

**Schoolcraft Community Schools**

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

**June 30, 2012**

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

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**Members of the Board of Education**

Michael Rochholz – President

Skip Fox – Vice President

Kathy Mastenbrook – Treasurer

Darby Fetzer – Secretary

Matt DeVoe – Trustee

David Krum – Trustee

Jeannette Marshall – Trustee

**Administration**

Dr. Rusty Stitt – Superintendent

## Independent Auditors' Report

To the Board of Education  
Schoolcraft Community Schools  
Schoolcraft, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Schoolcraft Community Schools as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Schoolcraft 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 Schoolcraft Community Schools as of June 30, 2012, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 5, 2012 on our consideration of the Schoolcraft Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

*Yeo & Yeo, P.C.*

Kalamazoo, Michigan  
October 5, 2012

## **Schoolcraft Community Schools Management's Discussion and Analysis For the Year Ended June 30, 2012**

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This section of the Schoolcraft Community Schools annual financial report presents a discussion and analysis of the School District's financial performance during the year ended June 30, 2012. It is to be read 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 Schoolcraft Community Schools financially as a whole. The District-wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the School District-wide financial statements by providing information about the School District's most significant funds - the General Fund, the 2009 Debt Fund, and the Capital Projects Fund with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

### **Reporting the School District as a Whole - District-wide Financial Statements**

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps one answer this question. Statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets 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 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 the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, debt service, community services, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

**Schoolcraft Community Schools  
Management's Discussion and Analysis  
For the Year Ended June 30, 2012**

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**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. Other funds are established to help the School District to control and manage money for particular purposes (the Food Service is an example) or to show that the School District is meeting legal responsibilities for using certain taxes, grants, and other money (i.e. construction bond 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 demonstrating how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. The relationship between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds are described in the reconciliation.

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

The School District is the trustee, or fiduciary, for student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. These activities are excluded 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.

**Schoolcraft Community Schools  
Management's Discussion and Analysis  
For the Year Ended June 30, 2012**

**The School District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2012:

	Year Ended June 30, 2012	Year Ended June 30, 2011		Year Ended June 30, 2012	Year Ended June 30, 2011
<b>Assets</b>					
Current assets	\$ 3,421,334	\$ 3,762,418	Current liabilities	\$ 1,041,618	\$ 1,201,266
Capital assets	26,003,041	25,900,696	Long-term liabilities	<u>12,507,453</u>	<u>13,616,994</u>
Less: accumulated depreciation	<u>(11,681,837)</u>	<u>(11,110,753)</u>	Total liabilities	<u>13,549,071</u>	<u>14,818,260</u>
Capital assets, net book value	<u>14,321,204</u>	<u>14,789,943</u>	<b>Net Assets</b>		
			Invested in capital assets, net of related debt	2,220,072	1,291,307
			Restricted for debt service	70,858	95,091
			Unrestricted	<u>1,902,537</u>	<u>2,347,703</u>
			Total net assets (liabilities)	<u>4,193,467</u>	<u>3,734,101</u>
Total assets	<u>\$ 17,742,538</u>	<u>\$ 18,552,361</u>	Total liabilities and net assets	<u>\$ 17,742,538</u>	<u>\$ 18,552,361</u>

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$4,193,467 and \$3,734,101 at June 30, 2012 and June 30, 2011, respectively. Capital assets (net of related debt totaling \$2,220,072 and \$1,291,307 at June 30, 2012 and June 30, 2011, respectively) compares the original cost, less depreciation, of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Debt repayments are outpacing the investment in additional capital assets as expected. All major renovations and building projects were completed prior to June 30, 2005 and maintenance plans have been put in place to care for the existing facilities so the School District anticipates the continuation of this trend. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$1,902,537 was unrestricted.

The \$1,902,537 and \$2,347,703 at June 30, 2012 and June 30, 2011, respectively, in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year. See below for further discussion on the change in unrestricted net assets.

**Schoolcraft Community Schools  
Management's Discussion and Analysis  
For the Year Ended June 30, 2012**

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal years 2012 and 2011 respectively.

**Table 2 - Statement of Activities**

	Year Ended June 30, 2012	Year Ended June 30, 2011		Year Ended June 30, 2012	Year Ended June 30, 2011
<b>Program revenue:</b>			<b>Expenses:</b>		
Charges for services	\$ 370,848	\$ 345,791	Instruction	\$ 6,067,302	\$ 6,300,657
Operating grants	<u>1,231,835</u>	<u>1,405,494</u>	Supporting Services	3,903,257	4,009,388
Total program revenue	<u>1,602,683</u>	<u>1,751,285</u>	Food services	351,739	340,983
 			Community services	63,080	43,083
<b>General revenue:</b>			Interest on long-term debt	<u>478,499</u>	<u>504,951</u>
Property taxes, levied for general purposes	1,132,729	1,093,211			
Property taxes, levied for debt service	1,589,508	1,554,005			
State aid, unrestricted	6,851,859	7,119,314			
Interest and investment earnings	7,600	14,902			
Other	<u>138,864</u>	<u>133,830</u>			
Total general revenue	<u>9,720,560</u>	<u>9,915,262</u>	Total expenses	<u>10,863,877</u>	<u>11,199,062</u>
Total revenue	<u>\$ 11,323,243</u>	<u>\$ 11,666,547</u>	Increase in net assets	<u>\$ 459,366</u>	<u>\$ 467,485</u>

As reported in the statement of activities, the cost of all governmental activities for 2011-12 was \$11,323,243. Some activities were partially funded by those who benefited from the programs (\$370,848) or by subsidies from other governments and organizations (\$1,231,835). The remaining "public benefit" portion of governmental activities was paid for with \$2,722,237 in taxes, \$6,851,859 in state foundation allowance, and with other revenues (i.e. interest and general entitlements). The decrease in revenue is primarily attributable to the decrease in the limited time funding from the American Recovery Reinvestment Act and Education Jobs Fund. This decrease was in part offset by an increase in other limited time revenue items, primarily the pension (MPERS) cost offset. The decrease in instruction expenses can primarily be attributed to the decrease in certified staff.

The School District experienced an increase in net assets of \$459,366.

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

**Schoolcraft Community Schools  
Management's Discussion and Analysis  
For the Year Ended June 30, 2012**

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**The School District's Funds**

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

As the School District completed the 2011-12 fiscal year, the governmental funds reported a combined fund balance of \$2,320,957, which is a decrease of \$156,421 from the previous year. The primary reasons for the decrease are relate to the decrease in fund balance in the Capital Projects fund as noted below.

The Capital Projects Fund decreased \$179,444 to \$769,026. This is the fund that the School District uses to manage the district wide capital asset replacement and maintenance plans. In prior years the 1.5% county wide regional enhancement millage revenues has been the primary funding source for these plans but in 2011-12 the Board of Education determined that the current year enhancement revenues would be retained in the General Fund. The School District's asset replacement and maintenance plan is a long-term plan and the planned spending for 2011-12 (\$284,900) was continued without the transfer of the enhancement revenues.

Special Revenue Funds increased \$13,656 from the prior year to a total fund balance of \$19,789.

**General Fund Budgetary Highlights**

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

There were revisions made to the 2011-12 General Fund original budget. Budgeted revenues were increased to reflect the receipt of additional state funding as actual student enrollment count was known. Expenditures were increased to reflect the actual staffing and compensation levels finalized subsequent to the original budget.

**Schoolcraft Community Schools  
Management's Discussion and Analysis  
For the Year Ended June 30, 2012**

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**Capital Assets and Debt Administration**

**Capital Assets**

As of June 30, 2012, the School District had \$14.32 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture and equipment. This amount represents a net decrease from the previous year primarily due to depreciation, as the only major addition to capital assets was the purchase of a bus (\$65,000). Additional funds were spent for depreciable technology of which not all were placed in service prior to year end (\$78,300) energy consortium fees (\$38,800), and various facility and operational improvements that were individually insignificant (\$75,400) and are not depreciable.

Two major expenditures in the capital project fund are budgeted for the 2012-13 fiscal year, the replacement of the shingled portion of the high school roof (\$200,000) and resurfacing of the track (\$50,000). Total expenditures budgeted of \$510,000 are expected to be funded primarily through the regional enhancement millage revenue transfer from the General Fund. The decision to transfer the enhancement millage may be altered as the general fund financial picture becomes clearer.

**Debt**

At the end of this year, the School District had \$12.46 million in bonds outstanding versus \$13.88 million in the previous year - a decrease of 10.27% percent. See below for details related to the refunding of the School District debt. Those bonds consisted of the following:

	<u>2012</u>	<u>2011</u>
General Obligation Bonds	\$ <u>12,455,000</u>	\$ <u>13,880,000</u>

The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "Qualified Debt," (i.e., debt backed by the State of Michigan), such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$12.46 million is significantly below the statutorily imposed limit.

**Schoolcraft Community Schools  
Management's Discussion and Analysis  
For the Year Ended June 30, 2012**

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

The School District's elected officials and administration consider many factors when setting the School District's 2011-12 fiscal year budget. One of the most important factors affecting the budget is student enrollment count. The state foundation revenue is determined by multiplying the blended student count by the state foundation allowance per pupil. The 2011-12 budget was adopted in June 2011, based on an estimate of students that will be enrolled in October 2011. Approximately 80 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot access additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2012-13 school year, it is anticipated that the fall student count will be slightly higher than the estimates used in creating the 2012-13 budget. The related per pupil funding that was adopted by the State is complicated and again includes onetime money if certain conditions are met. The District is diligently working toward putting in place the pieces required to receive the one time money. Currently there are a large number of bills in Lansing that have the potential of greatly changing how we provide public education in the State of Michigan. The School District's administration continues to work under a zero base budgeting approach, purchasing needs only, as they wait to see how the pending bills work through the legislative process. Any questions related to the School District can be directed verbally to the either the Superintendent or Finance Director at 269-488-7390 or in writing to the same at 551 East Lyons St. MI Schoolcraft, MI 49087.

**Schoolcraft Community Schools**  
**Statement of Net Assets**  
**June 30, 2012**

	Governmental Activities
<b>Assets</b>	
Cash	\$ 1,776,061
Taxes receivable	15,531
Accounts receivable	50,762
Due from other governmental units	1,384,746
Inventory	5,728
Investments	26,059
Prepaid items	15,112
Other assets	147,335
Capital assets not being depreciated	187,900
Capital assets - net of accumulated depreciation	14,133,304
Total assets	17,742,538
<b>Liabilities</b>	
Accounts payable	288,024
Due to other governmental units	179,558
Payroll deductions and withholdings	63,121
Accrued expenditures	94,174
Accrued salaries payable	410,048
Deferred revenue	6,693
Noncurrent liabilities	
Due within one year	1,550,229
Due in more than one year	10,957,224
Total liabilities	13,549,071
<b>Net Assets</b>	
Invested in capital assets, net of related debt	1,931,208
Restricted for:	
Food service	19,789
Debt service	70,858
Unrestricted	2,171,612
Total net assets	\$ 4,193,467

See Accompanying Notes to Financial Statements

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

	Program Revenues			Net (Expense)
Expenses	Charges for Services	Operating Grants and Contributions		Revenue and Changes in Net Assets
<b>Functions/Programs</b>				
Governmental activities				
Instruction	\$ 6,067,302	\$ 85,042	\$ 981,002	\$ (5,001,258)
Supporting services	3,903,257	63,100	-	(3,840,157)
Food services	351,739	222,706	250,833	121,800
Community services	63,080	-	-	(63,080)
Interest on long-term debt	478,499	-	-	(478,499)
Total governmental activities	\$ 10,863,877	\$ 370,848	\$ 1,231,835	(9,261,194)
General revenues				
Property taxes, levied for general purposes				1,132,729
Property taxes, levied for debt service				1,589,508
State aid - unrestricted				6,851,859
Interest and investment earnings				7,600
Other				138,864
Total general revenues				9,720,560
Change in net assets				459,366
Net assets - beginning				3,734,101
Net assets - ending				\$ 4,193,467

See Accompanying Notes to Financial Statements

**Schoolcraft Community Schools**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2012**

	<u>General Fund</u>	<u>2009 Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor - Food Service Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash	\$ 20,250	\$ 70,858	\$ 1,683,538	\$ 1,415	\$ 1,776,061
Taxes receivable	8,926	6,605	-	-	15,531
Accounts receivable	50,762	-	-	-	50,762
Due from other funds	914,512	-	-	16,739	931,251
Due from other governmental units	1,384,746	-	-	-	1,384,746
Inventory	-	-	-	5,728	5,728
Investments	26,059	-	-	-	26,059
Prepaid items	15,112	-	-	-	15,112
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 2,420,367</u>	<u>\$ 77,463</u>	<u>\$ 1,683,538</u>	<u>\$ 23,882</u>	<u>\$ 4,205,250</u>

See Accompanying Notes to Financial Statements

**Schoolcraft Community Schools**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2012**

	<u>General Fund</u>	<u>2009 Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor - Food Service Fund</u>	<u>Total Governmental Funds</u>
<b>Liabilities and Fund Balance</b>					
Liabilities					
Accounts payable	\$ 288,024	\$ -	\$ -	\$ -	\$ 288,024
Due to other funds	16,739	-	914,512	-	931,251
Due to other governmental units	179,558	-	-	-	179,558
Payroll deductions and withholdings	63,121	-	-	-	63,121
Accrued salaries payable	410,048	-	-	-	410,048
Deferred revenue	<u>1,593</u>	<u>6,605</u>	<u>-</u>	<u>4,093</u>	<u>12,291</u>
 Total liabilities	 <u>959,083</u>	 <u>6,605</u>	 <u>914,512</u>	 <u>4,093</u>	 <u>1,884,293</u>
Fund Balance					
Non-spendable					
Inventory	-	-	-	5,728	5,728
Prepaid items	15,112	-	-	-	15,112
Restricted for:					
Food service	-	-	-	14,061	14,061
Debt service	-	70,858	-	-	70,858
Committed	-	-	769,026	-	769,026
Unassigned	<u>1,446,172</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,446,172</u>
 Total fund balance	 <u>1,461,284</u>	 <u>70,858</u>	 <u>769,026</u>	 <u>19,789</u>	 <u>2,320,957</u>
 Total liabilities and fund balance	 <u>\$ 2,420,367</u>	 <u>\$ 77,463</u>	 <u>\$ 1,683,538</u>	 <u>\$ 23,882</u>	 <u>\$ 4,205,250</u>

See Accompanying Notes to Financial Statements

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

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<b>Total fund balances for governmental funds</b>	<b>\$ 2,320,957</b>
Total net assets for governmental activities in the statement of net assets is different because:	
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Property taxes	5,598
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	187,900
Capital assets - net of accumulated depreciation	14,133,304
Other long-term assets are not deferred in the governmental funds.	
Bond issuance costs	147,335
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(94,174)
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	(117,457)
Bonds payable	(12,090,389)
School bond loan payable	(288,864)
Other loans payable and liabilities	<u>(10,743)</u>
<b>Net assets of governmental activities</b>	<b>\$ <u>4,193,467</u></b>

See Accompanying Notes to Financial Statements

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

	General Fund	2009 Debt Service Fund	Capital Projects Fund	Nonmajor - Food Service Fund	Total Governmental Funds
<b>Revenues</b>					
Local sources	\$ 1,056,792	\$ 1,591,601	\$ 5,507	\$ 222,706	\$ 2,876,606
State sources	7,412,644	9,795	-	19,786	7,442,225
Federal sources	162,849	-	-	120,323	283,172
Intermediate sources	722,789	-	-	-	722,789
 Total revenues	 <u>9,355,074</u>	 <u>1,601,396</u>	 <u>5,507</u>	 <u>362,815</u>	 <u>11,324,792</u>
<b>Expenditures</b>					
Current					
Education					
Instruction	5,467,561	-	-	-	5,467,561
Supporting services	3,688,126	-	-	-	3,688,126
Food services	-	-	-	349,159	349,159
Community services	63,080	-	-	-	63,080
Capital outlay	2,707	-	284,951	-	287,658
Debt service					
Principal	-	1,433,925	-	-	1,433,925
Interest and other expenditures	-	480,568	-	-	480,568
 Total expenditures	 <u>9,221,474</u>	 <u>1,914,493</u>	 <u>284,951</u>	 <u>349,159</u>	 <u>11,770,077</u>
 Excess (deficiency) of revenues over expenditures	 133,600	 (313,097)	 (279,444)	 13,656	 (445,285)

See Accompanying Notes to Financial Statements

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

	<u>General Fund</u>	<u>2009 Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor - Food Service Fund</u>	<u>Total Governmental Funds</u>
<b>Other Financing Sources (Uses)</b>					
Proceeds from school bond loan fund	\$ -	\$ 288,864	\$ -	\$ -	\$ 288,864
Transfers in	-	-	100,000	-	100,000
Transfers out	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(100,000)</u>
 Total other financing sources (uses)	 <u>(100,000)</u>	 <u>288,864</u>	 <u>100,000</u>	 <u>-</u>	 <u>288,864</u>
 Net change in fund balance	 33,600	 (24,233)	 (179,444)	 13,656	 (156,421)
 Fund balance - beginning	 <u>1,427,684</u>	 <u>95,091</u>	 <u>948,470</u>	 <u>6,133</u>	 <u>2,477,378</u>
 Fund balance - ending	 <u>\$ 1,461,284</u>	 <u>\$ 70,858</u>	 <u>\$ 769,026</u>	 <u>\$ 19,789</u>	 <u>\$ 2,320,957</u>

See Accompanying Notes to Financial Statements

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

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<b>Net change in fund balances - total governmental funds</b>	\$ (156,421)
Total change in net assets reported for governmental activities in the statement of activities is different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Property taxes	(1,549)
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	(571,084)
Capital outlay	102,345
Expenses are recorded when incurred in the statement of activities.	
Interest	2,069
Compensated absences	901
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.	
Proceeds on long-term debt	(288,864)
Repayments of long-term debt	1,451,175
Amortization bond issuance costs	(79,206)
	(79,206)
<b>Change in net assets of governmental activities</b>	<b>\$ 459,366</b>

See Accompanying Notes to Financial Statements

**Schoolcraft Community Schools**  
**Fiduciary Funds**  
**Statement of Assets and Liabilities**  
**June 30, 2012**

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	<u>Agency Funds</u>
<b>Assets</b>	
Cash	\$ <u>99,920</u>
<b>Liabilities</b>	
Due to agency fund activities	\$ <u>99,920</u>

See Accompanying Notes to Financial Statements

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2012**

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**Note 1 - Summary of Significant Accounting Policies**

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

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

**District-wide Financial Statements**

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all 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

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2012**

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of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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.

2009 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. The School District is not required to establish budgets for debt service funds and so no budget is provided for in this major fund.

Capital Projects Fund – The Capital Projects Fund is used to record authorized revenues and expenditures for invoices specifically designated for acquiring and maintaining school buildings, equipment, and transportation equipment. The School District is not required to establish budgets for capital projects funds and so no budget is provided for in this major fund.

Additionally, the School District reports the following fund types:

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

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

**Assets, Liabilities and Equity**

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

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

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

General Fund	
Non principal residence exemption	18.00000
Commercial personal property	6.00000
Debt Service Funds	7.50000

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2012**

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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 Kalamazoo County and should be remitted to the School District by May 15.

Investments – Investments are stated at fair value based on a quoted market price. Certificates of deposit are stated at cost which approximates fair value.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Compensated Absences – Employees are provided with sick days each year. If not used, sick days may be carried forward into the next fiscal year. Once ninety (90) days of sick leave have been accumulated, teachers are paid \$25/day for unused sick leave accumulated over the ninety days. The monies will be paid at the end of the school year. Upon retirement, teachers will be paid \$25 for each day of unused sick leave accumulated up to 100 days. Employees that leave the School District's employ with accumulated sick days forfeit the right to receive payment thereof.

Support staff follows the same policy as teachers except that the accumulated sick days are paid on a graduated rate from \$5 to \$20 per day based on the normal number of hours in their workday.

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
Equipment and furniture	5-10 years
Buses and other vehicles	5-10 years

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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

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

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

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2012**

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

Assigned – amounts intended to be used for specific purposes, as determined by the board of education or the Superintendent. The board of education has granted the finance committee and Superintendent the authority to assign funds. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature.

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

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

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

**Eliminations and Reclassifications**

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

**Upcoming Accounting and Reporting Changes**

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

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

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

**Note 2 - Stewardship, Compliance, Accountability**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

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

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2012**

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

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

**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	\$ 1,776,061	\$ 99,920	\$ 1,875,981
Investments	26,059	-	26,059
	<u>\$ 1,802,120</u>	<u>\$ 99,920</u>	<u>\$ 1,902,040</u>

As of year-end, investments shown on the School District's Statement of Financial Position are treated as deposits for the purpose of this disclosure. The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, certificates of deposit)	\$ 1,872,481
Investments in securities, money markets, and similar vehicles	26,059
Petty cash and cash on hand	3,500
<b>Total</b>	<b><u>\$ 1,902,040</u></b>

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 year-end, \$1,666,099 of the District's bank balance of \$1,947,135 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The following investment securities were uninsured and unregistered and held in the following manner:

Investment Type	Carrying Value	How Held
PNC Governmental Money Market Fund	<u>\$ 26,059</u>	Counterparty in the District's name

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2012**

**Note 4 - Capital Assets**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 187,900	\$ -	\$ -	\$ 187,900
Capital assets being depreciated				
Buildings and additions	22,873,217	-	-	22,873,217
Equipment and furniture	1,954,150	37,388	-	1,991,538
Buses and other vehicles	885,429	64,957	-	950,386
Total capital assets being depreciated	<u>25,712,796</u>	<u>102,345</u>	<u>-</u>	<u>25,815,141</u>
Less accumulated depreciation for				
Buildings and additions	8,979,855	427,838	-	9,407,693
Equipment and furniture	1,631,745	72,736	-	1,704,481
Buses and other vehicles	499,153	70,510	-	569,663
Total accumulated depreciation	<u>11,110,753</u>	<u>571,084</u>	<u>-</u>	<u>11,681,837</u>
Net capital assets being depreciated	<u>14,602,043</u>	<u>(468,739)</u>	<u>-</u>	<u>14,133,304</u>
Net capital assets	<u>\$ 14,789,943</u>	<u>\$ (468,739)</u>	<u>\$ -</u>	<u>\$ 14,321,204</u>

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

<b>Governmental activities</b>	
Instruction	\$ 414,969
Support services	142,353
Food services	2,580
Athletic services	<u>11,182</u>
Total governmental activities	<u>\$ 571,084</u>

**Note 5 - Interfund Receivables, Payables, Transfers**

Individual interfund receivable and payable balances at year-end were:

Due From Fund	Due to Fund	Amount
General	Food Service	\$ 16,739
Capital Projects	General	<u>914,512</u>
		<u>\$ 931,251</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

**Note 6 - Deferred Revenue**

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

	Unavailable	Unearned	Total
Delinquent property taxes	\$ 5,598	\$ -	\$ 5,598
Advance participant fees	-	2,600	2,600
Lunch monies on account	-	4,093	4,093
Total	<u>\$ 5,598</u>	<u>\$ 6,693</u>	<u>\$ 12,291</u>

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2012**

**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 a capital lease payable, 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	\$13,880,000	\$ -	\$ 1,425,000	\$12,455,000	\$1,495,000
Durant resolution package bonds	57,947	-	8,925	49,022	49,022
School Bond Loan	-	288,864	-	288,864	-
Capital lease	27,993	-	17,250	10,743	6,207
Compensated absences	118,358	117,457	118,358	117,457	-
Deferred amount on refunding	(467,304)	-	(53,671)	(413,633)	-
<b>Total</b>	<u>\$13,616,994</u>	<u>\$406,321</u>	<u>\$ 1,515,862</u>	<u>\$12,507,453</u>	<u>\$1,550,229</u>

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

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

\$12,420,000 serial bond due in annual installments of \$665,000 to \$795,000 through May 2026, interest at 2.50% to 4.75%	\$ 10,265,000
\$4,010,000 serial bond due in annual installments of \$520,000 to \$740,000 through May 2015, interest at 1.25% to 3.75%	<u>2,190,000</u>
<b>Total general obligation bonded debt</b>	<u><u>\$ 12,455,000</u></u>

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

Year Ending June 30,	Principal	Interest	Total
2013	\$ 1,495,000	\$ 445,113	\$ 1,940,113
2014	1,525,000	407,018	1,932,018
2015	1,525,000	363,783	1,888,783
2016	750,000	312,483	1,062,483
2017	735,000	289,983	1,024,983
2018-2022	3,615,000	1,055,738	4,670,738
2023-2027	<u>2,810,000</u>	<u>312,300</u>	<u>3,122,300</u>
<b>Total</b>	<u><u>\$12,455,000</u></u>	<u><u>\$ 3,186,418</u></u>	<u><u>\$15,641,418</u></u>

The general obligation bonds are payable from the Debt Service Funds. As of year-end, the fund had a balance of \$ 70,858 to pay this debt. Future debt and interest will be payable from future tax levies.

Other bonds consist of the following:

\$139,487 Durant Refunding serial bonds due in annual installments through 5/15/2013; interest 4.76% due annually	<u>\$ 49,022</u>
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These bond obligations issued by PA 142 are payable solely from and are secured solely by an assignment by each School District of certain categorical State School Aid payments. The State Legislature has no obligation to make such appropriations. In the event the Legislature fails to appropriate funds, the School District is under no obligation for repayment of the debt obligation issued by PA 142.

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2012**

Future principal and interest requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 49,022	\$ 16,789	\$ 65,811

**Capital Leases Payable**

The School District entered into agreements to lease office equipment beginning September 2007 and June 2009. The leases are classified as capital leases based on the terms of the agreements. The future minimum lease payments are as follows:

Year Ending June 30,	2007 Lease	2009 Lease	Total
2013	\$ 2,468	\$ 4,440	\$ 6,908
2014	-	4,440	4,440
2015	-	370	370
Total minimum lease payments	2,468	9,250	11,718
Less amount representing interest	29	946	975
Present value of minimum lease payments	\$ 2,439	\$ 8,304	\$ 10,743

The assets acquired through capital lease are as follows:

Assets			
Machinery and equipment	\$ 58,650	\$ 17,346	\$ 75,996
Less accumulated depreciation	58,650	6,938	65,588
Total	\$ -	\$ 10,408	\$ 10,408

**Compensated Absences**

Accrued compensated absences, including payroll taxes on these benefits at year-end is \$117,457. 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.

**School Bond Loan Fund**

The State School Bond Loan consists of a borrowing agreement with the State of Michigan for the purpose of meeting the financing of current debt maturities. Management of the School District anticipates that as the other bonds mature, the revenues provided by the debt millage will be sufficient to satisfy the future debt service requirements of the bonds and all necessary borrowing from the State School Bond Loan Fund. During the year, the School District borrowed \$288,864 and the entire amount outstanding at year-end. The School District has agreed to repay the loan amount with interest at rates and at times to be determined by the State Treasurer.

**Defeased Debt**

In prior years, the School District has defeased various bonds issued by creating separate irrevocable trust funds. The new debt was 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.

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2012**

The final payment date is May 2026. As of year-end, the amount of defeased debt outstanding but removed from the School District's financial statements is as follows:

1996 Issue refunded	<u><u>\$ 10,000,000</u></u>
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**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's unemployment compensation expense for the year was \$21,487. At June 30, 2012, the School District has recorded a \$21,487 unemployment compensation liability.

**Note 9 - Pension Plans and Post Employment Benefits**

**Plan Description**

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

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

MPERS operates within the Michigan Department of Technology, Management and Budget, Office of Retirement Services, who has the authority to establish and amend benefit provisions. The Michigan Department of Technology, Management and Budget issues a publicly available financial report that includes financial statements and required supplementary information for 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, calling 800-381-5111 or on the web at <http://www.michigan.gov/orsschools>.

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

**Funding Policy**

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

	2012	2011	2010
Funding percentage range	10.66 - 15.96 %	8.63 - 12.16%	9.73 - 10.13%
Total payroll	\$ 5,452,489	\$ 5,519,613	\$ 5,622,582
Total covered payroll	5,248,750	5,445,278	5,555,544
School pension contributions	772,919	625,338	560,315
Employee MIP contributions	168,120	170,857	166,822
Tax deferred payment program	45,222	38,838	41,690

**Schoolcraft Community Schools**  
**Notes to Financial Statements**  
**June 30, 2012**

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**Defined Contribution Savings Plan**

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

	School District	Participants
Contributions to the Pension Plus Savings Plan	\$ 272	\$ 1,510

**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.

**Post Employment Benefits**

In addition to the pension benefits described above, the School Finance Reform Act requires the School District to provide post-retirement health care, dental, and vision benefits for retirees and beneficiaries through Michigan Public School Employees Retirement System (MPERS). Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health care, dental and vision coverage at the time of receiving the benefits. The School's actual contributions match the required contributions.

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

	2012	2011	2010
Funding percentage range	8.50%	6.81 - 8.5%	6.81%
School post employment benefits contributions	\$ 462,880	\$ 451,875	\$ 380,433

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Local sources	\$ 1,005,000	\$ 1,050,000	\$ 1,056,792	\$ 6,792
State sources	7,060,000	7,389,300	7,412,644	23,344
Federal sources	100,500	155,800	162,849	7,049
Intermediate sources	640,000	745,400	722,789	(22,611)
 Total revenues	 <u>8,805,500</u>	 <u>9,340,500</u>	 <u>9,355,074</u>	 <u>14,574</u>
 <b>Expenditures</b>				
Instruction				
Basic programs	4,633,545	4,732,975	4,608,965	(124,010)
Added needs	899,215	883,540	858,596	(24,944)
Supporting services				
Pupil	265,520	269,120	263,650	(5,470)
Instructional staff	360,630	366,730	345,797	(20,933)
General administration	217,585	252,375	253,694	1,319
School administration	716,800	642,550	615,191	(27,359)
Business	264,600	273,700	267,874	(5,826)
Operations and maintenance	1,002,650	986,900	955,284	(31,616)
Pupil transportation services	555,800	532,950	511,547	(21,403)
Central	204,200	226,450	226,410	(40)
Athletic activities	251,400	256,700	248,679	(8,021)
Community services	61,250	63,550	63,080	(470)
Capital outlay	2,700	3,000	2,707	(293)
 Total expenditures	 <u>9,435,895</u>	 <u>9,490,540</u>	 <u>9,221,474</u>	 <u>(269,066)</u>
 Excess of revenues over expenditures	 <u>(630,395)</u>	 <u>(150,040)</u>	 <u>133,600</u>	 <u>283,640</u>

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Other Financing Sources (Uses)</b>				
Transfers out	\$ -	\$ (100,000)	\$ (100,000)	\$ -
Net change in fund balance	(630,395)	(250,040)	33,600	283,640
Fund balance - beginning	<u>1,427,684</u>	<u>1,427,684</u>	<u>1,427,684</u>	<u>-</u>
Fund balance - ending	<u>\$ 797,289</u>	<u>\$ 1,177,644</u>	<u>\$ 1,461,284</u>	<u>\$ 283,640</u>

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

	2012	2011
<b>Assets</b>		
Cash	\$ 20,250	\$ 14,730
Taxes receivable	8,926	9,072
Accounts receivable	50,762	115,727
Due from other funds	914,512	930,853
Due from other governmental units	1,384,746	1,404,541
Investments	26,059	13,297
Prepaid items	15,112	38,665
Total assets	\$ 2,420,367	\$ 2,526,885
<b>Liabilities and Fund Balance</b>		
<b>Liabilities</b>		
Accounts payable	\$ 288,024	\$ 362,877
Due to other funds	16,739	464
Due to other governmental units	179,558	179,558
Payroll deductions and withholdings	63,121	102,301
Accrued salaries payable	410,048	453,459
Deferred revenue	1,593	542
Total liabilities	959,083	1,099,201
<b>Fund Balance</b>		
Non-spendable		
Prepaid items	15,112	38,665
Restricted for:		
Unassigned	1,446,172	1,389,019
Total fund balance	1,461,284	1,427,684
Total liabilities and fund balance	\$ 2,420,367	\$ 2,526,885

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

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenues from local sources</b>				
Property tax levy	\$ 720,000	\$ 769,100	\$ 769,786	\$ 686
Student activities	69,000	63,400	63,100	(300)
Community service activities	88,000	84,000	85,042	1,042
Other local revenues	<u>128,000</u>	<u>133,500</u>	<u>138,864</u>	<u>5,364</u>
Total revenues from local sources	<u>1,005,000</u>	<u>1,050,000</u>	<u>1,056,792</u>	<u>6,792</u>
<b>Revenues from state sources</b>				
Grants - unrestricted	6,526,000	6,825,000	6,842,064	17,064
Grants - restricted	534,000	560,700	566,967	6,267
State payments in lieu of taxes	<u>-</u>	<u>3,600</u>	<u>3,613</u>	<u>13</u>
Total revenues from state sources	<u>7,060,000</u>	<u>7,389,300</u>	<u>7,412,644</u>	<u>23,344</u>
<b>Revenues from federal sources</b>				
Grants	<u>100,500</u>	<u>155,800</u>	<u>162,849</u>	<u>7,049</u>
<b>Intermediate sources</b>				
ISD collected millage	590,000	685,000	667,649	(17,351)
Cooperative education	<u>50,000</u>	<u>60,400</u>	<u>55,140</u>	<u>(5,260)</u>
Total intermediate sources	<u>640,000</u>	<u>745,400</u>	<u>722,789</u>	<u>(22,611)</u>
Total revenue and other financing sources	<u><u>\$ 8,805,500</u></u>	<u><u>\$ 9,340,500</u></u>	<u><u>\$ 9,355,074</u></u>	<u><u>\$ 14,574</u></u>

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

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Basic program - elementary</b>				
Salaries	\$ 1,259,300	\$ 1,350,000	\$ 1,340,096	\$ (9,904)
Employee benefits	719,750	754,300	740,056	(14,244)
Purchased services	19,000	24,300	19,781	(4,519)
Supplies and materials	39,055	39,055	32,791	(6,264)
Total elementary	<u>2,037,105</u>	<u>2,167,655</u>	<u>2,132,724</u>	<u>(34,931)</u>
<b>Basic program - middle school</b>				
Salaries	764,400	766,300	743,473	(22,827)
Employee benefits	431,320	409,900	372,372	(37,528)
Purchased services	10,300	14,300	12,256	(2,044)
Supplies and materials	46,330	31,330	16,772	(14,558)
Total middle school	<u>1,252,350</u>	<u>1,221,830</u>	<u>1,144,873</u>	<u>(76,957)</u>
<b>Basic program - high school</b>				
Salaries	791,000	774,700	788,728	14,028
Employee benefits	461,600	437,700	420,580	(17,120)
Purchased services	12,900	18,000	20,670	2,670
Supplies and materials	74,670	109,170	97,546	(11,624)
Other	1,620	1,620	1,630	10
Total high school	<u>1,341,790</u>	<u>1,341,190</u>	<u>1,329,154</u>	<u>(12,036)</u>
<b>Basic program - pre-school</b>				
Other	<u>2,300</u>	<u>2,300</u>	<u>2,214</u>	<u>(86)</u>

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

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Added needs - special education</b>				
Salaries	\$ 340,200	\$ 339,800	\$ 339,163	\$ (637)
Employee benefits	172,900	162,000	157,583	(4,417)
Purchased services	5,900	10,200	6,715	(3,485)
Supplies and materials	4,100	4,825	3,668	(1,157)
Other	500	500	-	(500)
Total special education	<u>523,600</u>	<u>517,325</u>	<u>507,129</u>	<u>(10,196)</u>
<b>Added needs - compensatory education</b>				
Salaries	61,300	58,700	49,634	(9,066)
Employee benefits	19,700	18,900	15,929	(2,971)
Supplies and materials	900	900	851	(49)
Total compensatory education	<u>81,900</u>	<u>78,500</u>	<u>66,414</u>	<u>(12,086)</u>
<b>Added needs - career and technical education</b>				
Salaries	131,300	136,900	137,339	439
Employee benefits	74,600	64,000	63,552	(448)
Purchased services	45,500	46,000	46,096	96
Supplies and materials	8,315	7,815	6,361	(1,454)
Other	34,000	33,000	31,705	(1,295)
Total career and technical education	<u>293,715</u>	<u>287,715</u>	<u>285,053</u>	<u>(2,662)</u>
<b>Pupil - guidance services</b>				
Supplies and materials	2,950	2,950	2,204	(746)
Other	2,370	4,670	2,628	(2,042)
Total guidance services	<u>47,020</u>	<u>50,220</u>	<u>47,355</u>	<u>(2,865)</u>

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

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Pupil - health services</b>				
Purchased services	\$ 4,500	\$ 5,350	\$ 5,181	\$ (169)
Supplies and materials	450	600	557	(43)
Total health services	<u>4,950</u>	<u>5,950</u>	<u>5,738</u>	<u>(212)</u>
<b>Pupil - psychological services</b>				
Salaries	67,000	66,700	67,034	334
Employee benefits	37,800	37,800	37,388	(412)
Supplies and materials	700	700	36	(664)
Other	550	550	-	(550)
Total psychological services	<u>106,050</u>	<u>105,750</u>	<u>104,458</u>	<u>(1,292)</u>
<b>Pupil - speech services</b>				
Salaries	67,200	67,000	67,253	253
Employee benefits	37,900	37,800	37,457	(343)
Supplies and materials	500	500	45	(455)
Other	550	550	250	(300)
Total speech services	<u>106,150</u>	<u>105,850</u>	<u>105,005</u>	<u>(845)</u>
<b>Pupil - other support services</b>				
Other	<u>1,350</u>	<u>1,350</u>	<u>1,094</u>	<u>(256)</u>
<b>Instructional staff - improvement of education</b>				
Employee benefits	<u>-</u>	<u>-</u>	<u>721</u>	<u>721</u>
Total improvement of education	<u>13,900</u>	<u>14,100</u>	<u>14,895</u>	<u>795</u>

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

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Instructional staff - educational media services</b>				
Salaries	\$ 71,700	\$ 68,800	\$ 68,303	\$ (497)
Employee benefits	25,300	24,400	21,160	(3,240)
Supplies and materials	15,930	15,930	15,241	(689)
Other	1,800	1,800	1,767	(33)
Total educational media services	<u>114,730</u>	<u>110,930</u>	<u>106,471</u>	<u>(4,459)</u>
<b>Instructional staff - supervision and direction of instructional staff</b>				
Purchased services	<u>34,000</u>	<u>34,000</u>	<u>32,122</u>	<u>(1,878)</u>
<b>Instructional staff - other services</b>				
Salaries	115,800	122,500	119,951	(2,549)
Employee benefits	53,600	55,800	50,035	(5,765)
Purchased services	25,000	25,000	18,123	(6,877)
Other	3,600	4,400	4,200	(200)
Total other instructional staff services	<u>198,000</u>	<u>207,700</u>	<u>192,309</u>	<u>(15,391)</u>
<b>General administration - board of education</b>				
Salaries	805	805	690	(115)
Purchased services	30,130	49,630	45,746	(3,884)
Other	2,500	4,000	7,452	3,452
Total board of education	<u>33,435</u>	<u>54,435</u>	<u>53,888</u>	<u>(547)</u>

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

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>General administration - executive administration</b>				
Salaries	\$ 135,600	\$ 136,300	\$ 138,423	\$ 2,123
Employee benefits	42,700	49,700	50,093	393
Purchased services	1,350	4,000	3,142	(858)
Supplies and materials	3,060	6,500	6,782	282
Other	1,440	1,440	1,366	(74)
Total executive administration	<u>184,150</u>	<u>197,940</u>	<u>199,806</u>	<u>1,866</u>
<b>School administration - office of the principal</b>				
Salaries	482,700	453,100	442,984	(10,116)
Employee benefits	230,400	186,000	168,833	(17,167)
Other	1,000	750	682	(68)
Total office of the principal	<u>714,100</u>	<u>639,850</u>	<u>612,499</u>	<u>(27,351)</u>
<b>School administration - other</b>				
Supplies and materials	<u>2,700</u>	<u>2,700</u>	<u>2,692</u>	<u>(8)</u>
<b>Business - fiscal services</b>				
Salaries	115,900	121,200	121,034	(166)
Employee benefits	81,200	80,200	78,720	(1,480)
Purchased services	40,280	38,700	36,688	(2,012)
Supplies and materials	1,620	2,000	1,877	(123)
Other	400	400	508	108
Total fiscal services	<u>239,400</u>	<u>242,500</u>	<u>238,827</u>	<u>(3,673)</u>

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

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Business - other</b>				
Purchased services	\$ 5,200	\$ 5,200	\$ 5,120	\$ (80)
Other	20,000	26,000	23,927	(2,073)
Total other business	<u>25,200</u>	<u>31,200</u>	<u>29,047</u>	<u>(2,153)</u>
<b>Operations and maintenance - operating building services</b>				
Salaries	385,900	377,800	372,855	(4,945)
Employee benefits	199,200	197,500	192,917	(4,583)
Purchased services	306,400	300,450	271,695	(28,755)
Supplies and materials	111,150	111,150	117,817	6,667
Total operating building services	<u>1,002,650</u>	<u>986,900</u>	<u>955,284</u>	<u>(31,616)</u>
<b>Pupil transportation services</b>				
Salaries	285,500	273,100	267,813	(5,287)
Employee benefits	120,800	108,200	99,372	(8,828)
Purchased services	107,100	109,250	104,500	(4,750)
Supplies and materials	42,400	42,400	39,862	(2,538)
Total transportation services	<u>555,800</u>	<u>532,950</u>	<u>511,547</u>	<u>(21,403)</u>
<b>Central - staff/personnel and communication services</b>				
Purchased services	900	900	430	(470)
Supplies and materials	2,700	4,000	4,185	185
Total staff/personnel and communication services	<u>3,600</u>	<u>4,900</u>	<u>4,615</u>	<u>(285)</u>

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

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Central - support services technology</b>				
Salaries	\$ 53,600	\$ 57,300	\$ 57,580	\$ 280
Employee benefits	33,100	34,500	33,672	(828)
Purchased services	107,600	121,750	122,823	1,073
Supplies and materials	6,300	8,000	7,720	(280)
Total support services technology	<u>200,600</u>	<u>221,550</u>	<u>221,795</u>	<u>245</u>
<b>Athletic activities</b>				
Salaries	60,000	66,600	63,924	(2,676)
Employee benefits	19,300	21,400	20,359	(1,041)
Purchased services	149,600	143,350	137,593	(5,757)
Supplies and materials	13,500	15,150	16,739	1,589
Other	9,000	10,200	10,064	(136)
Total athletic activities	<u>251,400</u>	<u>256,700</u>	<u>248,679</u>	<u>(8,021)</u>
<b>Community services - custody and care of children</b>				
Salaries	21,000	27,900	28,007	107
Employee benefits	6,900	9,200	8,867	(333)
Purchased services	32,000	24,000	23,538	(462)
Supplies and materials	1,350	2,450	2,668	218
Total custody and care of children	<u>61,250</u>	<u>63,550</u>	<u>63,080</u>	<u>(470)</u>
<b>Capital outlay</b>				
Added needs - career and technical education	-	1,500	1,295	(205)
Central - support services technology	2,700	1,500	1,412	(88)
Total capital outlay	<u>2,700</u>	<u>3,000</u>	<u>2,707</u>	<u>(293)</u>
<b>Other financing uses</b>				
Transfers out	-	100,000	100,000	-
Total expenditures and financing uses	<u>\$ 9,435,895</u>	<u>\$ 9,590,540</u>	<u>\$ 9,321,474</u>	<u>\$ (269,066)</u>

**Schoolcraft Community Schools**  
**Fiduciary Fund**  
**Statement of Changes in Assets and Liabilities**  
**June 30, 2012**

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	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>Assets</b>				
Cash	\$ 107,341	\$ 196,351	\$ 203,772	\$ 99,920
<b>Liabilities</b>				
Due to student groups	\$ 107,341	\$ 196,351	\$ 203,772	\$ 99,920

See Accompanying Notes to Financial Statements

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

Year Ending June 30,	2009 Refunding Bonds	2009 Series B Refunding Bonds	Total
2013	\$ 775,000	\$ 720,000	\$ 1,495,000
2014	795,000	730,000	1,525,000
2015	785,000	740,000	1,525,000
2016	750,000	-	750,000
2017	735,000	-	735,000
2018	735,000	-	735,000
2019	735,000	-	735,000
2020	725,000	-	725,000
2021	710,000	-	710,000
2022	710,000	-	710,000
2023	705,000	-	705,000
2024	705,000	-	705,000
2025	695,000	-	695,000
2026	705,000	-	705,000
Total	<u>\$ 10,265,000</u>	<u>\$ 2,190,000</u>	<u>\$ 12,455,000</u>
Principal payments due first day of	May	May	
Interest payments due first day of	May and November	May and November	
Interest rate	2.50% - 4.75%	1.25% - 3.75%	
Original issue	<u>\$ 12,420,000</u>	<u>\$ 4,010,000</u>	



October 5, 2012

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

We have completed our audit of the financial statements of Schoolcraft Community Schools as of and for the year ended June 30, 2012 and have issued our report dated October 5, 2012. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

- I. Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- II. Auditors' Communication of Significant Matters with Those Charged with Governance

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

*Yeo & Yeo, P.C.*  
Kalamazoo, Michigan



## Appendix I

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

Board of Education  
Schoolcraft Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Schoolcraft Community Schools as of and for the year ended June 30, 2012, which collectively comprise Schools' basic financial statements and have issued our report thereon dated October 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control over Financial Reporting**

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

*A deficiency in internal controls* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements would not be prevented, or detected and corrected on a timely basis.

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

**Compliance and Other Matters**

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

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

*Yeo & Yeo, P.C.*

Kalamazoo, Michigan  
October 5, 2012

## **Appendix II**

### **Auditors' Communication of Significant Matters with Those Charged with Governance**

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated June 1, 2012. Professional standards also require that we communicate to you the following information related to our audit.

#### **Significant Audit Findings**

##### **Qualitative Aspects of Accounting Practices**

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

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. There were no significant estimates in the financial statements.

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

##### **Difficulties Encountered in Performing the Audit**

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

##### **Corrected and Uncorrected Misstatements**

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

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

##### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We had no disagreements with management during the audit.

##### **Management Representations**

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

**Management's Consultations with Other Accountants**

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

**Other Audit Findings or Issues**

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