u>1,385,310</u>	<u>8,174,726</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>(290,822)</u>	<u>(7,597)</u>	<u>(298,419)</u>

See Accompanying Notes to Financial Statements

Marcellus Community Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2012

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Other Financing Sources			
Proceeds from sale of capital assets	\$ 8,000	\$ -	\$ 8,000
Net change in fund balance	(282,822)	(7,597)	(290,419)
Fund balance - beginning	<u>611,905</u>	<u>510,943</u>	<u>1,122,848</u>
Fund balance - ending	<u>\$ 329,083</u>	<u>\$ 503,346</u>	<u>\$ 832,429</u>

See Accompanying Notes to Financial Statements

Marcellus Community Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2012

Net change in fund balances - Total governmental funds \$ (290,419)

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(195,951)
Capital outlay	96,961
Sale of capital assets (net book value)	14,900

Expenses are recorded when incurred in the statement of activities.

Interest	12,261
Compensated absences	(7,935)

Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Repayments of long-term debt	711,485
Amortization of premiums	6,810
Amortization bond issuance costs	<u>(12,827)</u>

Change in net assets of governmental activities **\$ 335,285**

Marcellus Community Schools
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2012

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash	\$ 49,779	\$ 46,315
Liabilities		
Due to agency fund activities	-	\$ 46,315
Net Assets		
Reserved for scholarships and loans	\$ 49,779	

Marcellus Community Schools
Fiduciary Funds
Private Purpose Trust Funds
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2012

	<u>Private Purpose Trust Funds</u>
Additions	
Interest and investment earnings	\$ 128
Deductions	
Scholarships	<u>450</u>
Change in net assets	(322)
Net assets - beginning	<u>50,101</u>
Net assets - ending	<u>\$ 49,779</u>

See Accompanying Notes to Financial Statements

Marcellus Community Schools
Notes to Financial Statements
June 30, 2012

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Marcellus Community Schools (the "School District") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

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 Governmental 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. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all non-fiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The School District first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from current year activities.

Fund Financial Statements

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

Marcellus Community Schools
Notes to Financial Statements
June 30, 2012

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 government.

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

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include the Food Service Fund. Operating deficits generated by these activities are generally transferred from the General Fund.

Sinking Fund – The Sinking Fund is used to record the sinking fund property tax levy and other revenue and the disbursement of invoices specifically for acquiring new school sites, construction or repair of school buildings.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Trust Funds are funds entrusted to the School District for scholarship awards and loans and the principal and interest of the trust may be spent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2012, the rates are as follows per \$1,000 of assessed value.

General Fund	
Non principal residence exemption	17.90100
Commercial personal property	6.00000
Debt Service Funds	5.10000
Sinking Fund	1.25000

Marcellus Community Schools
Notes to Financial Statements
June 30, 2012

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the Counties of Cass, St. Joseph and Van Buren and remitted to the School District by May 15.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Site improvements	10-20 years
Equipment and furniture	5-10 years
Buses and other vehicles	5-10 years

Compensated Absences – Sick days are earned by teachers and administrators. Retiring employees who meet certain years of service requirements are paid for accumulated sick days up to a maximum numbers of days and at a rate determined by their contracts. There is no contractual provision for payment of unused vacation. They may be used for vacation only.

The liability for compensated absences reported in the district-wide financial statements consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments. The amount reported is salary-related and includes fringe benefits.

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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable - assets that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Marcellus Community Schools
Notes to Financial Statements
June 30, 2012

Committed – amounts constrained on use imposed by the District's highest level of decision-making, its board of education. A fund balance commitment may be established, modified, or rescinded by a resolution of the board of education.

Assigned – amounts intended to be used for specific purposes, as determined by the board of education. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board has issued Statements 63 and 65, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and *Items Previously Reported as Assets and Liabilities*. The new standards provide

guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. These statements will be adopted for the fiscal year ending June 30, 2013.

The Government Accounting Standards Board has issued *Statements 67, Financial Reporting for Pension Plans and 68 Accounting and Financial Reporting for Pensions*. Statement 67 changes how public employee pension plans calculate and report their total pension liability. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The effect of these changes has not been determined. Statement 67 is effective for the year ending June 30, 2014 and Statement 68 is effective for the year ending June 30, 2015.

Note 2 - Stewardship, Compliance, 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, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

Marcellus Community Schools
Notes to Financial Statements
June 30, 2012

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Added needs	\$ 749,297	\$ 750,730	\$ 1,433
School administration	582,908	585,961	3,053
Business	160,411	164,587	4,176
Operations and maintenance	644,198	648,396	4,198
Pupil transportation services	399,072	409,834	10,762
Central	81,056	86,123	5,067
Debt - principal	18,057	19,706	1,649

Compliance - Sinking Funds

The Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of § 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 2004-4.

Note 3 - Deposits and Investments

The School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 892,169	\$ 96,094	\$ 988,263

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 988,263
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Interest rate risk – The District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – 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 an office 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.

Concentration of credit risk – The District has no policy that would limit the amount that may be invested with any one issuer.

Marcellus Community Schools
Notes to Financial Statements
June 30, 2012

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of year-end, \$573,329 of the District's bank balances were federally uninsured and uncollateralized.

Note 4 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 100,000	\$ -	\$ -	\$ 100,000
Construction in progress	47,524	-	47,524	-
Total capital assets not being depreciated	<u>147,524</u>	<u>-</u>	<u>47,524</u>	<u>100,000</u>
Capital assets being depreciated				
Buildings and additions	7,165,933	47,524	27,860	7,185,597
Equipment and furniture	2,839,264	89,761	-	2,929,025
Buses and other vehicles	772,438	7,200	11,208	768,430
Total capital assets being depreciated	<u>10,777,635</u>	<u>144,485</u>	<u>39,068</u>	<u>10,883,052</u>
Less accumulated depreciation for				
Buildings and additions	3,499,571	111,532	-	3,611,103
Equipment and furniture	2,552,543	57,760	42,760	2,567,543
Buses and other vehicles	682,324	26,659	11,208	697,775
Total accumulated depreciation	<u>6,734,438</u>	<u>195,951</u>	<u>53,968</u>	<u>6,876,421</u>
Net capital assets being depreciated	<u>4,043,197</u>	<u>(51,466)</u>	<u>(14,900)</u>	<u>4,006,631</u>
Net capital assets	<u>\$ 4,190,721</u>	<u>\$ (51,466)</u>	<u>\$ 32,624</u>	<u>\$ 4,106,631</u>

Depreciation for the fiscal year ended June 30, 2012 amounted to \$195,951. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Note 5 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	\$ 118,776	\$ 1,100,000	\$ 1,067,259	\$ 151,517

The state aid anticipation note agreement includes an irrevocable set-aside of \$948,483 at year-end that is considered defeased debt and not included in the ending balance.

Note 6 - Long Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Marcellus Community Schools
Notes to Financial Statements
June 30, 2012

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation bonds	\$ 5,025,000	\$ -	\$ 670,000	\$ 4,355,000	\$ 695,000
Deferred amount on refunding	(87,758)	-	(13,683)	(74,075)	-
Premium on bonds	131,807	-	20,493	111,314	-
	<u>5,069,049</u>	<u>-</u>	<u>676,810</u>	<u>4,392,239</u>	<u>695,000</u>
Other bonds	27,652	-	23,191	4,461	4,461
Installment notes	22,867	-	18,294	4,573	4,573
Compensated absences	129,217	7,935	-	137,152	-
Total	<u>\$ 5,248,785</u>	<u>\$ 7,935</u>	<u>\$ 718,295</u>	<u>\$ 4,538,425</u>	<u>\$ 704,034</u>

For governmental activities, installment notes and compensated absences are primarily liquidated by the general fund.

General obligation bonds payable at year-end consists of the following:

\$5,550,000 serial bond due in annual installments of \$220,000 to \$2,500,000 through May 1, 2013, interest at 4.25% to 5.0%	\$ 320,000
\$2,960,000 serial bond due in annual installments of \$225,000 to \$1,840,000 through May 1, 2015, interest at 2.5% to 4.0%	1,120,000
\$2,915,000 serial bond due in annual installments of \$190,000 to \$2,725,000 through May 1, 2019, interest at 4.0% to 5.25%	<u>2,915,000</u>
Total general obligation bonded debt	<u>\$ 4,355,000</u>

Future principal and interest requirements for bonded debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 695,000	\$ 191,002	\$ 886,002
2014	585,000	161,900	746,900
2015	600,000	138,500	738,500
2016	620,000	114,500	734,500
2017	620,000	81,950	701,950
2018-2019	<u>1,235,000</u>	<u>74,000</u>	<u>1,309,000</u>
Total	<u>\$ 4,355,000</u>	<u>\$ 761,852</u>	<u>\$ 5,116,852</u>

The general obligation bonds are payable from the Debt Service Funds. As of year-end, the funds had a balance of \$299,008 to pay this debt. Future debt and interest will be payable from future tax levies.

Other bonds consist of the following:

\$66,560 Durant Refunding serial bonds due in annual installments through 5/15/2013; interest 4.76% due annually	<u>\$ 4,461</u>
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These bond obligations issued by PA 142 are payable solely from and are secured solely by an assignment by each School District of certain categorical State School Aid payments. The State Legislature has no obligation to make such appropriations. In the event the Legislature fails to appropriate funds, the School District is under no obligation for repayment of the debt obligation issued by PA 142.

Marcellus Community Schools
Notes to Financial Statements
June 30, 2012

Future principal and interest requirements are as follows:

June 30,	Principal	Interest	Total
2013	\$ 4,461	\$ 212	\$ 4,673

Installment Notes

Installment notes payable at June 30, 2012 consist of the following:

\$150,000 Northrup property installment note payable due in monthly installments of \$1,584 through October 15, 2012, interest at 4.90%	<u>\$ 4,573</u>
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Future principal and interest requirements for installment notes are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 4,573	\$ 37	\$ 4,610

Compensated Absences

Accrued compensated absences at year-end consist of \$137,152 of accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Defeased Debt

In the prior year, the School District had defeased various bonds issued by creating separate irrevocable trust funds. New debt has been issued and the net proceeds of each refunding were placed in separate special escrow accounts and invested in securities of the U.S. Government and its agencies. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded bonds are considered to be

defeased. Accordingly, the trust account assets and liability for the defeased bonds are not included in the School District's financial statements.

The final payment date is May 2015 for the 2005 refunding bonds. As of year-end, the amount of defeased debt outstanding but removed from the School District's financial statements is \$1,460,000.

The final payment date is May 2019 for the 2007 refunding bonds. As of year-end, the amount of defeased debt outstanding but removed from the School District's financial statements is \$2,945,000.

Note 7 - Risk Management

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

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had \$54,628 of unemployment compensation expense for the year ended June 30, 2012. No provision has been made for possible future claims.

Marcellus Community Schools
Notes to Financial Statements
June 30, 2012

Note 8 - Pension Plans and Post Employment Benefits

Plan Description

The School District has a defined benefit pension plan covering substantially all employees. The plan is operated by the State of Michigan's Public School Employees' Retirement System (MPSERS), which is a cost-sharing multiple-employer public employee retirement system (PERS).

The pension plan provides retirement, survivor and disability benefits to plan members and their beneficiaries.

MPSERS operates within the Michigan Department of Technology, Management and Budget, Office of Retirement Services, who has the authority to establish and amend benefit provisions. The Michigan Department of Technology, Management and Budget issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. The report provides information for the plan as a whole and information helpful for understanding the scale of the information presented relative to the School. That report may be obtained by writing Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671, calling 800-381-5111 or on the web at <http://www.michigan.gov/orsschools>.

In 2010, MPSERS created a new Pension Plus plan. All Michigan public school employees who begin work on or after July 1, 2010, are enrolled in the Pension Plus plan. The Pension Plus plan includes two components: (a) a defined benefit pension component, and (b) a defined contribution savings component.

Funding Policy

The District is required by the School Finance Reform Act to contribute to MPSERS an actuarially determined percentage of payroll for all participating employees. The District's actual contributions match the required contributions. Additionally, employees participating in the Member Investment Plan contributed 3% to 6.4% of their covered wages through payroll deduction. In addition to retirement benefits, a portion of the total MPSERS contribution is allocated to cover health, dental and vision benefits. The following table discloses pertinent information relative to MPSERS pension retirement plan funding for the three-year period beginning July 1, 2009 through June 30, 2012.

	2012	2011	2010
Funding percentage range	10.66 -15.96%	8.63- 12.16%	9.73 - 10.13%
Total payroll	3,776,730	4,037,695	4,065,151
Total covered payroll	3,721,944	3,961,102	4,007,882
School pension contributions	561,947	440,116	401,226
Employee MIP contributions	244,417	227,385	134,037

Defined Contribution Savings Plan

For the Pension Plus savings plan, participants are automatically enrolled and 2% of their pay is withheld and deposited into the account. Participants may elect to not contribute, or may elect to increase their personal contribution up to the annual limits established by the IRS. The District matches 50 percent of the employee contributions into the Pension Plus savings plan, up to 1 percent. Participants opting to not contribute receive no employer matching contribution. Contributions by the District and participants during the year ended June 30, 2012, were:

	School District	Participants
Contributions to the Pension Plus Savings Plan	\$ 462	\$ 924

Marcellus Community Schools
Notes to Financial Statements
June 30, 2012

Post Employment Benefits

In addition to the pension benefits described above, the School Finance Reform Act requires the School District to provide post-retirement health care, dental, and vision benefits for retirees and beneficiaries through Michigan Public School Employees Retirement System (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 care, dental and vision coverage at the time of receiving the benefits. The School's actual contributions match the required contributions.

The following table discloses pertinent information relative to MPSERS post employment benefits funding for the three-year period beginning July 1, 2009 through June 30, 2012.

	2012	2011	2010
Funding percentage range	8.50%	6.81 – 8.50 %	6.81%
School post employment benefits contribution	307,800	318,033	272,417

Note 9 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Note 10 - Subsequent Events

Subsequent to June 30, 2012, the District has borrowed \$1,100,000 in short-term state aid anticipation notes through the Michigan Municipal Bond Authority. The interest rate on this note was 0.40% and matures on August 20, 2013.

Marcellus Community Schools
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources	\$ 926,469	\$ 1,056,173	\$ 1,080,235	\$ 24,062
State sources	5,201,635	5,180,614	5,177,263	(3,351)
Federal sources	201,914	215,228	234,832	19,604
Interdistrict sources	-	6,264	6,264	-
Total revenues	<u>6,330,018</u>	<u>6,458,279</u>	<u>6,498,594</u>	<u>40,315</u>
Expenditures				
Instruction				
Basic programs	3,412,370	3,351,532	3,333,585	(17,947)
Added needs	605,652	749,297	750,730	1,433
Supporting services				
Pupil	253,848	278,543	277,978	(565)
Instructional staff	22,032	18,187	17,672	(515)
General administration	333,691	294,313	290,718	(3,595)
School administration	625,143	582,908	585,961	3,053
Business	181,999	160,411	164,587	4,176
Operations and maintenance	669,891	644,198	648,396	4,198
Pupil transportation services	394,084	399,072	409,834	10,762
Central	79,243	81,056	86,123	5,067
Athletic activities	133,134	143,578	142,353	(1,225)
Capital outlay	13,838	56,948	54,251	(2,697)
Debt service				
Principal	18,057	18,057	19,706	1,649
Interest and fiscal charges	9,950	7,550	7,522	(28)
Total expenditures	<u>6,752,932</u>	<u>6,785,650</u>	<u>6,789,416</u>	<u>3,766</u>
Deficiency of revenues over expenditures	<u>(422,914)</u>	<u>(327,371)</u>	<u>(290,822)</u>	<u>36,549</u>

Marcellus Community Schools
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	\$ -	\$ -	\$ 8,000	\$ 8,000
Net change in fund balance	(422,914)	(327,371)	(282,822)	44,549
Fund balance - beginning	<u>611,905</u>	<u>611,905</u>	<u>611,905</u>	<u>-</u>
Fund balance - ending	<u>\$ 188,991</u>	<u>\$ 284,534</u>	<u>\$ 329,083</u>	<u>\$ 44,549</u>

Marcellus Community Schools
Other Supplemental Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2012

	Food Service	Debt Service Funds			Capital Projects	Total Nonmajor Governmental Funds
		2001 Debt	2005 Debt	2007 Debt		
Assets						
Cash	\$ 35,344	\$ 161,516	\$ 57,098	\$ 80,394	\$ 195,947	\$ 530,299
Due from other governmental units	2,914	-	-	-	-	2,914
Inventory	3,909	-	-	-	-	3,909
Total assets	\$ 42,167	\$ 161,516	\$ 57,098	\$ 80,394	\$ 195,947	\$ 537,122
Liabilities and Fund Balance						
Liabilities						
Accounts payable	\$ 33,776	\$ -	\$ -	\$ -	\$ -	\$ 33,776
Fund Balance						
Non-spendable						
Inventory	3,909	-	-	-	-	3,909
Restricted for:						
Food service	4,482	-	-	-	-	4,482
Debt service	-	161,516	57,098	80,394	-	299,008
Capital projects	-	-	-	-	195,947	195,947
Total fund balance	8,391	161,516	57,098	80,394	195,947	503,346
Total liabilities and fund balance	\$ 42,167	\$ 161,516	\$ 57,098	\$ 80,394	\$ 195,947	\$ 537,122

Marcellus Community Schools
Other Supplemental Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2012

	Food Service	Debt Service Funds			Capital Projects	Total Nonmajor Governmental Funds
		2001 Debt	2005 Debt	2007 Debt		
Revenues						
Local sources	\$ 87,071	\$ 233,492	\$ 426,483	\$ 148,423	\$ 199,319	\$ 1,094,788
State sources	18,623	-	31,404	-	-	50,027
Federal sources	<u>232,898</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>232,898</u>
Total revenues	<u>338,592</u>	<u>233,492</u>	<u>457,887</u>	<u>148,423</u>	<u>199,319</u>	<u>1,377,713</u>
Expenditures						
Current						
Education						
Food services	331,415	-	-	-	-	331,415
Capital outlay	-	-	-	-	132,512	132,512
Debt service						
Principal	-	295,000	398,190	-	-	693,190
Interest and other expenditures	<u>-</u>	<u>29,260</u>	<u>65,949</u>	<u>132,781</u>	<u>203</u>	<u>228,193</u>
Total expenditures	<u>331,415</u>	<u>324,260</u>	<u>464,139</u>	<u>132,781</u>	<u>132,715</u>	<u>1,385,310</u>
Excess (deficiency) of revenues over expenditures	7,177	(90,768)	(6,252)	15,642	66,604	(7,597)
Fund balance - beginning	<u>1,214</u>	<u>252,284</u>	<u>63,350</u>	<u>64,752</u>	<u>129,343</u>	<u>510,943</u>
Fund balance - ending	<u>\$ 8,391</u>	<u>\$ 161,516</u>	<u>\$ 57,098</u>	<u>\$ 80,394</u>	<u>\$ 195,947</u>	<u>\$ 503,346</u>

Marcellus Community Schools
Other Supplemental Information
General Fund
Comparative Balance Sheet
June 30, 2012

	2012	2011
Assets		
Cash	\$ 361,870	\$ 559,524
Due from other governmental units	1,029,245	1,141,707
Inventory	32,332	26,863
Total assets	\$ 1,423,447	\$ 1,728,094
Liabilities and Fund Balance		
Liabilities		
Accounts payable	\$ 210,723	\$ 66,579
State aid anticipation note payable	151,517	118,776
Due to other funds	-	3,397
Due to other governmental units	102,001	102,001
Payroll deductions and withholdings	27,454	39,296
Accrued expenditures	216,704	257,060
Accrued salaries payable	385,965	529,080
Total liabilities	1,094,364	1,116,189
Fund Balance		
Non-spendable		
Inventory	32,332	26,863
Unassigned	296,751	585,042
Total liabilities and fund balance	329,083	611,905
	\$ 1,423,447	\$ 1,728,094

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Revenues Compared to Budget
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue from local sources				
Property tax levy	\$ 827,545	\$ 908,706	\$ 916,528	\$ 7,822
Tuition	150	-	950	950
Transportation fees	700	1,800	2,103	303
Earnings on investments	1,000	1,100	1,160	60
Student activities	46,994	50,998	51,601	603
Community service activities	1,000	65	72	7
Other local revenues	<u>49,080</u>	<u>93,504</u>	<u>107,821</u>	<u>14,317</u>
Total revenues from local sources	<u>926,469</u>	<u>1,056,173</u>	<u>1,080,235</u>	<u>24,062</u>
Revenues from state sources				
Grants - unrestricted	4,857,232	4,715,015	4,739,087	24,072
Grants - restricted	<u>344,403</u>	<u>465,599</u>	<u>438,176</u>	<u>(27,423)</u>
Total revenues from state sources	<u>5,201,635</u>	<u>5,180,614</u>	<u>5,177,263</u>	<u>(3,351)</u>
Revenues from federal sources				
Grants	201,914	215,228	234,832	19,604
Interdistrict sources				
Cooperative education	-	6,264	6,264	-
Other financing sources				
Proceeds from sale of capital assets	<u>-</u>	<u>-</u>	<u>8,000</u>	<u>8,000</u>
Total revenue	<u>\$ 6,330,018</u>	<u>\$ 6,458,279</u>	<u>\$ 6,506,594</u>	<u>\$ 48,315</u>

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - elementary				
Salaries	\$ 675,530	\$ 1,049,549	\$ 1,045,631	\$ (3,918)
Employee benefits	418,586	629,906	629,467	(439)
Supplies and materials	35,800	33,289	33,521	232
Other	4,730	8,240	6,572	(1,668)
Total elementary	<u>1,134,646</u>	<u>1,720,984</u>	<u>1,715,191</u>	<u>(5,793)</u>
Basic program - middle school				
Salaries	346,686	-	-	-
Employee benefits	216,320	-	-	-
Purchased services	-	61,891	61,887	(4)
Total middle school	<u>563,006</u>	<u>61,891</u>	<u>61,887</u>	<u>(4)</u>
Basic program - high school				
Salaries	1,026,196	891,307	891,381	74
Employee benefits	621,963	581,089	569,333	(11,756)
Supplies and materials	28,000	21,430	20,108	(1,322)
Other	38,559	74,831	75,685	854
Total high school	<u>1,714,718</u>	<u>1,568,657</u>	<u>1,556,507</u>	<u>(12,150)</u>
Added needs - special education				
Salaries	133,871	133,871	134,249	378
Employee benefits	87,985	87,985	88,020	35
Purchased services	3,200	3,450	2,875	(575)
Supplies and materials	300	382	382	-
Other	250	179	170	(9)
Total special education	<u>225,606</u>	<u>225,867</u>	<u>225,696</u>	<u>(171)</u>

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Added needs - compensatory education				
Salaries	\$ 176,950	\$ 290,837	\$ 291,218	\$ 381
Employee benefits	125,025	157,914	158,808	894
Purchased services	1,432	1,432	-	(1,432)
Supplies and materials	300	280	280	-
Other	200	(1,282)	145	1,427
Total compensatory education	<u>303,907</u>	<u>449,181</u>	<u>450,451</u>	<u>1,270</u>
Added needs - career and technical education				
Purchased services	-	10,350	9,860	(490)
Supplies and materials	-	10,034	10,858	824
Other	76,139	53,865	53,865	-
Total career and technical education	<u>76,139</u>	<u>74,249</u>	<u>74,583</u>	<u>334</u>
Pupil - guidance services				
Salaries	22,833	45,666	46,384	718
Employee benefits	14,832	29,663	29,414	(249)
Supplies and materials	750	500	500	-
Other	100	-	-	-
Total guidance services	<u>38,515</u>	<u>75,829</u>	<u>76,298</u>	<u>469</u>
Pupil - speech services				
Salaries	54,278	54,278	54,278	-
Employee benefits	32,428	32,429	29,339	(3,090)
Supplies and materials	1,000	295	200	(95)
Other	150	316	316	-
Total speech services	<u>87,856</u>	<u>87,318</u>	<u>84,133</u>	<u>(3,185)</u>

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil - social work services				
Employee benefits	\$ 37,470	\$ 39,472	\$ 36,523	\$ (2,949)
Pupil - other support services				
Salaries	30,638	15,018	19,692	4,674
Employee benefits	9,838	5,143	4,567	(576)
Total other pupil support services	<u>40,476</u>	<u>20,161</u>	<u>24,259</u>	<u>4,098</u>
Instructional staff - improvement of education				
Salaries	2,000	2,000	1,854	(146)
Employee benefits	566	642	591	(51)
Other	1,500	2,435	2,395	(40)
Total improvement of education	<u>4,066</u>	<u>5,077</u>	<u>4,840</u>	<u>(237)</u>
Instructional staff - educational media services				
Salaries	9,966	10,109	9,633	(476)
Employee benefits	3,200	1,262	1,280	18
Supplies and materials	4,400	1,639	1,919	280
Other	400	100	-	(100)
Total educational media services	<u>17,966</u>	<u>13,110</u>	<u>12,832</u>	<u>(278)</u>
General administration - board of education				
Supplies and materials	500	-	-	-
Other	43,000	39,420	38,952	(468)
Total board of education	<u>43,500</u>	<u>39,420</u>	<u>38,952</u>	<u>(468)</u>

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
General administration - executive administration				
Salaries	\$ 89,948	\$ 89,948	\$ 89,948	\$ -
Employee benefits	123,453	96,638	97,124	486
Supplies and materials	1,800	1,200	1,076	(124)
Other	74,990	67,107	63,618	(3,489)
Total executive administration	<u>290,191</u>	<u>254,893</u>	<u>251,766</u>	<u>(3,127)</u>
School administration - office of the principal				
Salaries	349,179	337,236	345,277	8,041
Employee benefits	244,204	218,470	211,333	(7,137)
Supplies and materials	6,000	3,659	3,732	73
Other	25,760	23,543	25,619	2,076
Total office of the principal	<u>625,143</u>	<u>582,908</u>	<u>585,961</u>	<u>3,053</u>
Business - fiscal services				
Salaries	73,838	73,838	76,983	3,145
Employee benefits	49,995	49,087	49,645	558
Purchased services	20,000	3,900	2,878	(1,022)
Total fiscal services	<u>143,833</u>	<u>126,825</u>	<u>129,506</u>	<u>2,681</u>
Business - other				
Other	<u>38,166</u>	<u>33,586</u>	<u>35,081</u>	<u>1,495</u>

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Operations and maintenance - operating building services				
Salaries	\$ 228,367	\$ 236,123	\$ 245,287	\$ 9,164
Employee benefits	119,667	125,626	126,637	1,011
Supplies and materials	60,000	60,000	53,374	(6,626)
Other	261,857	222,449	223,098	649
Total operating building services	<u>669,891</u>	<u>644,198</u>	<u>648,396</u>	<u>4,198</u>
Pupil transportation services				
Salaries	180,491	180,065	186,426	6,361
Employee benefits	100,235	92,911	95,900	2,989
Supplies and materials	28,100	46,656	42,990	(3,666)
Other	85,258	79,440	84,518	5,078
Total transportation services	<u>394,084</u>	<u>399,072</u>	<u>409,834</u>	<u>10,762</u>
Central - support services technology				
Salaries	27,951	28,501	32,184	3,683
Employee benefits	22,942	22,629	23,693	1,064
Other	28,350	29,926	30,246	320
Total support services technology	<u>79,243</u>	<u>81,056</u>	<u>86,123</u>	<u>5,067</u>
Athletics				
Salaries	51,237	50,986	55,525	4,539
Employee benefits	24,053	30,542	30,416	(126)
Purchased services	22,644	20,650	16,742	(3,908)
Supplies and materials	18,800	18,600	18,311	(289)
Other	16,400	22,800	21,359	(1,441)
Total athletic activities	<u>133,134</u>	<u>143,578</u>	<u>142,353</u>	<u>(1,225)</u>
Capital outlay				

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - elementary	\$ 1,338	\$ 1,338	\$ 250	\$ (1,088)
Basic program - high school	3,000	9,103	7,603	(1,500)
School administration - office of the principal	9,500	951	842	(109)
Pupil transportation services	-	45,556	45,556	-
Total capital outlay	<u>13,838</u>	<u>56,948</u>	<u>54,251</u>	<u>(2,697)</u>
Debt service				
Principal	18,057	18,057	19,706	1,649
Interest and other expenditures	9,950	7,550	7,522	(28)
Total debt service	<u>28,007</u>	<u>25,607</u>	<u>27,228</u>	<u>1,621</u>
Total expenditures and financing uses	<u>\$ 6,752,932</u>	<u>\$ 6,785,650</u>	<u>\$ 6,789,416</u>	<u>\$ 3,766</u>

Marcellus Community Schools
Other Supplemental Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2012

	Due to (from) Student Groups July 1, 2011	Cash Receipts	Cash Disbursements	Due to (from) Student Groups June 30, 2012
Administration	\$ (14,307)	\$ 229	\$ 197	\$ (14,275)
ES Girls on the Run	-	3,226	3,185	41
ES Library	1,217	7,085	7,851	451
ES Principal	6,450	19,574	21,973	4,051
ES School Success	38	1,536	602	972
HS Band	5,998	16,353	18,906	3,445
HS Band Trip	1,739	5,669	4,150	3,258
HS Boys' Basketball	732	3,034	2,656	1,110
HS Cheerleading	413	2,413	2,335	491
HS Class of 2008	452	-	-	452
HS Class of 2009	254	-	-	254
HS Class of 2011	601	-	601	-
HS Class of 2012	1,314	1,750	2,835	229
HS Class of 2013	517	6,588	6,166	939
HS Class of 2014	844	8,934	10,362	(584)
HS Football	1,098	2,135	1,918	1,315
HS Girls' Basketball	291	500	591	200
HS Golf	285	-	-	285
HS Grad Bash	-	50	-	50
HS Greenhouse	2,470	2,142	3,113	1,499
HS Industrial Arts	596	-	-	596
HS National Honor Society	3,988	3,497	3,721	3,764
HS Principal	5,476	11,548	9,502	7,522
HS Ski Club	64	3,215	3,182	97
HS Soccer	790	9,936	9,815	911

Marcellus Community Schools
Other Supplemental Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2012

	Due to (from) Student Groups July 1, 2011	Cash Receipts	Cash Disbursements	Due to (from) Student Groups June 30, 2012
HS Spanish Honor Society	\$ 212	\$ 411	\$ 439	\$ 184
HS Student Council	2,511	1,385	1,768	2,128
HS Volleyball	1,562	-	306	1,256
HS Wrestling	235	-	-	235
HS Yearbook	10,661	8,713	8,567	10,807
MS Camp	223	2,027	1,930	320
MS Fundraiser	947	-	947	-
MS Leadership	2,271	-	2,271	-
MS Principal	2,470	-	2,470	-
MS Stars	1,025	-	1,025	-
MS Student Council	3,512	3,580	4,436	2,656
Volinia Maple	11,146	8,396	12,446	7,096
Volinia Principal	1,678	688	394	1,972
Volinia Prom	31	-	-	31
Volinia Student Council	103	-	-	103
Volinia Tech	1,592	866	4	2,454
	<u>\$ 61,499</u>	<u>\$ 135,480</u>	<u>\$ 150,664</u>	<u>\$ 46,315</u>

Marcellus Community Schools
Other Supplemental Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2012

<u>Year Ending June 30,</u>	<u>2001 Building & Site Principal</u>	<u>Durant Principal</u>	<u>2005 Refunding Principal</u>	<u>2007 Refunding Principal</u>	<u>Total</u>
2013	\$ 320,000	\$ 4,461	\$ 375,000	\$ -	\$ 699,461
2014	-	-	395,000	190,000	585,000
2015	-	-	350,000	250,000	600,000
2016	-	-	-	620,000	620,000
2017	-	-	-	620,000	620,000
2018	-	-	-	620,000	620,000
2019	-	-	-	615,000	615,000
Total	<u>\$ 320,000</u>	<u>\$ 4,461</u>	<u>\$ 1,120,000</u>	<u>\$ 2,915,000</u>	<u>\$ 4,359,461</u>
Principal payments due the first day of	May	May	May	May	
Interest payments due the first day of	May and November	May and November	May and November	May and November	
Interest rate	4.25% -5.0%	4.76%	2.5% - 4.0%	4.0% - 5.25%	
Original issue	<u>\$ 5,550,000</u>	<u>\$ 66,560</u>	<u>\$ 2,960,000</u>	<u>\$ 2,915,000</u>	



August 24, 2012

Management and the Board of Education
Marcellus Community Schools
Marcellus, Michigan

We have completed our audit of the financial statements of Marcellus Community Schools as of and for the year ended June 30, 2012 and have issued our report dated August 24, 2012. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

- I. Independent Auditors' 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
- II. Auditors' Communication of Significant Matters with Those Charged with Governance

These communications are intended solely for the information and use of management, the Board of Education, and others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.
Kalamazoo, Michigan



Appendix I

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Education
Marcellus Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marcellus Community Schools as of and for the year ended June 30, 2012, which collectively comprise Marcellus Community Schools' basic financial statements and have issued our report thereon dated August 24, 2012. 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 Marcellus Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Marcellus Community Schools' internal control over financial reporting.

A *deficiency in internal controls* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements would not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

Yeo & Yeo, P.C.

Kalamazoo, Michigan
August 24, 2012

Appendix II

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated June 18, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies are described in Note 1 of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

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. There were no significant estimates in the financial statements.

Disclosures in the financial statements are neutral, consistent and clear.

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 that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

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 purposes 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 auditors' report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management’s Consultations with Other 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

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.