

**Marcellus Community Schools
Marcellus, Michigan**

**Annual Financial Statements
and
Auditors' Report**

June 30, 2009

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Marcellus Community Schools
Members of the Board of Education and Administration
June 30, 2009

Members of the Board of Education

| | |
|---------------------|----------------|
| Paula Johnson | President |
| Christine Nofsinger | Vice President |
| Jane Butchbaker | Treasurer |
| Jeff Steinkraus | Secretary |
| Timothy Henry | Trustee |
| Donna Brown | Trustee |
| Joe Tone | Trustee |

Administration

| | |
|----------------|-----------------------------|
| Ron Herron | Superintendent |
| Nanette Pauley | Principal – High School |
| Phil McAndrew | Principal – Middle School |
| Melinda Bohan | Principal – Primary School |
| Don Price | Principal – Volinia Outcome |



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Kalamazoo, MI 49002
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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, 2009, 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, 2009, 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 25, 2009, on our consideration of the Marcellus Community Schools' internal control over financial reporting and on our tests of its compliance with certain 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.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marcellus Community Schools' basic financial statements. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Kalamazoo, Michigan
August 25, 2009

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2009

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, 2009. 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, 2009

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 and Athletics Funds are examples) 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, 2009

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, 2009 and 2008.

TABLE 1

| | Governmental Activities | |
|--|-------------------------|----------------|
| | 2009 | 2008 |
| Assets | | |
| Current and other assets | \$ 2,948,161 | \$ 3,009,534 |
| Property and equipment | 4,406,359 | 4,579,657 |
| Total assets | 7,354,520 | 7,589,191 |
| Liabilities | | |
| Current liabilities | 1,974,205 | 2,649,582 |
| Long-term liabilities | 6,602,251 | 6,608,805 |
| Total liabilities | 8,576,456 | 9,264,404 |
| Net Assets | | |
| Invested in property and equipment – Net of related debt | (1,972,608) | (2,376,714) |
| Restricted | 459,366 | 397,080 |
| Unrestricted | 291,306 | 304,421 |
| Total net assets (deficit) | \$ (1,221,936) | \$ (1,675,213) |

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

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2009

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 2008/09 and fiscal year 2007/08.

| TABLE 2 | Governmental Activities | |
|-----------------------------------|-------------------------|------------|
| | 2009 | 2008 |
| Revenue | | |
| Program Revenue | | |
| Charges for services | \$ 169,851 | \$ 163,300 |
| Operating grants | 1,348,633 | 987,946 |
| General revenue | | |
| Property taxes | 1,643,196 | 1,611,845 |
| State foundation allowance | 5,660,989 | 6,134,502 |
| Other | 56,817 | 78,494 |
| Total Revenue | 8,879,486 | 8,976,087 |
| Functions/Program Expenses | | |
| Instruction | 4,386,109 | 4,356,264 |
| Support services | 2,924,067 | 3,032,616 |
| Food services | 388,413 | 401,544 |
| Athletic activities | 242,012 | 219,646 |
| Community services | 20,246 | 20,489 |
| Depreciation | 179,498 | 182,233 |
| Interest on long-term debt | 285,864 | 371,785 |
| Total Expenses | 8,426,209 | 8,584,577 |
| Increase in net assets | \$ 453,277 | \$ 391,510 |

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, 2009

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 principal operating fund balance decreased \$126,812 to \$465,929. The fund balance change is due to continued loss of state and federal funding caused by the economic downturn of the state and local economy. The result of this is loss of tax base causing tax adjustments, also loss of students due from parental employment options. We have and will continue to tighten controls on expenditures and find new ways to increase our revenue streams. This effort must continue over the next 2 years to avoid continued deficit spending.

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 in June of 2009. (A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplementary information of these financial statements).

We continued to make budget amendments during this year, in order to adjust for changes in expense and revenue requirements. We also are continuing to correct any miss-allocated funds to FID numbers to meet audit standards as identified.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2009, the School District had \$10,843,963 invested in capital assets, including land, buildings, and furniture and equipment.

| | <u>2009</u> | <u>2008</u> |
|-------------------------------------|---------------------|---------------------|
| Assets not being depreciated – Land | \$ 100,000 | \$ 100,000 |
| Building and building improvements | 7,165,933 | 7,176,928 |
| Furniture and equipment | 2,785,354 | 2,774,359 |
| Buses and other vehicles | <u>792,676</u> | <u>871,385</u> |
| Total capital assets | 10,843,963 | 10,922,672 |
| Less accumulated depreciation | <u>(6,437,604)</u> | <u>(6,343,015)</u> |
| Net capital assets | \$ <u>4,406,359</u> | \$ <u>4,579,657</u> |

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2009

Debt

At the end of this year, the School District had \$6,215,000 in General Obligation Bonds outstanding versus \$6,740,000 last year – a decrease of 7.8 percent.

The School District's General Obligation Bond rating continues to be "AAA" from Standard & Poor's Corporation and "AAA" from Moody's Investor Services. 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," that is 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 \$6,215,000 is below this \$19,084,951 statutorily imposed limit.

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

Our elected officials and administration considered many factors when setting the School District's 2008/09 fiscal year budget. There are many important factors affecting the budget, two of which are our student count and state per-pupil foundation allowance. This year our student count dipped to a blended count of 929. This was a reduction of 27 students, and equates to a loss of approximately \$195,000, which is 3.1 percent of the total General Fund revenue allowance. Other factors are the rising cost of utilities, health care and employee benefits. As a result, the School District funding is heavily dependent on the State's ability to fund increases in operational costs. Enrollment projections for the 2009 school year suggest that we are still facing a declining student enrollment. The enrollment lost is projected to only 10 FTE's, which is significantly less than 2008; however, any lost at this time will significantly affect the 2009/10 budget. After the final student count and related per pupil state funding is validated, we will amend the budget if actual resources are not sufficient to fund original appropriations.

The Board of Education is aware of and was advised that significant cuts or new revenue streams would need to be made. The Board and Administration responded with actions and plans reducing over all resource budgets by \$400,000 over a 2 year period. This was done by eliminating multiple positions, not replacing staff positions from retirements and attrition, looking at consolidation opportunities. These steps would help in stabilizing our budget and provide opportunity to increase our future fund balance.

Management projects a decrease in total revenue for the 2009-2010 school year based on the projected loss of 10 FTE's of state funding and a lower Pre-School funding allocation. The Board expects it will still consume fund equity, but is committed to finding ways to balance the budget. The Board of Education is continuing to develop a strategy to reduce spending and increase revenues to maintain the fiscal health of the School District.

**Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2009**

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, 2009

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Cash | \$ 1,587,060 |
| Due from other governmental units | 1,221,913 |
| Inventory | 43,864 |
| Other assets | 95,324 |
| Capital assets not being depreciated | 100,000 |
| Capital assets - net of accumulated depreciation | <u>4,306,359</u> |
| Total assets | <u>7,354,520</u> |
| Liabilities | |
| Accounts payable | 98,774 |
| State aid anticipation note payable | 1,000,000 |
| Due to other governmental units | 102,001 |
| Payroll deductions and withholdings | 35,995 |
| Accrued expenditures | 68,798 |
| Accrued salaries payable | 668,637 |
| Noncurrent liabilities | |
| Due within one year | 703,174 |
| Due in more than one year | <u>5,899,077</u> |
| Total liabilities | <u>8,576,456</u> |
| Net Assets (Deficit) | |
| Invested in capital assets, net of related debt | (1,972,608) |
| Restricted for: | |
| Debt service | 459,366 |
| Unrestricted | <u>291,306</u> |
| Total net assets (deficit) | <u>\$ (1,221,936)</u> |

See Accompanying Notes to Financial Statements

Marcellus Community Schools
Statement of Activities
For the Year Ended June 30, 2009

| | Program Revenues | | | Net Revenue (Expense) and Changes in Net Assets |
|----------------------------|-------------------------|--|---------------------|--|
| Expenses | Charges for Services | Operating Grants and Contributions | | |
| Functions/Programs | | | | |
| Governmental activities | | | | |
| Instruction | \$ 4,386,109 | \$ - | \$ 957,934 | \$ (3,428,175) |
| Supporting services | 2,924,067 | - | 137,157 | (2,786,910) |
| Food services | 388,413 | 121,911 | 244,615 | (21,887) |
| Athletic activities | 242,012 | 47,940 | 8,927 | (185,145) |
| Community services | 20,246 | - | - | (20,246) |
| Depreciation | 179,498 | - | - | (179,498) |
| Interest on long-term debt | 285,864 | - | - | (285,864) |
| | <u>\$ 8,426,209</u> | <u>\$ 169,851</u> | <u>\$ 1,348,633</u> | <u>(6,907,725)</u> |
| General revenues | | | | |
| | | | | 772,160 |
| | | | | 871,036 |
| | | | | 5,660,989 |
| | | | | 13,566 |
| | | | | 43,251 |
| | | | | <u>7,361,002</u> |
| | | | | <u>453,277</u> |
| | | | | <u>(1,675,213)</u> |
| | | | | <u>\$ (1,221,936)</u> |

See Accompanying Notes to Financial Statements

Marcellus Community Schools
Governmental Funds
Balance Sheet
June 30, 2009

| | <u>General Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|-------------------------------------|-------------------------|--|---|
| Assets | | | |
| Cash | \$ 1,102,885 | \$ 484,175 | \$ 1,587,060 |
| Due from other governmental units | 1,215,137 | 6,776 | 1,221,913 |
| Inventory | <u>42,090</u> | <u>1,774</u> | <u>43,864</u> |
| Total assets | <u>\$ 2,360,112</u> | <u>\$ 492,725</u> | <u>\$ 2,852,837</u> |
| Liabilities and Fund Balance | | | |
| Liabilities | | | |
| Accounts payable | \$ 70,550 | \$ 28,224 | \$ 98,774 |
| State aid anticipation note payable | 1,000,000 | - | 1,000,000 |
| Due to other governmental units | 102,001 | - | 102,001 |
| Payroll deductions and withholdings | 35,995 | - | 35,995 |
| Accrued expenditures | 17,000 | - | 17,000 |
| Accrued salaries payable | <u>668,637</u> | <u>-</u> | <u>668,637</u> |
| Total liabilities | <u>1,894,183</u> | <u>28,224</u> | <u>1,922,407</u> |
| Fund Balance | | | |
| Reserved for inventory | 42,090 | 1,774 | 43,864 |
| Reserved for debt service | - | 459,366 | 459,366 |
| Other undesignated | <u>423,839</u> | <u>3,361</u> | <u>427,200</u> |
| Total fund balance | <u>465,929</u> | <u>464,501</u> | <u>930,430</u> |
| Total liabilities and fund balance | <u>\$ 2,360,112</u> | <u>\$ 492,725</u> | <u>\$ 2,852,837</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, 2009

| | |
|---|-----------------------|
| Total fund balances for governmental funds | \$ 930,430 |
| 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 | 4,306,359 |
| Other long-term assets are not deferred in the governmental funds | |
| Bond issuance costs | 95,324 |
| Certain liabilities are not due and payable in the current period and are not reported in the funds. | |
| Accrued interest | (51,798) |
| 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 | (123,284) |
| Bonds payable | (6,308,266) |
| Special termination benefits | (100,000) |
| Other loans payable and liabilities | <u>(70,701)</u> |
| Net assets (deficit) of governmental activities | <u>\$ (1,221,936)</u> |

Marcellus Community Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2009

| | <u>General Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|--|---|
| Revenues | | | |
| Local sources | \$ 821,574 | \$ 1,052,544 | \$ 1,874,118 |
| State sources | 6,201,880 | 24,807 | 6,226,687 |
| Federal sources | <u>554,199</u> | <u>224,482</u> | <u>778,681</u> |
| Total revenues | <u>7,577,653</u> | <u>1,301,833</u> | <u>8,879,486</u> |
| Expenditures | | | |
| Current | | | |
| Education | | | |
| Instruction | 4,477,490 | - | 4,477,490 |
| Supporting services | 2,909,654 | - | 2,909,654 |
| Food services | - | 388,448 | 388,448 |
| Athletic activities | - | 242,012 | 242,012 |
| Community services | 20,246 | - | 20,246 |
| Capital outlay | 20,967 | - | 20,967 |
| Debt service | | | |
| Principal | 39,696 | 528,704 | 568,400 |
| Interest and other expenditures | <u>22,423</u> | <u>287,116</u> | <u>309,539</u> |
| Total expenditures | <u>7,490,476</u> | <u>1,446,280</u> | <u>8,936,756</u> |
| Excess (deficiency) of revenues over expenditures | <u>87,177</u> | <u>(144,447)</u> | <u>(57,270)</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, 2009

| | <u>General Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---------------------------------------|-------------------------|--|---|
| Other Financing Sources (Uses) | | | |
| Transfers in | - | 214,989 | 214,989 |
| Transfers out | <u>(213,989)</u> | <u>(1,000)</u> | <u>(214,989)</u> |
| Total other financing sources | <u>(213,989)</u> | <u>213,989</u> | <u>-</u> |
| Net change in fund balance | (126,812) | 69,542 | (57,270) |
| Fund balance - beginning | <u>592,741</u> | <u>394,959</u> | <u>987,700</u> |
| Fund balance - ending | <u>\$ 465,929</u> | <u>\$ 464,501</u> | <u>\$ 930,430</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, 2009

Net change in fund balances - Total governmental funds \$ (57,270)

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 | (179,498) |
| Capital outlay | 6,200 |

Expenses are recorded when incurred in the statement of activities.

| | |
|------------------------------|--------|
| Interest | 27,498 |
| Special termination benefits | 90,000 |
| Compensated absences | 1,770 |

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 | 570,594 |
| Amortization of premiums | <u>(6,017)</u> |

Change in net assets of governmental activities **\$ 453,277**

Marcellus Community Schools
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2009

| | <u>Private Purpose Trust Funds</u> | <u>Agency Funds</u> |
|-------------------------------------|--|-------------------------|
| Assets | | |
| Cash | \$ 51,700 | \$ 33,230 |
| Liabilities | | |
| Due to agency fund activities | - | \$ 33,230 |
| Net Assets | | |
| Reserved for scholarships and loans | <u>\$ 51,700</u> | |

See Accompanying Notes to Financial Statements

Marcellus Community Schools
Fiduciary Funds
Private Purpose Trust Funds
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2009

| | <u>Private Purpose Trust Funds</u> |
|----------------------------------|--|
| Additions | |
| Interest and investment earnings | \$ <u>974</u> |
| Deductions | |
| Scholarships | <u>500</u> |
| Change in net assets | 474 |
| Net assets - beginning | <u>51,226</u> |
| Net assets - ending | <u>\$ 51,700</u> |

See Accompanying Notes to Financial Statements

Marcellus Community Schools
Notes to Financial Statements
June 30, 2009

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Marcellus Community Schools (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 nonfiduciary 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, 2009

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.

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 Food Service and Athletic Funds. Operating deficits generated by these activities are generally transferred from the General Fund.

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.

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.

Property taxes and other receivables are shown net of an allowance for uncollectible amounts.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2009, the rates are as follows per \$1,000 of assessed value.

| | |
|-----------------------------------|----------|
| General Fund | |
| Non principal residence exemption | 18.00000 |
| Commercial personal property | 6.00000 |
| Industrial personal property | 18.00000 |
| Debt Service Funds | 5.99000 |

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.

Marcellus Community Schools
Notes to Financial Statements
June 30, 2009

Inventories – 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.

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 |

Early Retirement Incentive – The liability for early retirement incentives reported in the district-wide financial statements consists of earned but unpaid termination benefits. An expenditure for these amounts is reported in governmental funds as it comes due for payment.

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.

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.

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.

Marcellus Community Schools
Notes to Financial Statements
June 30, 2009

Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting by Employers for Post-employment Benefits other than Pensions*. The new pronouncement provides guidance for school districts in recognizing the cost of retiree health care. The new rules will cause district-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

The Government Accounting Standards Board has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature and has an initial useful life extending beyond a single reporting period. In general, the new rules will cause district-wide financial statements to include intangible assets as capital assets. This statement is effective for the year ending June 30, 2010.

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 cancel all encumbrances. These appropriations are reestablished at the beginning of the year.

The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the Act if reasonable procedures are in use by the School District to detect violations.

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 which were amended.

Appropriations lapse at yearend and, therefore, cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

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 | | | |
| Basic programs | \$ 3,921,998 | \$ 3,927,799 | \$ 5,801 |
| Pupil | 456,223 | 472,168 | 15,945 |
| Instructional staff | 35,569 | 36,860 | 1,291 |
| General administration | 564,534 | 567,024 | 2,490 |
| Business | 43,795 | 49,672 | 5,877 |
| Pupil transportation services | 379,327 | 396,732 | 17,405 |
| Community services | 20,000 | 20,246 | 246 |
| Capital outlay | 20,211 | 20,967 | 756 |
| Debt - interest and fiscal charges | 5,329 | 22,423 | 17,094 |
| Transfers out | 191,461 | 213,989 | 22,528 |

Marcellus Community Schools
Notes to Financial Statements
June 30, 2009

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 | \$ 1,587,060 | \$ 84,930 | \$ 1,671,990 |

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

| | |
|--|---------------------|
| Deposits (checking, savings accounts, money markets, certificates of deposit) | <u>\$ 1,671,990</u> |
|--|---------------------|

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.

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 yearend, all of the District's bank balances of \$1,679,456 were federally insured.

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 |
| Total capital assets not being depreciated | 100,000 | - | - | 100,000 |
| Capital assets being depreciated | | | | |
| Buildings and additions | 7,176,928 | - | 10,995 | 7,165,933 |
| Equipment and furniture | 2,774,359 | 10,995 | - | 2,785,354 |
| Buses and other vehicles | 871,385 | 6,200 | 84,909 | 792,676 |
| Total capital assets being depreciated | 10,822,672 | 17,195 | 95,904 | 10,743,963 |
| Less accumulated depreciation for | | | | |
| Buildings and additions | 3,171,628 | 108,581 | - | 3,280,209 |
| Equipment and furniture | 2,434,127 | 30,151 | - | 2,464,278 |
| Buses and other vehicles | 737,260 | 40,766 | 84,909 | 693,117 |
| Total accumulated depreciation | 6,343,015 | 179,498 | 84,909 | 6,437,604 |
| Net capital assets being depreciated | 4,479,657 | (162,303) | 10,995 | 4,306,359 |
| Net capital assets | \$ 4,579,657 | \$ (162,303) | \$ 10,995 | \$ 4,406,359 |

Depreciation for the fiscal year ended June 30, 2009 amounted to \$179,498. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Marcellus Community Schools
Notes to Financial Statements
June 30, 2009

Note 5 - Interfund Receivable, Payable, Transfers

Interfund transfers were made during the year are as follows:

| | Transfers Out | | Total |
|---------------------|-------------------|-----------------|-------------------|
| | General Fund | 2001 Debt Fund | |
| Transfers in | | | |
| 2007 Debt Fund | \$ - | \$ 1,000 | \$ 1,000 |
| Athletics Fund | 185,910 | - | 185,910 |
| Food Service Fund | 28,079 | - | 28,079 |
| | <u>\$ 213,989</u> | <u>\$ 1,000</u> | <u>\$ 214,989</u> |

Transfers to the Athletics and Food Service funds were made to cover the costs of the School District's programs that were in excess of revenues generated from those activities.

Transfers between the Debt funds were made to cover costs related to bond fees.

Note 6 - 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 | <u>\$ 1,000,000</u> | <u>\$ 1,000,000</u> | <u>\$ 1,000,000</u> | <u>\$ 1,000,000</u> |

Note 7 - 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.

Long-term obligation activity is summarized as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amount Due Within One Year |
|-----------------------------|---------------------|-------------|-------------------|---------------------|----------------------------|
| Government obligation bonds | \$ 6,740,000 | \$ - | \$ 525,000 | \$ 6,215,000 | \$ 570,000 |
| Bond Issuance Costs | (108,151) | - | (12,827) | (95,324) | - |
| Deferred amounts | (128,807) | - | (13,683) | (115,124) | - |
| Premium on bonds | 193,286 | - | 20,493 | 172,793 | - |
| | <u>6,696,328</u> | <u>-</u> | <u>518,983</u> | <u>6,177,345</u> | <u>570,000</u> |
| Other bonds | 39,301 | - | 3,704 | 35,597 | 3,880 |
| Installment notes | 112,591 | - | 41,890 | 70,701 | 29,294 |
| Compensated absences | 125,054 | - | 1,770 | 123,284 | - |
| Retirement incentives | 190,000 | - | 90,000 | 100,000 | 100,000 |
| Total | <u>\$ 7,163,274</u> | <u>\$ -</u> | <u>\$ 656,347</u> | <u>\$ 6,506,927</u> | <u>\$ 703,174</u> |

Marcellus Community Schools
Notes to Financial Statements
June 30, 2009

General obligation bonds payable at yearend 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% | \$ | 1,150,000 |
| \$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% | | 2,150,000 |
| \$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>\$</u> | <u>6,215,000</u> |

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

| Year Ending June 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|---------------------|---------------------|---------------------|
| 2010 | \$ 570,000 | \$ 263,996 | \$ 833,996 |
| 2011 | 620,000 | 242,220 | 862,220 |
| 2012 | 670,000 | 217,772 | 887,772 |
| 2013 | 695,000 | 191,002 | 886,002 |
| 2014 | 585,000 | 161,900 | 746,900 |
| 2015-2019 | <u>3,075,000</u> | <u>408,950</u> | <u>3,483,950</u> |
| Total | <u>\$ 6,215,000</u> | <u>\$ 1,485,840</u> | <u>\$ 7,700,840</u> |

The general obligation bonds are payable from the Debt Service Funds. As of year end, the funds had a balance of \$459,366 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>\$</u> | <u>35,597</u> |
|--|-----------|---------------|

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.

Future principal and interest requirements are as follows:

| Year Ending June 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|------------------|-----------------|------------------|
| 2010 | \$ 3,880 | \$ 794 | \$ 4,674 |
| 2011 | 4,065 | 609 | 4,674 |
| 2012 | 23,191 | 8,214 | 31,405 |
| 2013 | <u>4,461</u> | <u>212</u> | <u>4,673</u> |
| Total | <u>\$ 35,597</u> | <u>\$ 9,829</u> | <u>\$ 45,426</u> |

Installment Notes

Installment notes payable at June 30, 2009 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% | \$ | 56,853 |
| \$55,323 Telephone System installment note payable due in monthly installments of \$1,175 through August 8, 2010, interest at 10.00% | | <u>13,848</u> |
| Total installment notes payable | <u>\$</u> | <u>70,701</u> |

Marcellus Community Schools
Notes to Financial Statements
June 30, 2009

Future principal and interest requirements for installment notes are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|----------------------|------------------|-----------------|------------------|
| 2010 | \$ 29,992 | \$ 4,017 | \$ 34,009 |
| 2011 | 17,140 | 2,060 | 19,200 |
| 2012 | 18,197 | 1,003 | 19,200 |
| 2013 | 5,372 | 88 | 5,460 |
| Total | <u>\$ 70,701</u> | <u>\$ 7,168</u> | <u>\$ 77,869</u> |

Compensated Absences

Accrued compensated absences at year end, consists of \$123,284 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.

Retirement Benefits

The School District offered a voluntary severance incentive plan to employees to be paid over a five year period through 2010. The School District has also added a new severance incentive plan to employees to be paid over a three year period through 2010. The balance as of yearend was \$100,000.

Future payments are as follows:

| | |
|----------------------|-------------------|
| Year Ending June 30, | |
| 2010 | <u>\$ 100,000</u> |

Interest expenditures for the fiscal year in the General Fund and Debt Service Funds were \$22,423 and \$287,116 respectively.

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 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 8 - 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 no unemployment compensation expense for the year. No provision has been made for possible future claims.

Marcellus Community Schools
Notes to Financial Statements
June 30, 2009

Note 9 - Defined Benefit Pension Plan

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 (MPERS), which is a cost-sharing public employee retirement system (PERS).

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

MPERS operates within the Michigan Department of Management and Budget, Office of Retirement Systems who has the authority to establish and amend benefit provisions. The Michigan Department of Management and Budget issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. 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 or calling 800-381-5111.

Funding Policy

The School is required by State statute to contribute to MPERS an actuarially determined percentage of payroll for all participating employees. Additionally, employees participating in the Member Investment Plan contributed 3% to 4.3% of their covered wages through payroll deduction. In addition to retirement benefits, a portion of the total MPERS contribution is allocated to cover health, dental and vision benefits. The following table discloses pertinent information relative to MPERS funding for the three-year period beginning July 1, 2006 through June 30, 2009.

| | 2009 | 2008 | 2007 |
|--|----------------|----------------|--------------|
| Funding percentage range | 16.54 - 16.72% | 16.72 - 17.74% | 16.34-17.74% |
| Total payroll | 4,456,744 | 4,350,668 | 4,744,158 |
| Total covered payroll | 4,323,949 | 4,263,672 | 4,666,856 |
| School contributions | 717,127 | 723,890 | 811,764 |
| Employee MIP contributions | 145,324 | 140,152 | 146,869 |
| Portion of school contribution covering health, dental and vision benefits | 41% | 39% | 37% |

Trend Information

Ten-year historical trend information is presented in the September 30, 2008, PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. The total benefit obligations and net assets available for benefits as of September 30, 2007, the latest date for which information is available, approximates \$ 47.1 billion and \$ 39.9 billion, respectively. The School's share of the total current actuarially determined employer contribution requirement under MPERS was less than 1% for the year ended September 30, 2008.

Post Employment Benefits

In addition to the pension benefits described above, the School District provides post-retirement health care, dental, and vision benefits for retirees and beneficiaries through Michigan Public School Employees Retirement System (MPERS).

Expenditures for these benefits are recognized on a cash disbursement basis. During the year ended September 30, 2008, statewide expenditures of \$ 735 million were recognized for post-retirement health care, dental and vision. This represented approximately 19% of the total expenditures of the Michigan Public School Employees Retirement System.

Marcellus Community Schools
Notes to Financial Statements
June 30, 2009

Note 10 - 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 11 - Subsequent Events

On August 20, 2009, the School District paid off its \$1,000,000 short-term state aid anticipation notes through the Michigan Municipal Bond Authority. The interest rate on this note was 1.70%.

On August 20, 2009 the School District borrowed \$1,100,000 in short-term state aid anticipation notes through the Michigan Municipal Bond Authority. The interest rate on this note was 1.70%.

Marcellus Community Schools
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2009

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Over (Under) Budget</u> |
|---|-------------------------|------------------|------------------|------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Local sources | \$ 821,441 | \$ 818,714 | \$ 821,574 | \$ 2,860 |
| State sources | 6,689,147 | 6,539,909 | 6,201,880 | (338,029) |
| Federal sources | 192,880 | 206,638 | 554,199 | 347,561 |
| | <u>7,703,468</u> | <u>7,565,261</u> | <u>7,577,653</u> | <u>12,392</u> |
| Expenditures | | | | |
| Instruction | | | | |
| Basic programs | 3,854,153 | 3,921,998 | 3,927,799 | 5,801 |
| Added needs | 542,175 | 560,171 | 549,691 | (10,480) |
| Supporting services | | | | |
| Pupil | 509,834 | 456,223 | 472,168 | 15,945 |
| Instructional staff | 47,008 | 35,569 | 36,860 | 1,291 |
| General administration | 573,316 | 564,534 | 567,024 | 2,490 |
| School administration | 571,314 | 589,853 | 583,024 | (6,829) |
| Business | 14,000 | 43,795 | 49,672 | 5,877 |
| Operations and maintenance | 757,312 | 757,513 | 746,582 | (10,931) |
| Pupil transportation services | 427,066 | 379,327 | 396,732 | 17,405 |
| Central | 62,567 | 57,929 | 57,592 | (337) |
| Community services | 20,345 | 20,000 | 20,246 | 246 |
| Capital outlay | 25,200 | 20,211 | 20,967 | 756 |
| Debt service | | | | |
| Principal | 78,880 | 39,789 | 39,696 | (93) |
| Interest and fiscal charges | 10,250 | 5,329 | 22,423 | 17,094 |
| | <u>7,493,420</u> | <u>7,452,241</u> | <u>7,490,476</u> | <u>38,235</u> |
| Excess (deficiency) of revenues over expenditures | <u>210,048</u> | <u>113,020</u> | <u>87,177</u> | <u>(25,843)</u> |

Marcellus Community Schools
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2009

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Over (Under) Budget</u> |
|--------------------------------|-------------------------|-------------------|-------------------|------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Other Financing Sources | | | | |
| Transfers out | <u>(177,200)</u> | <u>(191,461)</u> | <u>(213,989)</u> | <u>22,528</u> |
| Net change in fund balance | 32,848 | (78,441) | (126,812) | (48,371) |
| Fund balance - beginning | <u>592,741</u> | <u>592,741</u> | <u>592,741</u> | <u>-</u> |
| Fund balance - ending | <u>\$ 625,589</u> | <u>\$ 514,300</u> | <u>\$ 465,929</u> | <u>\$ (48,371)</u> |

Marcellus Community Schools
Other Supplemental Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2009

| | <u>Special Revenue Funds</u> | | <u>Debt Service Funds</u> | | | <u>Total Nonmajor Governmental Funds</u> |
|---|------------------------------|------------------|---------------------------|-------------------|------------------|--|
| | <u>Food Service</u> | <u>Athletics</u> | <u>2001 Debt</u> | <u>2005 Debt</u> | <u>2007 Debt</u> | |
| Assets | | | | | | |
| Cash | \$ 23,532 | \$ 1,171 | \$ 279,277 | \$ 102,168 | \$ 78,027 | \$ 484,175 |
| Due from other governmental units | 6,776 | - | - | - | - | 6,776 |
| Inventory | 1,774 | - | - | - | - | 1,774 |
| | <u>1,774</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,774</u> |
| Total assets | <u>\$ 32,082</u> | <u>\$ 1,171</u> | <u>\$ 279,277</u> | <u>\$ 102,168</u> | <u>\$ 78,027</u> | <u>\$ 492,725</u> |
| Liabilities and Fund Balance | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 28,118 | \$ - | \$ 61 | \$ 45 | \$ - | \$ 28,224 |
| | <u>28,118</u> | <u>-</u> | <u>61</u> | <u>45</u> | <u>-</u> | <u>28,224</u> |
| Fund Balance | | | | | | |
| Reserved for inventory | 1,774 | - | - | - | - | 1,774 |
| Reserved for debt service | - | - | 279,216 | 102,123 | 78,027 | 459,366 |
| Other undesignated | 2,190 | 1,171 | - | - | - | 3,361 |
| | <u>2,190</u> | <u>1,171</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,361</u> |
| Total fund balance | <u>3,964</u> | <u>1,171</u> | <u>279,216</u> | <u>102,123</u> | <u>78,027</u> | <u>464,501</u> |
| Total liabilities and fund balance | <u>\$ 32,082</u> | <u>\$ 1,171</u> | <u>\$ 279,277</u> | <u>\$ 102,168</u> | <u>\$ 78,027</u> | <u>\$ 492,725</u> |

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, 2009

| | Special Revenue Funds | | Debt Service Funds | | | Total Nonmajor Governmental Funds |
|--|-----------------------|------------------|--------------------|----------------|----------------|--|
| | Food Service | Athletics | 2001 Debt | 2005 Debt | 2007 Debt | |
| Revenues | | | | | | |
| Local sources | \$ 122,104 | \$ 57,008 | \$ 357,729 | \$ 371,398 | \$ 144,305 | \$ 1,052,544 |
| State sources | 20,133 | - | - | 4,674 | - | 24,807 |
| Federal sources | <u>224,482</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>224,482</u> |
| Total revenues | <u>366,719</u> | <u>57,008</u> | <u>357,729</u> | <u>376,072</u> | <u>144,305</u> | <u>1,301,833</u> |
| Expenditures | | | | | | |
| Current | | | | | | |
| Education | | | | | | |
| Food services | 388,448 | - | - | - | - | 388,448 |
| Athletic activities | - | 242,012 | - | - | - | 242,012 |
| Debt service | | | | | | |
| Principal | - | - | 250,000 | 278,704 | - | 528,704 |
| Interest and other expenditures | - | - | 64,983 | 89,146 | 132,987 | 287,116 |
| Total expenditures | <u>388,448</u> | <u>242,012</u> | <u>314,983</u> | <u>367,850</u> | <u>132,987</u> | <u>1,446,280</u> |
| Excess (deficiency) of revenues over expenditures | <u>(21,729)</u> | <u>(185,004)</u> | <u>42,746</u> | <u>8,222</u> | <u>11,318</u> | <u>(144,447)</u> |

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, 2009

| | Special Revenue Funds | | Debt Service Funds | | | Total Nonmajor Governmental Funds |
|---------------------------------------|-----------------------|-----------|--------------------|--------------|--------------|--|
| | Food Service | Athletics | 2001 Debt | 2005 Debt | 2007 Debt | |
| Other Financing Sources (Uses) | | | | | | |
| Transfers in | 28,079 | 185,910 | - | - | 1,000 | 214,989 |
| Transfers out | - | - | (1,000) | - | - | (1,000) |
| Total other financing sources (Uses) | 28,079 | 185,910 | (1,000) | - | 1,000 | 213,989 |
| Net change in fund balance | 6,350 | 906 | 41,746 | 8,222 | 12,318 | 69,542 |
| Fund balance (deficit) - beginning | (2,386) | 265 | 237,470 | 93,901 | 65,709 | 394,959 |
| Fund balance - ending | \$ 3,964 | \$ 1,171 | \$ 279,216 | \$ 102,123 | \$ 78,027 | \$ 464,501 |

Marcellus Community Schools
Other Supplemental Information
General Fund
Comparative Balance Sheet
June 30, 2009

| | 2009 | 2008 |
|-------------------------------------|--------------|--------------|
| Assets | | |
| Cash | \$ 1,102,885 | \$ 1,210,776 |
| Due from other governmental units | 1,215,137 | 1,249,437 |
| Inventory | 42,090 | 39,535 |
| Prepaid items | - | 1,859 |
| Total assets | \$ 2,360,112 | \$ 2,501,607 |
| Liabilities and Fund Balance | | |
| Liabilities | | |
| Accounts payable | \$ 70,550 | \$ 35,127 |
| State aid anticipation note payable | 1,000,000 | 1,000,000 |
| Due to other governmental units | 102,001 | 102,001 |
| Payroll deductions and withholdings | 35,995 | 34,852 |
| Accrued expenditures | 17,000 | 36,800 |
| Accrued salaries payable | 668,637 | 700,086 |
| Total liabilities | 1,894,183 | 1,908,866 |
| Fund Balance | | |
| Reserved for inventory | 42,090 | 39,535 |
| Reserved for prepaid items | - | 1,859 |
| Other undesignated | 423,839 | 551,347 |
| Total fund balance | 465,929 | 592,741 |
| Total liabilities and fund balance | \$ 2,360,112 | \$ 2,501,607 |

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Revenues Compared to Budget
For the Year Ended June 30, 2009

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Over (Under) Final Budget</u> |
|--------------------------------------|----------------------------|-------------------------|---------------------|--|
| Revenue from local sources | | | | |
| Property tax levy | \$ 764,910 | \$ 769,994 | \$ 772,160 | \$ 2,166 |
| Tuition | - | 1,000 | 1,000 | - |
| Transportation fees | 1,900 | 671 | 671 | - |
| Earnings on investments | 10,000 | 6,070 | 6,162 | 92 |
| Student activities | 3,331 | 1,161 | 1,161 | - |
| Community service activities | 1,000 | 138 | 153 | 15 |
| Other local revenues | <u>40,300</u> | <u>39,680</u> | <u>40,267</u> | <u>587</u> |
| Total revenues from local sources | <u>821,441</u> | <u>818,714</u> | <u>821,574</u> | <u>2,860</u> |
| Revenues from state sources | | | | |
| Grants - unrestricted | 6,170,600 | 6,007,419 | 5,660,989 | (346,430) |
| Grants - restricted | <u>518,547</u> | <u>532,490</u> | <u>540,891</u> | <u>8,401</u> |
| Total revenues from state sources | <u>6,689,147</u> | <u>6,539,909</u> | <u>6,201,880</u> | <u>(338,029)</u> |
| Revenues from federal sources | | | | |
| Grants | <u>192,880</u> | <u>206,638</u> | <u>554,199</u> | <u>347,561</u> |
| Total revenue | <u>\$ 7,703,468</u> | <u>\$ 7,565,261</u> | <u>\$ 7,577,653</u> | <u>\$ 12,392</u> |

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2009

| | Original Budget | Final Budget | Actual | Over (Under) Final Budget |
|--------------------------------------|--------------------|------------------|------------------|---------------------------------|
| Basic program - elementary | | | | |
| Salaries | \$ 743,950 | \$ 750,631 | \$ 752,457 | \$ 1,826 |
| Employee benefits | 374,834 | 386,410 | 393,428 | 7,018 |
| Supplies and materials | 36,600 | 33,377 | 33,669 | 292 |
| Other | 4,450 | 1,175 | 1,175 | - |
| Total elementary | <u>1,159,834</u> | <u>1,171,593</u> | <u>1,180,729</u> | <u>9,136</u> |
| Basic program - middle school | | | | |
| Salaries | 579,080 | 622,421 | 633,649 | 11,228 |
| Employee benefits | 303,127 | 323,891 | 323,511 | (380) |
| Supplies and materials | 21,000 | 17,943 | 17,943 | - |
| Other | 4,619 | 4,815 | 4,815 | - |
| Total middle school | <u>907,826</u> | <u>969,070</u> | <u>979,918</u> | <u>10,848</u> |
| Basic program - high school | | | | |
| Salaries | 1,019,659 | 1,046,424 | 1,081,587 | 35,163 |
| Employee benefits | 563,491 | 553,575 | 518,108 | (35,467) |
| Supplies and materials | 37,474 | 24,681 | 26,486 | 1,805 |
| Other | 61,804 | 46,364 | 31,028 | (15,336) |
| Total high school | <u>1,682,428</u> | <u>1,671,044</u> | <u>1,657,209</u> | <u>(13,835)</u> |

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2009

| | Original Budget | Final Budget | Actual | Over (Under) Final Budget |
|---|--------------------|-----------------|----------------|---------------------------------|
| Basic program - pre-school | | | | |
| Salaries | \$ 62,273 | \$ 63,337 | \$ 63,048 | \$ (289) |
| Employee benefits | 37,492 | 43,889 | 43,830 | (59) |
| Purchased services | 300 | 188 | 188 | - |
| Supplies and materials | 1,500 | 1,838 | 1,838 | - |
| Other | 2,500 | 1,039 | 1,039 | - |
| Total pre-school | <u>104,065</u> | <u>110,291</u> | <u>109,943</u> | <u>(348)</u> |
| Added needs - special education | | | | |
| Salaries | 160,279 | 137,861 | 137,795 | (66) |
| Employee benefits | 73,800 | 66,488 | 69,772 | 3,284 |
| Purchased services | 7,200 | 1,787 | 1,787 | - |
| Supplies and materials | 2,600 | 208 | 208 | - |
| Other | 450 | 60 | 60 | - |
| Total special education | <u>244,329</u> | <u>206,404</u> | <u>209,622</u> | <u>3,218</u> |
| Added needs - compensatory education | | | | |
| Salaries | 154,373 | 175,359 | 175,358 | (1) |
| Employee benefits | 82,473 | 103,534 | 104,962 | 1,428 |
| Supplies and materials | 1,000 | 274 | 274 | - |
| Total compensatory education | <u>237,846</u> | <u>279,167</u> | <u>280,594</u> | <u>1,427</u> |
| Added needs - career and technical education | | | | |
| Other | <u>60,000</u> | <u>74,600</u> | <u>59,475</u> | <u>(15,125)</u> |

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2009

| | Original Budget | Final Budget | Actual | Over (Under) Final Budget |
|---------------------------------------|--------------------|-----------------|----------------|---------------------------------|
| Pupil - guidance services | | | | |
| Salaries | \$ 146,073 | \$ 126,367 | \$ 127,661 | \$ 1,294 |
| Employee benefits | 86,103 | 71,580 | 74,898 | 3,318 |
| Supplies and materials | 3,500 | 1,685 | 1,685 | - |
| Other | 2,700 | 180 | 180 | - |
| Total guidance services | <u>238,376</u> | <u>199,812</u> | <u>204,424</u> | <u>4,612</u> |
| Pupil - speech services | | | | |
| Salaries | 54,129 | 54,129 | 54,278 | 149 |
| Employee benefits | 28,365 | 29,092 | 29,218 | 126 |
| Supplies and materials | 300 | 280 | 280 | - |
| Other | 300 | 148 | 148 | - |
| Total speech services | <u>83,094</u> | <u>83,649</u> | <u>83,924</u> | <u>275</u> |
| Pupil - social work services | | | | |
| Salaries | <u>22,044</u> | <u>8,520</u> | <u>8,520</u> | <u>-</u> |
| Pupil - other support services | | | | |
| Salaries | 101,602 | 98,009 | 109,092 | 11,083 |
| Employee benefits | <u>64,718</u> | <u>66,233</u> | <u>66,208</u> | <u>(25)</u> |
| Total other pupil support services | <u>166,320</u> | <u>164,242</u> | <u>175,300</u> | <u>11,058</u> |

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2009

| | Original Budget | Final Budget | Actual | Over (Under) Final Budget |
|--|--------------------|-----------------|---------------|---------------------------------|
| Instructional staff - improvement of education | | | | |
| Salaries | \$ 1,000 | \$ 1,000 | \$ 1,002 | \$ 2 |
| Other | 4,000 | 3,668 | 3,668 | - |
| Total improvement of education | <u>5,000</u> | <u>4,668</u> | <u>4,670</u> | <u>2</u> |
| Instructional staff - educational media services | | | | |
| Salaries | 14,840 | 14,840 | 15,433 | 593 |
| Employee benefits | 14,068 | 12,382 | 13,078 | 696 |
| Supplies and materials | 9,500 | 2,975 | 2,975 | - |
| Other | 3,050 | 704 | 704 | - |
| Total educational media services | <u>41,458</u> | <u>30,901</u> | <u>32,190</u> | <u>1,289</u> |
| Instructional staff - technology assisted instruction | | | | |
| Other | 550 | - | - | - |
| General administration - board of education | | | | |
| Supplies and materials | 500 | - | - | - |
| Other | 45,900 | 36,197 | 39,660 | 3,463 |
| Total board of education | <u>46,400</u> | <u>36,197</u> | <u>39,660</u> | <u>3,463</u> |

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2009

| | Original Budget | Final Budget | Actual | Over (Under) Final Budget |
|--|--------------------|-----------------|----------------|---------------------------------|
| General administration - executive administration | | | | |
| Salaries | \$ 210,737 | \$ 225,516 | \$ 219,777 | \$ (5,739) |
| Employee benefits | 233,059 | 197,323 | 198,914 | 1,591 |
| Supplies and materials | 2,500 | 2,409 | 2,470 | 61 |
| Other | <u>80,620</u> | <u>103,089</u> | <u>106,203</u> | <u>3,114</u> |
| Total executive administration | <u>526,916</u> | <u>528,337</u> | <u>527,364</u> | <u>(973)</u> |
| School administration - office of the principal | | | | |
| Salaries | 367,285 | 384,013 | 372,243 | (11,770) |
| Employee benefits | 159,334 | 171,236 | 175,030 | 3,794 |
| Supplies and materials | 10,000 | 7,373 | 6,203 | (1,170) |
| Other | <u>34,350</u> | <u>27,231</u> | <u>29,548</u> | <u>2,317</u> |
| Total office of the principal | <u>570,969</u> | <u>589,853</u> | <u>583,024</u> | <u>(6,829)</u> |

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2009

| | Original Budget | Final Budget | Actual | Over (Under) Final Budget |
|---|--------------------|-----------------|----------------|---------------------------------|
| Business - other | | | | |
| Other | \$ 14,000 | \$ 43,795 | \$ 49,672 | \$ 5,877 |
| Operations and maintenance - operating building services | | | | |
| Salaries | 282,421 | 283,187 | 283,253 | 66 |
| Employee benefits | 112,458 | 100,735 | 100,389 | (346) |
| Supplies and materials | 55,138 | 61,864 | 62,308 | 444 |
| Other | 307,295 | 311,727 | 300,632 | (11,095) |
| Total operating building services | <u>757,312</u> | <u>757,513</u> | <u>746,582</u> | <u>(10,931)</u> |
| Pupil transportation services | | | | |
| Salaries | 195,998 | 181,876 | 184,572 | 2,696 |
| Employee benefits | 102,526 | 97,862 | 99,459 | 1,597 |
| Supplies and materials | 39,250 | 32,277 | 33,001 | 724 |
| Other | 89,292 | 67,312 | 79,700 | 12,388 |
| Total transportation services | <u>427,066</u> | <u>379,327</u> | <u>396,732</u> | <u>17,405</u> |

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2009

| | Original Budget | Final Budget | Actual | Over (Under) Final Budget |
|--|--------------------|-----------------|---------------|---------------------------------|
| Central - staff/personnel services | | | | |
| Other | \$ 690 | \$ 600 | \$ 438 | \$ (162) |
| Central - support services technology | | | | |
| Salaries | 35,000 | 35,000 | 35,105 | 105 |
| Employee benefits | 22,077 | 17,572 | 17,516 | (56) |
| Other | 4,800 | 4,757 | 4,533 | (224) |
| Total support services technology | <u>61,877</u> | <u>57,329</u> | <u>57,154</u> | <u>(175)</u> |
| Community services - community activities | | | | |
| Salaries | 20,000 | 20,000 | 19,996 | (4) |
| Supplies and materials | 345 | - | 250 | 250 |
| Total community activities | <u>20,345</u> | <u>20,000</u> | <u>20,246</u> | <u>246</u> |
| Capital outlay | | | | |
| Basic program - elementary | 1,000 | 448 | 288 | (160) |
| Basic program - middle school | 7,000 | 243 | 412 | 169 |
| Basic program - high school | 4,000 | 8,177 | 8,127 | (50) |
| Instructional staff - educational media services | 1,200 | - | - | - |
| General administration - executive administration | 1,500 | 425 | 425 | - |
| School administration - office of the principal | 5,500 | 10,064 | 10,861 | 797 |
| Operations and maintenance - operating building services | 5,000 | 854 | 854 | - |
| Total capital outlay | <u>25,200</u> | <u>20,211</u> | <u>20,967</u> | <u>756</u> |

Marcellus Community Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2009

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Over (Under) Final Budget</u> |
|---------------------------------------|----------------------------|-------------------------|---------------------|--|
| Debt service | | | | |
| Principal | \$ 78,880 | \$ 39,789 | \$ 39,696 | \$ (93) |
| Interest and other expenditures | <u>10,250</u> | <u>5,329</u> | <u>22,423</u> | <u>17,094</u> |
| Total debt service | <u>89,130</u> | <u>45,118</u> | <u>62,119</u> | <u>17,001</u> |
| Other financing uses | | | | |
| Transfers out | <u>177,200</u> | <u>191,461</u> | <u>213,989</u> | <u>22,528</u> |
| Total expenditures and financing uses | <u>\$ 7,670,620</u> | <u>\$ 7,643,702</u> | <u>\$ 7,704,465</u> | <u>\$ 60,763</u> |

Marcellus Community Schools
Other Supplemental Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2009

| | Due to (from) Student Groups June 30, 2008 | Cash Receipts | Cash Disbursements | Due to (from) Student Groups June 30, 2009 |
|---------------------------|--|------------------|-----------------------|--|
| Administration | \$ (18,788) | \$ 4,323 | \$ 2 | \$ (14,467) |
| ES Girls on the Run | 218 | 2,200 | 2,418 | - |
| ES Library | 2,208 | 6,114 | 7,309 | 1,013 |
| ES Principal | 3,571 | 8,856 | 8,353 | 4,074 |
| ES School Success | 311 | 167 | 189 | 289 |
| HS Band | 3,486 | 14,831 | 14,975 | 3,342 |
| HS Band Trip | 1,888 | 35,089 | 34,828 | 2,149 |
| HS Boys' Basketball | 1,927 | 3,235 | 3,403 | 1,759 |
| HS Cheerleading | 355 | 58 | - | 413 |
| HS Class of 2007 | 583 | - | 106 | 477 |
| HS Class of 2008 | 455 | - | - | 455 |
| HS Class of 2009 | 27 | 3,922 | 3,294 | 655 |
| HS Class of 2010 | 1,091 | 8,391 | 8,954 | 528 |
| HS Class of 2011 | 340 | 3,386 | 2,380 | 1,346 |
| HS Class of 2012 | 100 | 644 | 172 | 572 |
| HS Class of 2013 | - | 100 | - | 100 |
| HS Football | 267 | 1,399 | 1,470 | 196 |
| HS Girls' Basketball | - | 1,240 | 1,240 | - |
| HS Golf | 290 | 195 | 200 | 285 |
| HS Grad Bash | (106) | 106 | - | - |
| HS Greenhouse | 2,732 | 1,517 | 1,745 | 2,504 |
| HS Industrial Arts | 831 | 465 | 700 | 596 |
| HS National Honor Society | 4,936 | 7,700 | 6,454 | 6,182 |
| HS Principal | 1,006 | 1,076 | 1,084 | 998 |
| HS Relay for Life | 1 | - | 1 | - |

Marcellus Community Schools
Other Supplemental Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2009

| | Due to (from) Student Groups June 30, 2008 | Cash Receipts | Cash Disbursements | Due to (from) Student Groups June 30, 2009 |
|--------------------------|--|-----------------------|-----------------------|--|
| HS Ski Club | \$ - | \$ 6,401 | \$ 6,340 | \$ 61 |
| HS Soccer | 112 | 8,351 | 8,398 | 65 |
| HS Spanish Honor Society | 64 | 243 | 279 | 28 |
| HS Student Council | 3,660 | 1,949 | 1,889 | 3,720 |
| HS Volleyball | 941 | 1,299 | 1,281 | 959 |
| HS Yearbook | 4,681 | 10,426 | 15,040 | 67 |
| MS Camp | 225 | - | 2 | 223 |
| MS Fundraiser | 1,690 | 3,392 | 4,191 | 891 |
| MS Leadership | 1,672 | 2,769 | 2,548 | 1,893 |
| MS Principal | 1,124 | 4,988 | 5,217 | 895 |
| MS Stars | 1,616 | 281 | 583 | 1,314 |
| MS Student Council | 2,096 | 4,133 | 4,180 | 2,049 |
| MS Sunshine | 15 | 325 | 323 | 17 |
| Volinia Maple | 2,979 | 9,368 | 4,957 | 7,390 |
| Volinia Prom | 33 | - | 2 | 31 |
| Volinia Student Council | 100 | 35 | 2 | 133 |
| Volinia Tech | 30 | - | 2 | 28 |
| | <u>30</u> | <u>-</u> | <u>2</u> | <u>28</u> |
| Total | <u>\$ 28,767</u> | <u>\$ 158,974</u> | <u>\$ 154,511</u> | <u>\$ 33,230</u> |

Marcellus Community Schools
Other Supplemental Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2009

| <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> |
|---|---|-----------------------------|-------------------------------------|-------------------------------------|---------------------|
| 2010 | \$ 260,000 | \$ 3,880 | \$ 310,000 | \$ - | \$ 573,880 |
| 2011 | 275,000 | 4,065 | 345,000 | - | 624,065 |
| 2012 | 295,000 | 23,191 | 375,000 | - | 693,191 |
| 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>\$ 1,150,000</u> | <u>\$ 35,597</u> | <u>\$ 2,150,000</u> | <u>\$ 2,915,000</u> | <u>\$ 6,250,597</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> | |

**Marcellus Community Schools
Marcellus, Michigan**

Single Audit Report

June 30, 2009

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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***

Members of the Board of Education
Marcellus Community Schools
Marcellus, Michigan

We have audited the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of Marcellus Community Schools as of and for the year ended June 30, 2009, and have issued our report thereon dated August 25, 2009. 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 Marcellus Community Schools' 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 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 control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result 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 internal control that might be 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 the Board of Education, others within the entity, management, Michigan Department of Education and the 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.

Yeo & Yeo, P.C.

Kalamazoo, Michigan
August 25, 2009

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
Marcellus Community Schools
Marcellus, Michigan

Compliance

We have audited the compliance of Marcellus Community 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 each of its major federal programs for the year ended June 30, 2009. Marcellus Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Marcellus Community Schools' management. Our responsibility is to express an opinion on Marcellus Community 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 Marcellus Community 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 of our opinion. Our audit does not provide a legal determination of Marcellus Community Schools' compliance with those requirements.

In our opinion, Marcellus Community Schools complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2009-1.

Internal Control over Compliance

The management of Marcellus Community 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 Marcellus Community 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 Marcellus Community Schools' internal control over compliance.

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

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

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

Marcellus Community Schools' response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Marcellus Community Schools' responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Marcellus Community Schools, as of and for the year ended June 30, 2009, and have issued our report thereon dated August 25, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Marcellus Community Schools' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, others within the entity, 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.

Yeo & Yeo, P.C.

Kalamazoo, Michigan
August 25, 2009

Marcellus Community Schools
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

| Federal Grantor Pass-Through Grantor Program Title | Federal CFDA Number | Approved Grant Amount | Accrued (Deferred) Revenue July 1, 2008 | (Memo Only) Prior Year Expenditures | Current Year Expenditures | Current Year Receipts | Adjust- ments | Accrued (Deferred) Revenue June 30, 2009 |
|--|---------------------------|-----------------------------|--|---|---------------------------------|-----------------------------|------------------|---|
| U.S. Department of Agriculture | | | | | | | | |
| Child Nutrition Cluster | | | | | | | | |
| Passed through Michigan Department of Education | | | | | | | | |
| Non-Cash assistance (commodities) | | | | | | | | |
| National School Lunch Program | 10.555 | \$ 23,576 | \$ - | \$ - | \$ 23,576 | \$ 23,576 | \$ - | \$ - |
| Cash assistance | | | | | | | | |
| 081970 School Breakfast Program | 10.553 | 38,366 | - | 34,730 | 3,636 | 3,636 | - | - |
| 091970 School Breakfast Program | | 38,255 | - | - | 38,225 | 38,225 | - | - |
| National School Lunch Program | | | | | | | | |
| 081950 Sec 4. - Total Servings | 10.555 | 20,783 | - | 17,892 | 2,891 | 2,891 | - | - |
| 081950 Sec 11. - Free and Reduced | | 130,017 | - | 114,105 | 15,912 | 15,912 | - | - |
| 091950 Sec 4. - Total Servings | | 21,493 | - | - | 21,493 | 21,493 | - | - |
| 091950 Sec 11. - Free and Reduced | | 118,749 | - | - | 118,749 | 118,749 | - | - |
| | | | - | | 200,906 | 200,906 | - | - |
| Total Department of Agriculture | | | - | | 224,482 | 224,482 | - | - |
| U.S. Department of Education | | | | | | | | |
| Passed through Michigan Department of Education | | | | | | | | |
| 0917000809 Title I | 84.010 | 143,397 | - | - | 143,397 | 143,397 | - | - |
| Passed through Michigan Department of Education | | | | | | | | |
| 0804400708 Service Provider Self Review | 84.027 | 2,665 | 1,885 | 780 | - | 1,885 | - | - |
| Passed through Berrien Intermediate School District | | | | | | | | |
| Safe School/Health Students | 84.184L | 2,039 | - | - | 2,039 | - | - | 2,039 |
| Passed through Michigan Department of Education | | | | | | | | |
| 0942900809 Technology Literacy Challenge | 84.318 | 1,238 | - | - | 1,238 | 1,238 | - | - |
| Passed through Michigan Department of Education | | | | | | | | |
| 0905200809 Improving Teacher Quality | 84.367 | 59,970 | - | - | 59,970 | 53,022 | - | 6,948 |
| Passed through Michigan Department of Education | | | | | | | | |
| 0925250809 ARRA - State Fiscal Stabilization Fund | 84.394 | 347,555 | - | - | 347,555 | - | - | 347,555 |
| Total U.S. Department of Education | | | 1,885 | | 554,199 | 199,542 | - | 356,542 |
| Total Federal Programs | | | \$ 1,885 | | \$ 778,681 | \$ 424,024 | \$ - | \$ 356,542 |

See Accompanying Notes to Schedule of Expenditures of Federal Awards

Marcellus Community Schools
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

1. The Schedule of Expenditures of Federal Awards was prepared using the accrual basis of accounting.
2. Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual or final cost reports that have been submitted as of June 30, 2009.
3. The federal amounts reported on the Form R-7120 "Grant Sections Auditors Report" and the CMS Grant Auditor Report are in agreement with the Schedule of Expenditures of Federal Awards.
4. The amounts reported on the Recipient Entitlement Balance Reports agree with the Schedule of Expenditures of Federal Awards for U.S.D.A. donated food commodities.

Marcellus Community Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

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

Type of auditor’s report issued on compliance for major programs: Unqualified

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

Identification of major programs:

| <i>CFDA Number(s)</i> | <i>Name of Federal Program or Cluster</i> |
|-----------------------|---|
| 84.010 | Title I |
| 84.394 | ARRA - State Fiscal Stabilization Fund |

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

Auditee qualified as a low-risk auditee? _____ Yes X No

Marcellus Community Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

SECTION II – GOVERNMENT AUDITING STANDARDS FINDINGS

There were no findings related to the financial statements which are required to be reported in accordance with government auditing standards for the year ended June 30, 2009.

SECTION III – FEDERAL AWARD FINDINGS

Finding 2009-1: Title I – Time and Effort Reporting

Specific requirement: Office of Management and Budget Circular A-87 requires when employees are co-funded for federal awards or cost objectives, charges for their salaries will be supported by personnel activity reports (PARs) confirming that the allocation schedule was followed. The PARs must be prepared at least monthly, be signed and dated by the employee, and account for the staff person's total daily activity. Time sheets and other PAR records should be completed after the fact.

Condition: The School District did not maintain PARs with the employee's signature and date, for co-funded employees working on a single federal award or cost objective.

Questioned Costs: \$0

Context: The School District provided a Title I staff listing indicating the Title I teachers and their time equivalent percentage.

Cause/Effect: The School District was not aware of the requirement and did not have employees sign and date PARs support.

Recommendation: Have co-funded staff prepare and sign necessary PARs reporting total activity time, at least monthly, after work is performed by the co-funded staff.

Corrective Action Plan: The School District will prepare and retained PARs reports for co-funded staff for the fiscal year ending June 30, 2010 and years thereafter.

Marcellus Community Schools
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2009

SECTION II – GOVERNMENT AUDITING STANDARDS FINDINGS

There were no findings related to the financial statements which are required to be reported in accordance with government auditing standards for the year ended June 30, 2008.

SECTION III – FEDERAL AWARD FINDINGS

Finding No. 2007-5: Title I – Period of Availability of Federal Funds

Specific requirement: Office of Management and Budget (OMB) Circular A-133 Title I Compliance Supplement indicates there is a 15 month period of initial availability for funds, but this does not allow for subsequent school year expenditures to be charged against the current year grant.

Condition: The District reported expenditures in excess of those actually incurred on the final expenditure report for the Title I, Part D Grant ID # 061700/0506.

Questioned Costs: \$94,247

Context: The District submitted the final expenditure report for the Title I, Part D Grant ID # 061700/0506 reporting total expenditures of \$134,234 when actual expenditures incurred against this grant were \$39,987.

Cause/Effect: Due to the submission of the final expenditure report, the State of Michigan sent payment to the District for the additional expenditures reported but not yet reimbursed for the Title I, Part D Grant ID # 061700/0506.

Recommendation: When submitting final expenditure reports for federal programs, the District should use the general ledger detail for the applicable program and timeframe to be reported on and include only those expenditures allocated to the applicable grant year.

Corrective Action Plan: The District has recorded the amount of questioned costs as due to the State of Michigan as of June 30, 2007. The District will ensure final expenditure reports include only the expenditures incurred for the grant year being reported on for the fiscal year ending June 30, 2008 and years thereafter.

Current Status: Per our review performed in June, 2008 we noted the District is still reporting expenditures over costs incurred as a liability. The State has not notified the District requesting the funds be remitted back to the State or withheld the amount from the District's payment from the State. As of June, 2009 the District is still waiting to hear from the State with the intent of repaying the funds when requested.



710 E. Milham
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Fax (269) 329-0626

August 25, 2009

Management and the Board of Education
Marcellus Community Schools
Marcellus, MI 49067

We have completed our audit of the financial statements of Marcellus Community Schools as of and for the year ended June 30, 2009 and have issued our report dated August 25, 2009. 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. Auditors' Communication of Significant Matters with Those Charged with Governance
- II. Management Comments

We discussed these matters with various personnel in the organization during the audit . We would also be pleased to meet with you to discuss these matters at your convenience.

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

Communication to Those Charged with Governance

Responsibilities under generally accepted auditing standards

As stated in our engagement letter dated June 29, 2009, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter to you related to planning matters dated June 29, 2009.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.

Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.

Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit

No difficulties were encountered during the 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. There were two audit adjustments which were reclass entries of revenue and expense amounts. The adjustments identified during the audit have been communicated to management and management has posted all adjustments. There were two audit adjustments

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate 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

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the 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, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and the Schedule of Findings and Questioned Costs. Please read all information included in those to ensure you are aware of relevant information.

Appendix II Management Comments

In planning and performing our audit of the financial statements of Marcellus Community Schools as of and for the year ended June 30, 2009, we considered Marcellus Community Schools' internal control over financial reporting (internal control) as a basis for designing our audit 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of one matter that is an opportunity for strengthening internal controls and improving operating efficiency. This letter does not affect our report dated August 25, 2009, on the financial statements of Marcellus Community Schools. Our comment and recommendation regarding this matter is:

Prior Year Findings and Status

Budget Appropriations Act

During our review of the District's compliance with laws and regulations in the prior year, we noted that the District does not prepare a formal original and final appropriations act for budget approval for each fund. The budget is included in the Board packets and approved at the Board meetings. We recommend the District prepare a formal original appropriations act and present it to the Board for approval of all original budgets. We also recommend the District prepare a formal final appropriations act and present it to the Board for approval of all final amended budgets.

Current year status: For the 2008-2009 budget, a formal appropriations act was not prepared.

Management response: Marcellus Community Schools' management will continue to enhance and improve the internal controls over our financial data and reporting systems. As a part of this process we will address the above finding (Budget Appropriations Act) by implementing the formal Appropriation Resolution for the 2010-2011 budget approval process.