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Birch Run Area Schools

Birch Run, Michigan

**Annual Financial Statements
and
Auditors' Report**

June 30, 2010

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Birch Run Area Schools
Members of the Board of Education and Administration
June 30, 2010

Members of the Board of Education

Allen Pettyplace	President
Nan Haley	Vice President
Beth Haley	Secretary
Donald Morse	Treasurer
Troy Boquette	Trustee
Jeanette Morrish	Trustee
Ron Johnson	Trustee

Administration

Wayne Wright	Superintendent
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Independent Auditors' Report

To the Board of Education
Birch Run Area Schools
Birch Run, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Birch Run Area Schools as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Birch Run Area 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 Birch Run Area Schools as of June 30, 2010, 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 September 10, 2010 on our consideration of Birch Run Area 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.

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 Birch Run Area 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.

Saginaw, Michigan

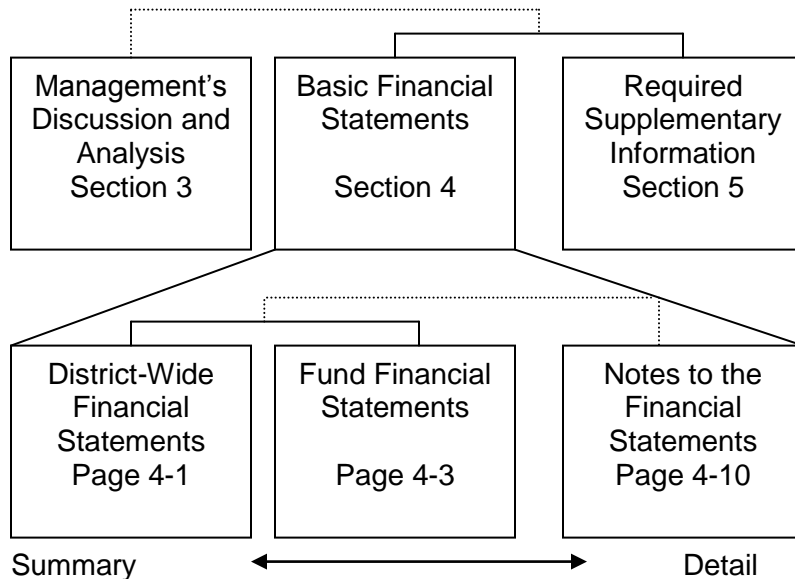
September 10, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Birch Run Schools
Management Discussion and Analysis
Year Ended June 30, 2010

This financial report is presented in the format required by the Governmental Accounting Standards Board (GASB). The overall organization of this report is shown in Figure A-1.

Figure A-1
Birch Run Area Schools
Organization of Annual Financial Report



District – Wide Financial Statements

The District-wide statements provide a perspective of the District as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are two District-wide statements: The Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets (page 4-1) combines and consolidates the governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations, regardless of whether they are currently available or not.

Consistent with the full accrual basis method of accounting, the Statement of Activities (page 4-2) accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various district services.

When analyzed together, the two statements help the reader determine whether the District is financially stronger or weaker as a result of the year's activities.

Fund Financial Statements

The fund financial statements focus on individual parts of the district, reporting the District's operation in more detail than the district-wide statements. The fund level statements are reported on a *modified accrual basis*. Only those assets that are "*measurable*" and "*currently available*" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

**Birch Run Schools
Management Discussion and Analysis
Year Ended June 30, 2010**

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's *Public School Accounting Manual*. In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds. The funds used by Birch Run Area Schools include Debt Service Funds, Capital Projects Fund, Fiduciary Funds and Special Revenue Funds for Food Service, and athletic activities.

Birch Run Area Schools is the trustee, or fiduciary, for its student activity funds and for a number of scholarships established for the benefit of our students. These fiduciary activities are reported in separate statements of fiduciary net assets. They are excluded from the other financial statements because the District may not use the assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the District as a Whole

Summary of Net Assets

	Governmental Activities	
	June 30, 2010	June 30, 2009
Assets		
Current Assets	\$ 5,575,464	\$ 5,863,730
Capital Assets	27,553,229	27,730,963
Less accumulated depreciation	(12,127,816)	(11,682,606)
Capital Assets, net	15,425,413	16,048,357
Total Assets	21,000,877	21,912,087
Liabilities		
Current Liabilities	4,200,979	4,961,108
Long-term Liabilities	3,924,938	5,149,795
Total Liabilities	8,125,917	10,110,903
Net Assets		
Total Capital Assets	10,899,930	10,357,085
Restricted	382,603	320,264
Unrestricted	1,592,427	1,123,835
Total Net Assets	\$ 12,874,960	\$ 11,801,184

Unrestricted net assets are similar but not identical to fund balance. A reconciliation of the difference between increased net assets and a decrease in fund balance is on page 4-7.

The net assets for the District increased by \$1,073,776 during the 2009/10 year. The *Statement of Net Assets from Operating Results* (below) shows the details of this change.

Birch Run Schools
Management Discussion and Analysis
Year Ended June 30, 2010

Statement of Net Assets from Operating Results

	<u>Governmental Activities</u>	
	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Revenues		
Program revenues		
Charges for services	\$ 454,086	\$ 534,097
Operating grants and contributions	2,378,148	2,493,542
General revenues		
Property taxes	3,043,148	2,884,814
State foundation allowance	10,915,023	11,172,855
Other	182,070	191,170
Total revenues	<u>16,972,475</u>	<u>17,276,478</u>
Expenses		
Instruction	8,892,539	9,058,140
Support services	5,731,146	5,887,095
Food services	653,165	656,782
Athletics	365,962	379,722
Other transactions	255,887	245,029
Total expenses	<u>15,898,699</u>	<u>16,226,768</u>
Increase in net assets	<u>\$ 1,073,776</u>	<u>\$ 1,049,710</u>

The School District experienced an increase in net assets of \$1,073,776. The primary reason for the increase in net assets was collection of property taxes for the payment made on long-term debt. These payments are shown as expenditures in the governmental funds, but are shown as reductions of long-term debt on the government-wide statements, which increase net assets.

The School District's Funds

As the School District completed this year, the governmental funds reported a combined fund balance of \$2,433,288, which is an increase of \$431,727 from last year. The primary reasons for the increase are:

- In the General Fund, our principal operating fund, the fund balance increased by \$214,168. The increase was the result of a sale of district property and increased Federal grants.
- The fund balance of our Food Service Fund increased by \$61,952. This was a result of focusing on lowering operational costs and increased Federal reimbursements.
- Our Debt Service Fund showed a minimal increase of \$387. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond-issue related debt service. The fund balance of the Debt Service is reserved since it can only be used for future debt service obligations.
- The Capital Project Fund had an increase in fund balance of \$152,362. This was primarily a result of a General Fund transfer for future capital expenditures at the Middle School building.
- The Athletics Fund had an increase in fund balance of \$2,858. This minimal increase was a result of excess gate receipts over expenditures for supplies and fee/dues.

**Birch Run Schools
Management Discussion and Analysis
Year Ended June 30, 2010**

- The Community Services Fund had no ending fund balance as the excess expenditures over revenues are subsidized by the General Fund.

Approximately 76% of the District's revenues are received from State sources. The Net State Foundation Grant is based on three variables:

1. The State of Michigan State Aid Act per student foundation allowance.
2. Student enrollment calculated by blending 75 percent of the current year's fall count and 25 percent of the prior year's winter count.
3. The amount raised by the District's non-homestead property tax levy of 18 mills.

Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Birch Run Area Schools' foundation allowance was \$7,316 per student. However, there was a pro-ration cut of \$154 making the net foundation \$7,162. This is a decrease of 2.1 percent from the 2008/09 allocation of \$7,316 per student.

Student Enrollment

The District's student enrollment for the fall count of 2009/10 was 1,840 students. This is one less student than the fall count of the prior year. The following summarizes fall student enrollments in the past five years:

Enrollment History

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2009/10	1,840	(1)
2008/09	1,841	(21)
2007/08	1,862	(19)
2006/07	1,881	8
2005/06	1,873	30

Preliminary student enrollment projections for 2010/11 indicate that enrollments are likely to be slightly higher than 2009/10.

Property Taxes Levied for General Operations

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the tax levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at lesser of the rate of the prior year's Consumer Price Index increase or 5 percent. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, theoretically 50 percent of the market value. The following summarizes the local tax revenues as a percent of all general fund revenues for the past five years:

Local Property Tax History

	<u>Local Property Tax Revenue</u>	<u>% of General Fund Revenue</u>
2009/10	\$ 1,670,057	11.2%
2008/09	1,569,689	10.5%
2007/08	1,501,525	10.2%
2006/07	1,418,967	9.8%
2005/06	1,261,941	9.0%

Birch Run Schools
Management Discussion and Analysis
Year Ended June 30, 2010

Local revenues in the table include the receipt of delinquent taxes from prior years. For the fiscal year ended June 30, 2010, the District had \$6,700 of current year property taxes that had not been collected.

Capital Assets

At June 30, 2010, the District had the following invested in capital assets including land, buildings, furniture, and equipment.

Assets	2010	2009
Land	\$ 40,000	\$ 236,020
Site Improvements	2,001,870	2,001,870
Buildings and improvements	23,154,826	23,154,826
Buses and other vehicles	839,487	859,277
Furniture and equipment	1,517,046	1,478,970
Subtotal	27,553,229	27,730,963
Less accumulated depreciation	(12,127,816)	(11,682,606)
	<u>\$ 15,425,413</u>	<u>\$ 16,048,357</u>

Long-Term Debt

The long-term obligations for the District decreased from \$6,228,475 to \$4,971,845. Total additions of \$16,971 represent an increase in capital leases. Total deductions of \$1,273,600 represent bond payments, capital lease payments and payment of compensated absences.

Original versus Revised Budget

The Uniform Budget Act of the State of Michigan requires that a local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. The budget for 2009/10 was approved on June 15, 2009 and amended on June 21, 2010.

General Fund Revenues

Total Revenues Revised Budget	\$ 14,904,928
Total Revenues Original Budget	14,477,870
	<u>\$ 427,058</u>

Some of the significant revenue budget adjustments for the year include:

- A sale of district property
- Additional Federal grant funding

The District's actual general fund revenues were more than the revised budget by \$42,783 a variance of 0.29%.

General Fund Expenditures

Total Expenditures Revised Budget	\$ 15,043,754
Total Expenditures Original Budget	14,870,180
	<u>\$ 173,574</u>

Birch Run Schools
Management Discussion and Analysis
Year Ended June 30, 2010

Some of the significant expenditure budget adjustments for the year include:

- Payments for a Voluntary Severance Program
- Additional Federal grant funding

The District's actual general fund expenditures were less than the revised budget by \$303,004, a variance of 2.1%.

Economic Factors and Next Year's Budget and Rates

Since most of the District's revenue is derived from the per pupil foundation allowance, student enrollment as reported in the *blended count* is one of the key factors in forecasting revenue. Once the final student count is known in late September, State law requires the District to amend the budget if actual revenues will vary significantly from those originally appropriated.

Actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. During 2008/09 Federal Stimulus monies were used to subsidize the \$7,316 foundation grant in the amount of \$378.

In 2009/10 Federal Stimulus monies were used to partially subsidize the \$7,316 foundation amount in the amount of \$282 per child. However, this still left a shortage of \$154 for a net foundation of \$7,162.

It is anticipated that Federal Stimulus monies will again be used in the 2010/11 school year to maintain the \$7,316 foundation amount.

Requests for Information

This financial report is designed to give our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning this report or requests for additional information should be addressed to: Mr. Mark J. Orihel, Business Manager, Birch Run Area Schools, 12400 Church Street, Birch Run, Michigan, 48415.

BASIC FINANCIAL STATEMENTS

Birch Run Area Schools
Statement of Net Assets
June 30, 2010

	<u>Governmental Activities</u>
Assets	
Cash	\$ 139,238
Taxes receivable	11,000
Accounts receivable	8,488
Due from other governmental units	2,468,921
Inventory	11,517
Investments	1,586,944
Prepaid items	718
Other assets	88,638
Capital assets not being depreciated	40,000
Capital assets - net of accumulated depreciation	<u>15,385,413</u>
Total assets	<u>21,000,877</u>
Liabilities	
Accounts payable	408,805
State aid anticipation note payable	1,340,000
Payroll deductions and withholdings	53,621
Accrued expenditures	373,278
Accrued salaries payable	880,022
Deferred revenue	9,708
Noncurrent liabilities	
Due within one year	1,135,545
Due in more than one year	<u>3,924,938</u>
Total liabilities	<u>8,125,917</u>
Net assets	
Invested in capital assets, net of related debt	10,899,930
Restricted for:	
Food service	140,321
Debt service	242,282
Unrestricted	<u>1,592,427</u>
Total net assets	<u><u>\$ 12,874,960</u></u>

See Accompanying Notes to Financial Statements

Birch Run Area Schools
Statement of Activities
For the Year Ended June 30, 2010

	Program Revenues				
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets	
Functions/Programs					
Governmental activities					
Instruction	\$ 8,892,539	\$ 8,255	\$ 1,841,478	\$ -	\$ (7,042,806)
Supporting services	5,731,146	14,183	167,176	-	(5,549,787)
Food services	653,165	299,238	369,494	-	15,567
Athletic activities	365,962	77,200	-	-	(288,762)
Community services	67,566	55,210	-	-	(12,356)
Interest on long-term debt	188,321	-	-	-	(188,321)
Total governmental activities	\$ 15,898,699	\$ 454,086	\$ 2,378,148	\$ -	(13,066,465)
General revenues					
Property taxes, levied for general purposes					1,672,857
Property taxes, levied for debt service					1,370,291
State aid - unrestricted					10,915,023
Interest and investment earnings					4,700
Gain on sale of capital assets					21,919
Other					155,451
Total general revenues					14,140,241
Change in net assets					1,073,776
Net assets - beginning					11,801,184
Net assets - ending					\$ 12,874,960

See Accompanying Notes to Financial Statements

Birch Run Area Schools
Governmental Funds
Balance Sheet
June 30, 2010

	General Fund	Food Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 138,938	\$ 150	\$ 150	\$ 139,238
Taxes receivable	6,700	-	4,300	11,000
Accounts receivable	3,185	5,303	-	8,488
Due from other funds	-	151,353	53,375	204,728
Due from other governmental units	2,468,921	-	-	2,468,921
Inventory	8,983	2,534	-	11,517
Investments	1,192,083	-	394,861	1,586,944
Prepaid items	718	-	-	718
Total assets	<u>\$ 5,079,528</u>	<u>\$ 159,340</u>	<u>\$ 452,686</u>	<u>\$ 5,691,554</u>
Liabilities and fund balance				
Liabilities				
Accounts payable	\$ 383,956	\$ 15,807	\$ 9,042	\$ 408,805
State aid anticipation note payable	1,340,000	-	-	1,340,000
Due to other funds	204,728	-	-	204,728
Payroll deductions and withholdings	53,621	-	-	53,621
Accrued expenditures	350,382	-	-	350,382
Accrued salaries payable	880,022	-	-	880,022
Deferred revenue	13,196	3,212	4,300	20,708
Total liabilities	<u>3,225,905</u>	<u>19,019</u>	<u>13,342</u>	<u>3,258,266</u>
Fund balance				
Reserved for inventory	8,983	2,534	-	11,517
Reserved for debt service	-	-	242,282	242,282
Reserved for food service	-	137,787	-	137,787
Designated for capital projects	-	-	152,579	152,579
Other undesignated	1,844,640	-	44,483	1,889,123
Total fund balance	<u>1,853,623</u>	<u>140,321</u>	<u>439,344</u>	<u>2,433,288</u>
Total liabilities and fund balance	<u>\$ 5,079,528</u>	<u>\$ 159,340</u>	<u>\$ 452,686</u>	<u>\$ 5,691,554</u>

See Accompanying Notes to Financial Statements

Birch Run Area Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2010

Total fund balances for governmental funds	\$ 2,433,288
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	11,000
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	40,000
Capital assets - net of accumulated depreciation	15,385,413
Other long-term assets are not deferred in the governmental funds.	88,638
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(22,896)
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	(535,000)
Bonds payable	(4,596,366)
Deferred charges on refinancing	106,268
Other loans payable and liabilities	<u>(35,385)</u>
Net assets of governmental activities	<u>\$ 12,874,960</u>

See Accompanying Notes to Financial Statements

Birch Run Area Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2010

	General Fund	Food Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 1,831,940	\$ 299,238	\$ 1,523,253	\$ 3,654,431
State sources	11,366,585	37,100	15,522	11,419,207
Federal sources	1,437,506	360,238	-	1,797,744
Interdistrict sources	76,220	-	-	76,220
Total revenues	<u>14,712,251</u>	<u>696,576</u>	<u>1,538,775</u>	<u>16,947,602</u>
Expenditures				
Current				
Education				
Instruction	8,640,106	-	-	8,640,106
Supporting services	5,530,063	-	-	5,530,063
Food services	-	634,624	-	634,624
Athletic activities	-	-	355,573	355,573
Community services	-	-	65,648	65,648
Capital outlay	127,608	-	3,719	131,327
Debt service				
Principal	7,973	-	1,182,887	1,190,860
Interest and other expenditures	-	-	203,138	203,138
Total expenditures	<u>14,305,750</u>	<u>634,624</u>	<u>1,810,965</u>	<u>16,751,339</u>
Excess (deficiency) of revenues over expenditures	<u>406,501</u>	<u>61,952</u>	<u>(272,190)</u>	<u>196,263</u>

See Accompanying Notes to Financial Statements

Birch Run Area Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2010

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Other financing sources (uses)				
Capital leases	\$ 16,971	\$ -	\$ -	\$ 16,971
Insurance recoveries	154	-	-	154
Proceeds from sale of capital assets	218,339	-	-	218,339
Transfers in	-	-	427,797	427,797
Transfers out	<u>(427,797)</u>	<u>-</u>	<u>-</u>	<u>(427,797)</u>
Total other financing sources (uses)	<u>(192,333)</u>	<u>-</u>	<u>427,797</u>	<u>235,464</u>
Net change in fund balance	214,168	61,952	155,607	431,727
Fund balance - beginning	<u>1,639,455</u>	<u>78,369</u>	<u>283,737</u>	<u>2,001,561</u>
Fund balance - ending	<u><u>\$ 1,853,623</u></u>	<u><u>\$ 140,321</u></u>	<u><u>\$ 439,344</u></u>	<u><u>\$ 2,433,288</u></u>

See Accompanying Notes to Financial Statements

Birch Run Area 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, 2010

Net change in fund balances - Total governmental funds	\$ 431,727
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	2,800
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	(491,010)
Capital outlay	64,486
Sale of capital assets (net book value)	(196,420)
Expenses are recorded when incurred in the statement of activities.	
Interest	5,564
Compensated absences	113,000
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.	
Debt issued	(16,971)
Repayments of long-term debt	1,182,887
Repayments on capital lease	9,213
Amortization bond issuance costs	(48,726)
Amortization of bond premium	<u>17,226</u>
Change in net assets of governmental activities	<u>\$ 1,073,776</u>

See Accompanying Notes to Financial Statements

Birch Run Area Schools
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2010

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash	\$ 34,441	\$ 106,134
Liabilities		
Due to agency fund activities	-	\$ 106,134
Net assets		
Reserved for scholarships	<u>\$ 34,441</u>	

See Accompanying Notes to Financial Statements

Birch Run Area Schools
Fiduciary Funds
Private Purpose Trust Funds
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2010

	<u>Private Purpose Trust Funds</u>
Additions	
Local sources	\$ 3,568
Deductions	
Scholarships	<u>2,500</u>
Change in net assets	1,068
Net assets - beginning	<u>33,373</u>
Net assets - ending	<u><u>\$ 34,441</u></u>

See Accompanying Notes to Financial Statements

Birch Run Area Schools
Notes to Financial Statements
June 30, 2010

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Birch Run Area 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

Birch Run Area Schools
Notes to Financial Statements
June 30, 2010

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 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.

Food Service Fund – The Food Service Fund is used to record all transactions associated with food service activities administered by the School District.

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, Athletics and Community Services Funds. Operating deficits generated by these activities are generally transferred from the General Fund.

Capital Projects Fund – The Capital Project Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, building, equipment, and for remodeling and repairs. The fund is kept open until the purpose for which the fund was created has been accomplished.

Debt Service Fund – Debt Service Fund is 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.

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, 2010, 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	4.70000

Birch Run Area Schools
Notes to Financial Statements
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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. Approximately 98% of the School District's tax roll lies within the County of Saginaw and the remaining 2% lies within the County of Genesee.

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 County of Saginaw and Genesee and remitted to the School District.

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 – 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

Compensated Absences – Employees receive accumulated sick leave up to a maximum of 102 days upon retirement with a minimum of 6 to 10 years of service.

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 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

Birch Run Area Schools
Notes to Financial Statements
June 30, 2010

activities column.

Upcoming Accounting and Reporting Change

The Government Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The new standard changes fund balance classifications to depict the relative strength of the spending constraints and clarifies the definitions of various governmental fund types. The new definition of special revenue funds will affect which activities the District will report in special revenue funds, as the Athletics Fund may no longer meet the definition for a special revenue fund. This statement is effective for the year ending June 30, 2011.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

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

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	\$ 139,238	\$ 140,575	\$ 279,813
Investments	1,586,944	-	1,586,944
	\$ 2,986,182	\$ 140,575	\$ 3,126,757

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

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 279,163
Investments in securities, mutual funds, and similar vehicles	2,846,944
Petty cash and cash on hand	650
Total	\$ 3,126,757

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Notes to Financial Statements
June 30, 2010

As of year end, the District had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
Michigan Liquid Asset Fund - CMS	\$ 113	6 months Average	AAA	Standard & Poor's
Michigan Liquid Asset Fund- MAX	<u>2,846,831</u>	6 months Average	AAA	Standard & Poor's
	<u>\$ 2,846,944</u>			

Various investments consist of state aid funds directly set aside for payment of the state aid note by the State of Michigan.

Interest rate risk – In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 12 months.

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's investment policy allows a maximum of 100% of available funds to be invested in the Michigan Liquid Asset Fund (MILAF+) and any of its affiliated programs.

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, \$41,367 of the District's bank balance of \$ 291,367 was exposed to custodial credit risk.

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. Consistent with the District's investment policy, the District's investments in the Michigan Liquid Asset Fund of \$2,846,944 are held by a counterparty and not 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	\$ 236,020	\$ -	\$ 196,020	\$ 40,000
Capital assets being depreciated				
Buildings and additions	23,154,826	-	-	23,154,826
Site improvements	2,001,870	-	-	2,001,870
Equipment and furniture	1,478,970	38,076	-	1,517,046
Buses and other vehicles	859,277	26,410	46,200	839,487
Total capital assets being depreciated	<u>27,494,943</u>	<u>64,486</u>	<u>46,200</u>	<u>27,513,229</u>
Less accumulated depreciation for				
Buildings and additions	7,838,517	403,209	-	8,241,726
Site improvements	2,001,870	-	-	2,001,870
Equipment and furniture	1,253,676	37,409	-	1,291,085
Buses and other vehicles	588,543	50,392	45,800	593,135
Total accumulated depreciation	<u>11,682,606</u>	<u>491,010</u>	<u>45,800</u>	<u>12,127,816</u>
Net capital assets being depreciated	<u>15,812,337</u>	<u>(426,524)</u>	<u>400</u>	<u>15,385,413</u>
Net capital assets	<u>\$ 16,048,357</u>	<u>\$ (426,524)</u>	<u>\$ 196,420</u>	<u>\$ 15,425,413</u>

Depreciation for the fiscal year ended June 30, 2010 amounted to \$491,010. Depreciation expense was charged to the various governmental activities as follows:

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Notes to Financial Statements
June 30, 2010

Governmental activities

Instruction	\$ 278,627
Support services	178,334
Food services	20,465
Athletic activities	11,467
Community services	<u>2,117</u>
Total governmental activities	<u>\$ 491,010</u>

Note 6 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are 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:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes	\$ 11,000	\$ -
Grant and categorical and payments received prior to meeting all eligibility requirements	-	6,496
Food service lunch deposits	-	<u>3,212</u>
Total	<u>\$ 11,000</u>	<u>\$ 9,708</u>

Note 5 - Interfund Receivable and Payable and Transfers

Individual interfund receivable and payable balances at year end were:

<u>Due From Fund</u>	<u>Due to Fund</u>	<u>Amount</u>
Food Service	General Fund	\$ 151,353
Non major funds	General Fund	<u>53,375</u>
		<u>\$ 204,728</u>

Note 7 - Leases

The School District has capital leases for copy machines. The future minimum lease payments are as follows:

Year ending June 30,	
2011	\$ 10,524
2012	10,524
2013	10,524
2014	4,100
2015	<u>720</u>
Total minimum lease payments	36,392
Less amount representing interest	<u>1,007</u>
Present value of lease payments	<u>\$ 35,385</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.

A transfer of \$261,359 was made to cover the costs of the School District's athletic program that were in excess of revenues generated from those activities. Additional funds of \$ 156,000 were transferred for capital projects and \$ 10,438 was transferred from general fund to community services to cover various costs.

Birch Run Area Schools
Notes to Financial Statements
June 30, 2010

The assets acquired through capital leases are as follows:

Asset	
Equipment	\$ 50,540
Less accumulated depreciation	<u>12,113</u>
Total	<u>\$ 38,427</u>

Note 8 - 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:

	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Ending Balance</u>
State aid anticipation note	\$ 2,100,000	\$ 2,600,000	\$ 3,360,000	\$ 1,340,000

The state aid anticipation note agreement includes an irrevocable set-aside of \$1,260,000 at year end that is considered defeased debt and not included in the ending balance.

Note 9 - 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:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Government obligation bonds	\$ 5,655,000	\$ -	\$ 1,170,000	\$ 4,485,000	\$ 1,085,000
Durant Bond	55,347	-	12,887	42,460	13,500
Capital lease	27,627	16,971	9,213	35,385	10,045
Compensated absences	648,000	-	113,000	535,000	27,000
Premium on bonds	86,132	-	17,226	68,906	-
Deferred amount on refunding	(132,835)	-	(26,567)	(106,268)	-
Deferred issuance costs	(110,797)	-	(22,159)	(88,638)	-
Total	<u>\$ 6,228,474</u>	<u>\$ 16,971</u>	<u>\$ 1,273,600</u>	<u>\$ 4,971,845</u>	<u>\$ 1,135,545</u>

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

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

\$5,655,000 refunding serial bond due in annual installments of \$1,085,000 to \$1,170,000 through May 15, 2014, interest at 3.00% to 3.25% \$ 4,485,000

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30,			
2011	\$ 1,085,000	\$ 121,100	\$ 1,206,100
2012	1,120,000	88,025	1,208,025
2013	1,150,000	53,975	1,203,975
2014	<u>1,130,000</u>	<u>18,363</u>	<u>1,148,363</u>
Total	<u>\$ 4,485,000</u>	<u>\$ 281,463</u>	<u>\$ 4,766,463</u>

Birch Run Area Schools
Notes to Financial Statements
June 30, 2010

The general obligation bonds are payable from the Debt Service Funds. As of year end, the fund had a balance of \$242,282 to pay this debt. Future debt and interest will be payable from future tax levies.

Other bonds consist of the following:

\$221,042 Durant Refunding serial bonds due in annual installments through 5/15/2013; interest 4.76% due annually	<u>\$ 42,460</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.

Future principal and interest requirements are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2011	\$ 13,500	\$ 2,022	\$ 15,522
2012	14,143	1,379	15,522
2013	14,817	705	15,522
Total	\$ 42,460	\$ 4,106	\$ 46,566

Compensated Absences

Accrued compensated absences at year end, consists of \$19,000 of vacation hours earned and vested and \$516,000 in accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Defeased Debt

In prior years, the School District has 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 2014. As of year end, the amount of defeased debt outstanding but removed from the School District's financial statements is as follows:

1999 Refunding	<u>\$ 290,000</u>
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Note 10 - 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 participates in a Municipal Risk Retention Pool Program through the Middle Cities Risk Management Trust. This program provides substantially all the insurance needs of the School District, including property, general liability, automobile and umbrella. The contributions made by the School District fund the program at rates predicated on expected losses, excess insurance premium contribution and administration costs, including appropriate state

Birch Run Area Schools
Notes to Financial Statements
June 30, 2010

assessment. The possibility of additional claims exists but the amount of liability to the School District would be immaterial by the time the aggregate stop-loss coverage is triggered. There also is a possibility of a refund due the School District. Therefore, neither contingent liabilities nor assets have been recognized on the School District's financial statements.

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 unemployment compensation expense of \$220 for the year. No provision has been made for possible future claims.

Note 11 - 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 (MPSERS), which is a cost-sharing multiple-employer public employee retirement system (PERS).

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

MPSERS operates within the Michigan Department of 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 MPSERS. The report provides information for the plan as a whole and information helpful for understanding the scale of the information presented relative to the School. That report may be obtained by writing Office of Retirement Services, P.O. Box

30171, Lansing, Michigan 48909-7671, calling 800-381-5111 or on the web at <http://www.michigan.gov/orsschools>.

Funding Policy

The School is required by State statute to contribute to MPSERS 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 MPSERS contribution is allocated to cover health, dental and vision benefits. The following table discloses pertinent information relative to MPSERS funding for the three-year period beginning July 1, 2007 through June 30, 2010.

	2010	2009	2008
Funding percentage range	9.73 - 10.13%	9.73 - 10.17%	10.17 - 11.19%
Total payroll	\$ 8,297,751	\$ 8,562,266	\$ 8,445,538
Total covered payroll	8,287,359	8,548,919	8,436,248
School pension contributions	823,752	831,821	788,380
Employee MIP contributions	281,818	272,039	253,781
Tax deferred payment program	62,930	84,896	68,202

Trend Information

Ten-year historical trend information is presented in the September 30, 2009, 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, 2009, the latest date for which information is available, approximates \$ 40.7 billion and \$ 34.5 billion, respectively. The School's share of the total current actuarially determined employer contribution requirement under MPSERS was less than 1% for the year ended September 30, 2009.

Birch Run Area Schools
Notes to Financial Statements
June 30, 2010

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, 2007 through June 30, 2010.

	2010	2009	2008
Funding percentage range	6.81%	6.55 - 6.81%	6.55%
School post employment benefits contributions	\$ 564,369	\$ 571,068	\$ 552,574

Note 12 - 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. A separate report on federal compliance has been issued for the year June 30, 2010.

The School District is a defendant in a lawsuit. Although the outcome of this lawsuit is not presently determinable, in the opinion of the School District's attorneys, the resolution of this matters will not have a material adverse effect on the financial condition of the School District.

Note 13 - Subsequent Event

Subsequent to June 30, 2010, the School District has paid the balance of the \$1,340,000 and accrued interest on the short-term state aid anticipation note borrowed in August 2009 and has subsequently borrowed \$1,300,000, \$660,000, and \$540,000 in short-term state aid anticipation notes through the Michigan Municipal Bond Authority. Proceeds from the borrowing will be distributed to the School District in August 2010. The interest rates are .800%, .400% and .400% respectively.

REQUIRED SUPPLEMENTAL INFORMATION

Birch Run Area Schools
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenues				
Local sources	\$ 1,730,958	\$ 1,821,619	\$ 1,831,940	\$ 10,321
State sources	11,972,503	11,349,942	11,366,585	16,643
Federal sources	744,909	1,420,877	1,437,506	16,629
Interdistrict sources	27,500	77,030	76,220	(810)
Total revenues	<u>14,475,870</u>	<u>14,669,468</u>	<u>14,712,251</u>	<u>42,783</u>
Expenditures				
Instruction				
Basic programs	7,291,146	7,194,048	7,111,845	(82,203)
Added needs	1,345,494	1,584,184	1,528,261	(55,923)
Supporting services				
Pupil	769,645	732,150	702,852	(29,298)
Instructional staff	496,268	512,836	472,574	(40,262)
General administration	311,837	277,070	267,467	(9,603)
School administration	953,626	969,347	964,062	(5,285)
Business	375,256	376,225	365,914	(10,311)
Operations and maintenance	1,513,711	1,463,256	1,434,087	(29,169)
Pupil transportation services	829,675	817,744	802,335	(15,409)
Central	494,478	543,749	520,772	(22,977)
Capital outlay	188,044	129,825	127,608	(2,217)
Debt service	-	8,320	7,973	(347)
Total expenditures	<u>14,569,180</u>	<u>14,608,754</u>	<u>14,305,750</u>	<u>(303,004)</u>
Excess (deficiency) of revenues over expenditures	<u>(93,310)</u>	<u>60,714</u>	<u>406,501</u>	<u>345,787</u>

Birch Run Area Schools
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Other financing sources (uses)				
Capital leases	\$ -	\$ 16,971	\$ 16,971	\$ -
Insurance recoveries	-	150	154	4
Proceeds from sale of capital assets	2,000	218,339	218,339	-
Transfers out	<u>(301,000)</u>	<u>(435,000)</u>	<u>(427,797)</u>	<u>7,203</u>
Total other financing sources (uses)	<u>(299,000)</u>	<u>(199,540)</u>	<u>(192,333)</u>	<u>7,207</u>
Net change in fund balance	(392,310)	(138,826)	214,168	352,994
Fund balance - beginning	<u>1,639,455</u>	<u>1,639,455</u>	<u>1,639,455</u>	<u>-</u>
Fund balance - ending	<u>\$ 1,247,145</u>	<u>\$ 1,500,629</u>	<u>\$ 1,853,623</u>	<u>\$ 352,994</u>

Birch Run Area Schools
Required Supplemental Information
Budgetary Comparison Schedule - Food Service Fund
For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenues				
Local sources	\$ 325,000	\$ 291,600	\$ 299,238	\$ 7,638
State sources	40,033	39,645	37,100	(2,545)
Federal sources	<u>305,000</u>	<u>350,000</u>	<u>360,238</u>	<u>10,238</u>
Total revenues	<u>670,033</u>	<u>681,245</u>	<u>696,576</u>	<u>15,331</u>
Expenditures				
Food services	<u>645,229</u>	<u>647,818</u>	<u>634,624</u>	<u>(13,194)</u>
Net change in fund balance	<u>24,804</u>	<u>33,427</u>	<u>61,952</u>	<u>28,525</u>
Fund balance - beginning	<u>78,369</u>	<u>78,369</u>	<u>78,369</u>	<u>-</u>
Fund balance - ending	<u><u>\$ 103,173</u></u>	<u><u>\$ 111,796</u></u>	<u><u>\$ 140,321</u></u>	<u><u>\$ 28,525</u></u>

OTHER SUPPLEMENTAL INFORMATION

Birch Run Area Schools
Other Supplemental Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2010

	<u>Special Revenue Funds</u>		Debt Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
	<u>Athletics</u>	<u>Community Services</u>			
Assets					
Cash	\$ -	\$ 150	\$ -	\$ -	\$ 150
Taxes receivable	-	-	4,300	-	4,300
Due from other funds	49,749	3,626	-	-	53,375
Investments	-	-	242,282	152,579	394,861
Total assets	<u>\$ 49,749</u>	<u>\$ 3,776</u>	<u>\$ 246,582</u>	<u>\$ 152,579</u>	<u>\$ 452,686</u>
Liabilities and fund balance					
Liabilities					
Accounts payable	\$ 5,266	\$ 3,776	\$ -	\$ -	\$ 9,042
Deferred revenue	-	-	4,300	-	4,300
Total liabilities	<u>5,266</u>	<u>3,776</u>	<u>4,300</u>	<u>-</u>	<u>13,342</u>
Fund balance					
Reserved for debt service	-	-	242,282	-	242,282
Designated for capital projects	-	-	-	152,579	152,579
Other undesignated	44,483	-	-	-	44,483
Total fund balance	<u>44,483</u>	<u>-</u>	<u>242,282</u>	<u>152,579</u>	<u>439,344</u>
Total liabilities and fund balance	<u>\$ 49,749</u>	<u>\$ 3,776</u>	<u>\$ 246,582</u>	<u>\$ 152,579</u>	<u>\$ 452,686</u>

Birch Run Area Schools
Other Supplemental Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2010

	<u>Special Revenue Funds</u>			Capital	Total
	<u>Athletics</u>	<u>Community Services</u>	<u>Debt Fund</u>	<u>Projects Fund</u>	<u>Nonmajor Governmental Funds</u>
Revenues					
Local sources	\$ 97,072	\$ 55,210	\$ 1,370,890	\$ 81	\$ 1,523,253
State sources	-	-	15,522	-	15,522
Total revenues	<u>97,072</u>	<u>55,210</u>	<u>1,386,412</u>	<u>81</u>	<u>1,538,775</u>
Expenditures					
Current					
Athletic activities	355,573	-	-	-	355,573
Community services	-	65,648	-	-	65,648
Capital outlay	-	-	-	3,719	3,719
Debt service					
Principal	-	-	1,182,887	-	1,182,887
Interest and other expenditures	-	-	203,138	-	203,138
Total expenditures	<u>355,573</u>	<u>65,648</u>	<u>1,386,025</u>	<u>3,719</u>	<u>1,810,965</u>
Excess (deficiency) of revenues over expenditures	<u>(258,501)</u>	<u>(10,438)</u>	<u>387</u>	<u>(3,638)</u>	<u>(272,190)</u>
Other financing sources					
Transfers in	<u>261,359</u>	<u>10,438</u>	<u>-</u>	<u>156,000</u>	<u>427,797</u>
Net change in fund balance	2,858	-	387	152,362	155,607
Fund balance - beginning	<u>41,625</u>	<u>-</u>	<u>241,895</u>	<u>217</u>	<u>283,737</u>
Fund balance - ending	<u>\$ 44,483</u>	<u>\$ -</u>	<u>\$ 242,282</u>	<u>\$ 152,579</u>	<u>\$ 439,344</u>

Birch Run Area Schools
Other Supplemental Information
General Fund
Comparative Balance Sheet
June 30, 2010

	2010	2009
Assets		
Cash	\$ 138,938	\$ 12,879
Taxes receivable	6,700	4,600
Accounts receivable	3,185	132
Due from other governmental units	2,468,921	2,572,142
Inventory	8,983	10,535
Investments	1,192,083	2,866,466
Prepaid items	718	-
Total assets	\$ 5,079,528	\$ 5,466,754
Liabilities and fund balance		
Liabilities		
Accounts payable	\$ 383,956	\$ 326,137
State aid anticipation note payable	1,340,000	2,100,000
Due to other funds	204,728	144,563
Payroll deductions and withholdings	53,621	55,738
Accrued expenditures	350,382	349,959
Accrued salaries payable	880,022	846,302
Deferred revenue	13,196	4,600
Total liabilities	3,225,905	3,827,299
Fund balance		
Reserved for inventory	8,983	10,535
Reserved for prepaid items	718	-
Other undesignated	583,922	1,628,920
Total fund balance	1,853,623	1,639,455
Total liabilities and fund balance	\$ 5,079,528	\$ 5,466,754

Birch Run Area Schools
Other Supplemental Information
General Fund
Schedule of Revenues Compared to Budget
For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue from local sources				
Property tax levy	\$ 1,581,658	\$ 1,674,357	\$ 1,670,057	\$ (4,300)
Tuition	7,000	5,500	6,055	555
Earnings on investments	25,000	3,500	4,038	538
Other local revenues	<u>117,300</u>	<u>138,262</u>	<u>151,790</u>	<u>13,528</u>
Total revenues from local sources	<u>1,730,958</u>	<u>1,821,619</u>	<u>1,831,940</u>	<u>10,321</u>
Revenues from state sources				
Grants - unrestricted	11,460,455	10,841,220	10,871,657	30,437
Grants - restricted	<u>512,048</u>	<u>508,722</u>	<u>494,928</u>	<u>(13,794)</u>
Total revenues from state sources	<u>11,972,503</u>	<u>11,349,942</u>	<u>11,366,585</u>	<u>16,643</u>
Revenues from federal sources				
Grants	<u>744,909</u>	<u>1,420,877</u>	<u>1,437,506</u>	<u>16,629</u>
Interdistrict sources				
Other	<u>27,500</u>	<u>77,030</u>	<u>76,220</u>	<u>(810)</u>
Other financing sources				
Capital leases	-	16,971	16,971	-
Insurance recoveries	-	150	154	4
Proceeds from sale of capital assets	<u>2,000</u>	<u>218,339</u>	<u>218,339</u>	<u>-</u>
Total other financing sources	<u>2,000</u>	<u>235,460</u>	<u>235,464</u>	<u>4</u>
	<u>\$ 14,477,870</u>	<u>\$ 14,904,928</u>	<u>\$ 14,947,715</u>	<u>\$ 42,787</u>

Birch Run Area Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Basic program - elementary				
Salaries	\$ 1,555,200	\$ 1,523,700	\$ 1,501,576	\$ (22,124)
Employee benefits	798,794	827,321	820,183	(7,138)
Purchased services	27,000	48,452	51,003	2,551
Supplies and materials	50,082	55,373	52,871	(2,502)
Other	1,332	-	-	-
Total elementary	<u>2,432,408</u>	<u>2,454,846</u>	<u>2,425,633</u>	<u>(29,213)</u>
Basic program - middle school				
Salaries	1,439,069	1,328,000	1,315,047	(12,953)
Employee benefits	732,922	683,157	669,356	(13,801)
Purchased services	15,650	55,382	53,377	(2,005)
Supplies and materials	27,418	27,091	26,545	(546)
Other	-	1,420	1,535	115
Total middle school	<u>2,215,059</u>	<u>2,095,050</u>	<u>2,065,860</u>	<u>(29,190)</u>
Basic program - high school				
Salaries	1,563,249	1,524,289	1,513,124	(11,165)
Employee benefits	799,990	848,216	839,507	(8,709)
Purchased services	98,500	139,142	139,869	727
Supplies and materials	72,125	76,261	74,294	(1,967)
Other	7,400	1,820	2,253	433
Total high school	<u>2,541,264</u>	<u>2,589,728</u>	<u>2,569,047</u>	<u>(20,681)</u>

Birch Run Area Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Basic program - pre-school				
Salaries	\$ 66,160	\$ 33,131	\$ 31,324	\$ (1,807)
Employee benefits	34,055	16,814	16,508	(306)
Purchased services	600	2,179	2,308	129
Supplies and materials	<u>1,600</u>	<u>2,300</u>	<u>1,165</u>	<u>(1,135)</u>
Total pre-school	<u>102,415</u>	<u>54,424</u>	<u>51,305</u>	<u>(3,119)</u>
Added needs - special education				
Salaries	640,381	620,450	615,591	(4,859)
Employee benefits	319,005	314,699	303,879	(10,820)
Purchased services	4,100	23,502	17,777	(5,725)
Supplies and materials	5,200	15,800	10,510	(5,290)
Other	<u>58,000</u>	<u>102,500</u>	<u>102,791</u>	<u>291</u>
Total special education	<u>1,026,686</u>	<u>1,076,951</u>	<u>1,050,548</u>	<u>(26,403)</u>
Added needs - compensatory education				
Salaries	210,527	336,622	317,322	(19,300)
Employee benefits	107,031	163,722	156,463	(7,259)
Purchased services	-	125	22	(103)
Supplies and materials	<u>1,250</u>	<u>6,764</u>	<u>3,906</u>	<u>(2,858)</u>
Total compensatory education	<u>318,808</u>	<u>507,233</u>	<u>477,713</u>	<u>(29,520)</u>

Birch Run Area Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Pupil - guidance services				
Salaries	\$ 176,711	\$ 179,672	\$ 180,028	\$ 356
Employee benefits	<u>92,611</u>	<u>93,119</u>	<u>91,498</u>	<u>(1,621)</u>
Total guidance services	<u>269,322</u>	<u>272,791</u>	<u>271,526</u>	<u>(1,265)</u>
Pupil - health services				
Salaries	23,378	23,205	23,204	(1)
Employee benefits	13,851	14,197	13,529	(668)
Purchased services	37,600	10,100	6,622	(3,478)
Supplies and materials	<u>400</u>	<u>660</u>	<u>660</u>	<u>-</u>
Total health services	<u>75,229</u>	<u>48,162</u>	<u>44,015</u>	<u>(4,147)</u>
Pupil - psychological services				
Purchased services	60,000	62,720	61,158	(1,562)
Supplies and materials	<u>500</u>	<u>500</u>	<u>-</u>	<u>(500)</u>
Total psychological services	<u>60,500</u>	<u>63,220</u>	<u>61,158</u>	<u>(2,062)</u>

Birch Run Area Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Pupil - speech services				
Salaries	\$ 91,657	\$ 48,168	\$ 38,169	\$ (9,999)
Employee benefits	54,613	32,853	25,587	(7,266)
Purchased services	1,000	59,200	56,990	(2,210)
Supplies and materials	<u>1,150</u>	<u>1,100</u>	<u>866</u>	<u>(234)</u>
Total speech services	<u>148,420</u>	<u>141,321</u>	<u>121,612</u>	<u>(19,709)</u>
Pupil - social work services				
Salaries	68,290	67,833	67,831	(2)
Employee benefits	32,833	33,190	32,297	(893)
Purchased services	300	550	539	(11)
Supplies and materials	<u>300</u>	<u>200</u>	<u>-</u>	<u>(200)</u>
Total social work services	<u>101,723</u>	<u>101,773</u>	<u>100,667</u>	<u>(1,106)</u>
Pupil - teacher consultant				
Purchased services	<u>12,500</u>	<u>3,000</u>	<u>2,207</u>	<u>(793)</u>
Pupil - other support services				
Salaries	72,062	69,412	69,107	(305)
Employee benefits	21,739	21,198	21,046	(152)
Purchased services	250	3,150	2,846	(304)
Other	<u>7,900</u>	<u>8,123</u>	<u>8,668</u>	<u>545</u>
Total other pupil support services	<u>101,951</u>	<u>101,883</u>	<u>101,667</u>	<u>(216)</u>

Birch Run Area Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Instructional staff - improvement of education				
Salaries	\$ 25,010	\$ 34,607	\$ 17,421	\$ (17,186)
Employee benefits	6,143	8,500	4,248	(4,252)
Purchased services	39,166	44,687	37,523	(7,164)
Supplies and materials	14,677	4,586	3,979	(607)
Other	850	811	811	-
Total improvement of education	<u>85,846</u>	<u>93,191</u>	<u>63,982</u>	<u>(29,209)</u>
Instructional staff - educational media services				
Salaries	163,128	163,997	162,053	(1,944)
Employee benefits	76,728	77,882	76,096	(1,786)
Purchased services	1,200	5,500	2,986	(2,514)
Supplies and materials	<u>18,572</u>	<u>22,306</u>	<u>21,031</u>	<u>(1,275)</u>
Total educational media services	<u>259,628</u>	<u>269,685</u>	<u>262,166</u>	<u>(7,519)</u>
Instructional staff - technology assisted instruction				
Salaries	1,532	140	140	-
Employee benefits	367	34	11	(23)
Purchased services	<u>1,100</u>	<u>550</u>	<u>550</u>	<u>-</u>
Total technology assisted instruction	<u>2,999</u>	<u>724</u>	<u>701</u>	<u>(23)</u>

Birch Run Area Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Instructional staff - supervision and direction of instructional staff				
Salaries	\$ 31,584	\$ 31,584	\$ 31,444	\$ (140)
Employee benefits	12,016	12,282	12,172	(110)
Purchased services	91,920	93,370	92,517	(853)
Supplies and materials	<u>2,000</u>	<u>2,000</u>	<u>910</u>	<u>(1,090)</u>
Total supervision and direction of instructional staff	<u>137,520</u>	<u>139,236</u>	<u>137,043</u>	<u>(2,193)</u>
Instructional staff - academic student assessment				
Purchased services	1,275	-	-	-
Supplies and materials	<u>-</u>	<u>1,000</u>	<u>-</u>	<u>(1,000)</u>
Total academic student assessment	<u>1,275</u>	<u>1,000</u>	<u>-</u>	<u>(1,000)</u>
Instructional staff - other services				
Supplies and materials	<u>9,000</u>	<u>9,000</u>	<u>8,682</u>	<u>(318)</u>
General administration - board of education				
Salaries	7,000	8,500	7,740	(760)
Purchased services	53,100	68,515	62,289	(6,226)
Supplies and materials	2,200	3,600	3,864	264
Other	<u>3,600</u>	<u>3,710</u>	<u>3,708</u>	<u>(2)</u>
Total board of education	<u>65,900</u>	<u>84,325</u>	<u>77,601</u>	<u>(6,724)</u>

Birch Run Area Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
General administration - executive administration				
Salaries	\$ 118,582	\$ 120,232	\$ 120,641	\$ 409
Employee benefits	62,958	63,363	62,453	(910)
Purchased services	60,097	4,450	2,296	(2,154)
Supplies and materials	1,900	1,900	1,752	(148)
Other	2,400	2,800	2,724	(76)
Total executive administration	<u>245,937</u>	<u>192,745</u>	<u>189,866</u>	<u>(2,879)</u>
School administration - office of the principal				
Salaries	621,692	631,069	631,622	553
Employee benefits	312,100	314,880	311,307	(3,573)
Purchased services	7,725	11,458	10,475	(983)
Supplies and materials	6,300	8,100	7,108	(992)
Other	1,809	840	815	(25)
Total office of the principal	<u>949,626</u>	<u>966,347</u>	<u>961,327</u>	<u>(5,020)</u>
School administration - other				
Other	<u>4,000</u>	<u>3,000</u>	<u>2,735</u>	<u>(265)</u>
Business - fiscal services				
Salaries	142,576	141,811	142,243	432
Employee benefits	90,169	86,644	82,718	(3,926)
Purchased services	8,455	8,505	6,563	(1,942)
Supplies and materials	5,700	5,000	5,014	14
Other	2,400	2,600	2,544	(56)
Total fiscal services	<u>249,300</u>	<u>244,560</u>	<u>239,082</u>	<u>(5,478)</u>

Birch Run Area Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Business - internal services				
Salaries	\$ 14,412	\$ 14,700	\$ 14,457	\$ (243)
Employee benefits	5,119	5,190	5,121	(69)
Purchased services	225	275	177	(98)
Supplies and materials	<u>34,500</u>	<u>34,200</u>	<u>32,776</u>	<u>(1,424)</u>
Total internal services	<u>54,256</u>	<u>54,365</u>	<u>52,531</u>	<u>(1,834)</u>
Business - other				
Purchased services	450	1,000	699	(301)
Other	<u>71,250</u>	<u>76,300</u>	<u>73,602</u>	<u>(2,698)</u>
Total other business	<u>71,700</u>	<u>77,300</u>	<u>74,301</u>	<u>(2,999)</u>
Operations and maintenance - operating building services				
Salaries	541,483	536,630	528,683	(7,947)
Employee benefits	296,287	296,700	294,060	(2,640)
Purchased services	582,381	535,880	523,673	(12,207)
Supplies and materials	91,760	92,246	86,940	(5,306)
Other	<u>1,800</u>	<u>1,800</u>	<u>731</u>	<u>(1,069)</u>
Total operating building services	<u>1,513,711</u>	<u>1,463,256</u>	<u>1,434,087</u>	<u>(29,169)</u>

Birch Run Area Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Pupil transportation services				
Salaries	\$ 444,323	\$ 456,104	\$ 446,913	\$ (9,191)
Employee benefits	175,931	175,003	173,237	(1,766)
Purchased services	54,676	48,212	46,581	(1,631)
Supplies and materials	153,425	138,425	135,604	(2,821)
Other	1,320	-	-	-
Total transportation services	<u>829,675</u>	<u>817,744</u>	<u>802,335</u>	<u>(15,409)</u>
Central - planning, research development and evaluation				
Salaries	85,185	88,079	87,280	(799)
Employee benefits	35,856	35,706	34,942	(764)
Purchased services	700	800	591	(209)
Supplies and materials	1,025	1,100	1,019	(81)
Other	1,875	1,875	1,875	-
Total planning, research development and evaluation	<u>124,641</u>	<u>127,560</u>	<u>125,707</u>	<u>(1,853)</u>
Central - communication services				
Purchased services	21,900	21,250	16,986	(4,264)
Supplies and materials	500	500	53	(447)
Total communication services	<u>22,400</u>	<u>21,750</u>	<u>17,039</u>	<u>(4,711)</u>

Birch Run Area Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Central - staff/personnel services				
Salaries	\$ 66,248	\$ 67,611	\$ 67,736	\$ 125
Employee benefits	45,701	46,245	45,774	(471)
Purchased services	13,025	13,900	11,416	(2,484)
Supplies and materials	<u>6,375</u>	<u>4,700</u>	<u>3,637</u>	<u>(1,063)</u>
Total staff/personnel services	<u>131,349</u>	<u>132,456</u>	<u>128,563</u>	<u>(3,893)</u>
Central - support services technology				
Salaries	74,086	78,235	76,802	(1,433)
Employee benefits	31,546	31,960	31,715	(245)
Purchased services	74,406	103,850	104,417	567
Supplies and materials	<u>3,250</u>	<u>3,938</u>	<u>3,539</u>	<u>(399)</u>
Total support services technology	<u>183,288</u>	<u>217,983</u>	<u>216,473</u>	<u>(1,510)</u>
Central - pupil accounting				
Purchased services	<u>1,200</u>	<u>1,200</u>	<u>1,087</u>	<u>(113)</u>
Total pupil accounting	<u>1,200</u>	<u>1,200</u>	<u>1,087</u>	<u>(113)</u>
Central - other				
Salaries	800	800	671	(129)
Purchased services	30,000	42,000	31,232	(10,768)
Supplies and materials	<u>800</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other central	<u>31,600</u>	<u>42,800</u>	<u>31,903</u>	<u>(10,897)</u>

Birch Run Area Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Capital outlay				
Basic program - elementary	\$ 1,250	\$ 1,734	\$ 1,701	\$ (33)
Basic program - middle school	1,250	9,495	9,785	290
Basic program - high school	13,050	11,565	11,164	(401)
General administration - executive administration	4,500	2,200	1,988	(212)
School administration - office of the principal	3,408	615	615	-
Business - fiscal services	1,200	9,210	9,210	-
Operations and maintenance - operating building services	16,386	12,676	10,848	(1,828)
Pupil transportation services	90,000	33,910	33,910	-
Central - support services technology	57,000	48,420	48,387	(33)
	<u>188,044</u>	<u>129,825</u>	<u>127,608</u>	<u>(2,217)</u>
Debt service				
Principal	-	8,320	7,973	(347)
Other financing uses				
Transfers out	<u>301,000</u>	<u>435,000</u>	<u>427,797</u>	<u>(7,203)</u>
Total expenditures and financing uses	<u>\$ 14,870,180</u>	<u>\$ 15,043,754</u>	<u>\$ 14,733,547</u>	<u>\$ (310,207)</u>

Birch Run Area Schools
Other Supplemental Information
Activity Funds
Statement of Changes in Amounts Due to (from) Student Groups
Year ended June 30, 2010

	Due to (From) Student Groups June 30, 2009	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2010
Other Departments				
Beautification of Birch Run Schools	\$ 5	\$ -	\$ -	\$ 5
Community Education Dedication	1,422	-	-	1,422
Unallocated interest	852	101	180	773
Grounds	10	-	-	10
Superintendent's Pledge	-	1,000	500	500
Alternative Education	-	207	207	-
Community Ed - Summer	104	-	-	104
Administration - General	1,558	397	108	1,847
Cola Commissions	-	8,476	8,376	100
Maintenance Department	75	191	-	266
	<u>4,026</u>	<u>10,372</u>	<u>9,371</u>	<u>5,027</u>
Total Other Departments				
Birch Run High School				
General	(1,235)	7,448	5,977	236
Theater	3,366	1,770	1,770	3,366
Cash Box	(355)	-	-	(355)
National Honor Society	(879)	1,124	522	(277)
Student Council	4,803	3,950	8,228	525
Library	-	349	308	41
Forensics	1,155	15,027	12,257	3,925
Art Club	821	-	632	189
Greenhouse	1,599	5,601	6,576	624
Cheerleaders	(770)	1,120	1,808	(1,458)
Pom Poms	824	-	-	824
Bowling Club	365	3,112	1,248	2,229
S.O.S.	921	-	921	-
Multi-cultural	272	-	-	272
Pepband	220	-	-	220

Birch Run Area Schools
Other Supplemental Information
Activity Funds
Statement of Changes in Amounts Due to (from) Student Groups
Year ended June 30, 2010

	Due to (From) Student Groups June 30, 2009	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2010
Memorial Garden	\$ 502	\$ -	\$ -	502
Field Trip Transportation	1,927	459	138	2,248
Vending Machines	(5,942)	16,414	10,619	(147)
Textbooks	343	94	296	141
A.P. English	449	-	-	449
Yearbook	(11,944)	17,990	20,605	(14,559)
Mini Grant	386	500	16	870
Class of '95	526	-	-	526
Class of '97	19	-	-	19
Class of '98	102	-	-	102
Class of '01	1,265	-	-	1,265
Class of '02	1,071	-	-	1,071
Class of '03	457	-	-	457
Class of '04	202	-	-	202
Class of '05	1,649	-	-	1,649
Class of '06	2,710	-	-	2,710
Class of '07	2,058	-	-	2,058
Class of '08	1,301	-	-	1,301
Class of '09	3,379	318	901	2,796
Class of '10	(1,395)	11,775	6,072	4,308
Class of '11	291	11,588	12,948	(1,069)
Class of '12	(68)	845	763	14
Class of '13	-	100	-	100
Athletic Fundraiser - Football	9,559	27,380	33,327	3,612
Athletic Fundraiser - Girls Basketball	648	6,811	6,323	1,136
Athletic Fundraiser - Boys Basketball	1,364	4,249	4,107	1,506
Athletic Fundraiser - Wrestling	216	3,905	3,414	707
Athletic Fundraiser - Golf	99	70	141	28
Athletic Fundraiser - Track	1,640	-	1,640	-

Birch Run Area Schools
Other Supplemental Information
Activity Funds
Statement of Changes in Amounts Due to (from) Student Groups
Year ended June 30, 2010

	Due to (From) Student Groups June 30, 2009	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2010
Athletic Fundraiser - Volleyball	\$ (764)	\$ 9,486	\$ 9,051	(329)
Athletic Fundraiser - Baseball	(373)	3,812	2,079	1,360
Athletic Fundraiser - Softball	1,076	8,302	7,715	1,663
Girls Athletics	49	-	49	-
Soccer	-	4,996	5,262	(266)
Athletics - General	-	25,170	25,170	-
Tournament	-	4,113	4,113	-
Cross Country / Track	340	-	-	340
Music - Chorus	(1,853)	20,808	16,222	2,733
Band	1,009	-	536	473
Woodshop	1,670	1,293	2,945	18
	<u>25,075</u>	<u>219,979</u>	<u>214,699</u>	<u>30,355</u>
Marshall Greene Middle School				
Middle Administrative	3,334	4,245	3,101	4,478
National Honor Society	1,718	3,935	2,379	3,274
Field trips	687	1,757	1,659	785
Student Council	4,217	5,012	5,275	3,954
Newspaper	29	-	-	29
Library	1,890	5,737	6,320	1,307
Textbooks	125	261	-	386
P.T.O.	4,345	29,627	29,116	4,856
Middle Grants	560	2,603	1,985	1,178
Middle Classroom - Shop	249	1,596	1,441	404
	<u>17,154</u>	<u>54,773</u>	<u>51,276</u>	<u>20,651</u>

Birch Run Area Schools
Other Supplemental Information
Activity Funds
Statement of Changes in Amounts Due to (from) Student Groups
Year ended June 30, 2010

	Due to (From) Student Groups June 30, 2009	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2010
North Elementary School				
Coffee Fund	\$ 63	\$ -	\$ -	63
Flower Fund	265	292	399	158
Pop Fund	3,037	1,115	1,584	2,568
Special Events	1,606	304	161	1,749
General Fund	494	4,731	3,919	1,306
Jump a Thon	-	3,934	3,934	-
Student Council	109	-	51	58
Field Trips	20,739	19,772	15,471	25,040
Library	3,801	9,830	9,100	4,531
Picture Money	2,349	4,461	2,794	4,016
RIF Program	2,545	2,605	2,056	3,094
Accelerated Reader	790	250	584	456
Wish List	6,225	-	3,450	2,775
School Store	4,781	2,714	3,243	4,252
Grants	24	1,486	1,475	35
	<u>46,828</u>	<u>51,494</u>	<u>48,221</u>	<u>50,101</u>
Total North Elementary School				
Combined totals	<u>\$ 93,083</u>	<u>\$ 336,618</u>	<u>\$ 323,567</u>	<u>\$ 106,134</u>

Birch Run Area Schools
Other Supplemental Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2010

Year Ending June 30,	1998 School Improvement Bonds	1999 School Building and Site Bonds	Total
2011	13,500	1,085,000	1,098,500
2012	14,143	1,120,000	1,134,143
2013	14,817	1,150,000	1,164,817
2014	-	1,130,000	1,130,000
Total	<u>\$ 42,460</u>	<u>\$ 4,485,000</u>	<u>\$ 4,527,460</u>
Principal payments due	May 15th	May 1st	
Interest payments due	May 15th	May 1st and November 1st	
Interest rate	4.76%	3.000% - 3.250%	
Original issue	<u>\$ 221,042</u>	<u>\$ 5,655,000</u>	

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By Gloria Suggitt at 11:07 am, Oct 21, 2010

Birch Run Area Schools

Birch Run, Michigan

Single Audit Report

June 30, 2010

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**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***

Members of the Board of Education
Birch Run Area Schools
Birch Run, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Birch Run Area Schools as of and for the year ended June 30, 2010, which collectively comprise Birch Run Area Schools basic financial statements and have issued our report thereon dated September 10, 2010. 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 the Birch Run Area 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 the entity’s 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, that results 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 Birch Run Area 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, Department 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.

Saginaw, Michigan

September 10, 2010

**Independent Auditors' Report on Compliance with Requirements That
Could Have a Direct and Material Effect on Each Major Program and
on Internal Control over Compliance in Accordance with OMB
Circular A-133**

Members of the Board of Education
Birch Run Area Schools
Birch Run, Michigan

Compliance

We have audited Birch Run Area Schools' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Birch Run Area Schools' major federal programs for the year ended June 30, 2010. Birch Run Area Schools' major federal programs are identified in the summary of auditors' 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 Birch Run Area Schools' management. Our responsibility is to express an opinion on Birch Run Area 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 Birch Run Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Birch Run Area Schools' compliance with those requirements.

In our opinion, Birch Run Area Schools complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Birch Run Area 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 Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with OMB Circular A-133, 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 Birch Run Area Schools' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditure of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Birch Run Area Schools as of and for the year ended June 30, 2010, and have issued our report thereon dated September 10, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Birch Run Area 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 the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Saginaw, Michigan
September 10, 2010

Birch Run Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor Pass Through Grantor Program Title Grantor Number	Federal CFDA Number	Approved Grant Amount	Accrued (Deferred) Revenue at July 1, 2009	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Deferred) Revenue at June 30, 2010
U.S. Department of Agriculture							
Nutrition Cluster							
Passed through Michigan Department of Education							
Cash Assistance							
National School Lunch Breakfast	10.553						
091970 Breakfast		\$ 32,990	\$ -	\$ 29,794	\$ 3,226	\$ 3,226	\$ -
101970 Breakfast		39,620	-	-	39,620	39,620	-
			<u>-</u>		<u>42,846</u>	<u>42,846</u>	<u>-</u>
National School Lunch Program	10.555						
091950 Sec. 4 - Total Servings		46,532	-	41,669	4,863	4,863	-
101950 Sec. 4 - Total Servings		43,429	-	-	43,429	43,429	-
091960 Sec. 11 - Free and Reduced		191,794	-	170,264	21,530	21,530	-
101960 Sec. 11 - Free and Reduced		200,325	-	-	200,325	200,325	-
			<u>-</u>		<u>270,147</u>	<u>270,147</u>	<u>-</u>
Non-cash assistance (commodities)							
National School Lunch Program	10.555						
Entitlement Commodities		45,120	-	-	45,120	45,120	-
Bonus Commodities		2,125	-	-	2,125	2,125	-
			<u>-</u>		<u>47,245</u>	<u>47,245</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>-</u>		<u>360,238</u>	<u>360,238</u>	<u>-</u>
U.S. Department of Education							
Special Education Cluster							
Passed through Saginaw Intermediate School District							
090450-0809 IDEA Flowthrough	84.027	274,851	91,824	262,984	11,867	103,691	-
100450-0910 IDEA Flowthrough		290,714	-	-	253,868	184,275	69,593
090445-0809 ARRA - IDEA Flowthrough	84.391A	82,000	82,000	82,000	-	82,000	-
100445-0910 ARRA - IDEA Flowthrough		303,970	-	-	175,000	-	175,000
100460-0910 Preschool Projects	84.173	15,833	-	-	15,833	-	15,833
			<u>173,824</u>		<u>456,568</u>	<u>369,966</u>	<u>260,426</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

Birch Run Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor Pass Through Grantor Program Title Grantor Number	Federal CFDA Number	Approved Grant Amount	Accrued (Deferred) Revenue at July 1, 2009	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Deferred) Revenue at June 30, 2010
Passed through Michigan Department of Education							
091530-0809 Title 1	84.010	\$ 335,585	\$ 120,464	312,856	\$ -	\$ 120,464	\$ -
101530-0910 Title 1		347,668	-	-	312,529	231,797	80,732
101520-0910 Title 1 A	84.010A	6,000	-	-	4,600	-	4,600
100445-0910 ARRA - Title 1	84.389	136,640	-	-	73,984	57,844	16,140
			<u>120,464</u>		<u>391,113</u>	<u>410,105</u>	<u>101,472</u>
U.S. Department of Education							
Passed through Saginaw Intermediate School District							
102860-0910 Safe and Drug Free Schools	84.186	3,287	-	-	2,841	2,841	-
Passed through Delta College							
Technical Preparation	84.243	3,000	-	-	1,462	1,462	-
090520-0809 Improving Teacher Quality	84.367	92,151	27,438	76,395	6,962	27,438	6,962
100520-0910 Improving Teacher Quality		84,277	-	-	52,727	40,962	11,765
			<u>27,438</u>		<u>59,689</u>	<u>68,400</u>	<u>18,727</u>
1004295-0910 ARRA Title II, Part D	84.386	6,042	-	-	5,207	4,532	675
ARRA - State Fiscal Stabilization Fund	84.394	687,146	687,146	-	-	687,146	-
ARRA - State Fiscal Stabilization Fund		518,164	-	-	518,164	518,164	-
			<u>687,146</u>		<u>518,164</u>	<u>1,205,310</u>	<u>-</u>
Total U.S. Department of Education			<u>1,008,872</u>		<u>1,435,044</u>	<u>2,062,616</u>	<u>381,300</u>
U.S. Department of Health and Human Services							
Passed through Saginaw Intermediate School District							
Medicaid Admin Outreach	93.778	3,856	1,854	3,856	-	1,854	-
Medicaid Admin Outreach		2,462	-	-	2,462	1,941	521
			<u>1,854</u>		<u>2,462</u>	<u>3,795</u>	<u>521</u>
Total federal programs			<u>\$ 1,010,726</u>		<u>\$ 1,797,744</u>	<u>\$ 2,426,649</u>	<u>\$ 381,821</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

Birch Run Area Schools
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2010

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, 2010.
3. The federal amounts reported on the Forms Grant Auditor Report and the R-7120 "Grant Sections Auditor's Report" are in agreement with the Schedule of Expenditures of Federal Awards.
4. The amounts reported on the Recipient Entitlement Balance Report agree with the Schedule of Expenditures of Federal Awards for U.S.D.A. donated food commodities.

Birch Run Area Schools
Schedule of Findings and Questioned Costs
June 30, 2010

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant Deficiency(ies) identified that are not considered to be material 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 Deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

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

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
10.553, 10.555	Nutrition Cluster
84.027, 84.391A & 84.173	Special Education Cluster
84.010, 84.010A & 84.389	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 low-risk auditee? X yes _____ no

Birch Run Area Schools
Schedule of Findings and Questioned Costs
June 30, 2010

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards for the year ended June 30, 2010.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings or questioned costs for Federal Awards for the year ended June 30, 2010.

Birch Run Area Schools
Summary Schedule of Prior Audit Findings
June 30, 2010

There were no audit findings for the year ended June 30, 2009.



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September 10, 2010

The Board of Education
Birch Run Area Schools
Birch Run, Michigan

We have completed our audit of the financial statements of Birch Run Area Schools as of and for the year ended June 30, 2010 and have issued our report dated September 10, 2010. 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 Other Information

We discussed these matters with various personnel in the organization during the audit and will meet with management on September 10, 2010. 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.

Saginaw, Michigan

Appendix I
Auditor's Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards* and, if applicable, OMB Circular A-133 as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. 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. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was compensated absences.

Management's estimate of the compensated absences is based on historical payouts and years of service. We evaluated the key factors and assumptions used to develop the liability for compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

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. There were no adjustments identified during the audit.

No material misstatements or material passed adjustments were noted during the audit.

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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.

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 reports to ensure you are aware of relevant information.

Appendix II - Other Information

GASB 54 Changes Fund Balance Reporting

The Governmental Accounting Standards Board (GASB) is at it again. *Fund Balance Reporting and Governmental Fund Type Definitions* includes new fund balance classifications and additional note disclosures. GASB 54 will mean a new look for your governmental funds balance sheet. However, it will not change the total amount of the fund balance.

Why was GASB 54 Created?

There has been inconsistency reporting fund balances. There is widespread confusion about terminology. Restrictions are being placed on the use of some resources, but it is unclear at what level the restrictions have been imposed, and by what authority. Users of the financial statements misunderstand the fund balance components. It is often unclear if any of the reserved or designated fund balances are available or not to help balance a school district's budget.

The purpose of GASB 54 is to improve transparency and eliminate inconsistency. It is intended to eliminate the mismatch between what governments are reporting about fund balance and what the users of the financial statements really need.

Definitions

GASB 54 requires fund balance classifications in a hierarchy that shows the extent to which the school is bound to honor constraints on the specific purposes for which each amount can be spent. **Fund balances are required to be presented based on the most restricted (non-spendable) to the least restricted (unassigned) classification.**

Non-spendable – assets that are not available in a spendable form such as inventory, pre-paid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted – amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or legislation. Examples include bonded capital projects, debt service funds established for voter approved debt millage, school food service revenues associated with national school lunch programs and special education millage.

Committed – amounts constrained on use imposed by the school district itself using its highest level of decision making authority. Resources should be constrained before the school's fiscal year-end, although the exact amount may be determined at a later time. A committed amount can be reversed only by the same manner as it was initiated, and it should be done before the end of the fiscal year. Two examples of this are a school board resolution to move a certain

percentage of general fund balance into a capital project fund or a board resolution to maintain a general fund balance of 10% of current expenditures.

Assigned – amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or an authorized school official. Residual amounts in governmental funds other than the general fund are assigned. An appropriation of the existing fund balance to cover current year expenditures is considered an assignment of fund balance.

Unassigned – all other resources; the remaining fund balance after non-spendable, restrictions, commitments and assignments. This class only occurs in the general fund, except for cases of negative fund balances. Those are always reported as Unassigned, no matter which fund.

Note Disclosures

Schools will be required to disclose more information about amounts reported in fund balance, including the following:

1. Description of authority and actions that lead to committed and assigned fund balance.
2. The district's policy regarding order of spending of:
 - a. Restricted vs. unrestricted
 - b. Committed, assigned and unassigned
 - c. Multiple policies
 - d. The "default" policy
 - e. Negative balances – general fund and others
3. Restricted and unrestricted fund balances
4. Committed, assigned and unassigned
5. Encumbrances, if significant, are reported in conjunction with other disclosures of significant commitments.
6. Description of any formally adopted minimum fund balance policies.
 - a. Appropriate level of unrestricted fund balance to be maintained in the general fund
 - b. Circumstances in which unrestricted fund balances can be "spent down"
 - c. Policy for replenishing deficiencies (source of funding and time period)
 - d. Circumstances under which contingencies may be spent should be as specific as possible.
7. The purpose of each major special revenue fund and which revenues or other sources are reported in each of those funds.

Fund Balance Policies

If a school establishes a minimum fund balance policy, it needs to look at their operations and determine what they want their fund balance limits to be. Determining the components of fund balance will be an exercise to perform each year as part of the year-end financial reporting. Consider the following variables when setting the minimum amount of general fund unrestricted fund balance:

- Volatility of operating revenues (state and federal sources)
- Exposure to natural disasters
- Concentration of revenue sources (state and federal funded)
- Timing differences between revenue collections and expenditures

The Next Step

Schools should review their current policies and procedures to determine if resources will meet the definition of committed or assigned, and consider policy changes as they approach adoption of this statement. Additional policies may need to be adopted or revised to be consistent with the new definitions.

GASB 54 will improve the reporting of the fund balance and will help those who use the financial statements. Disaggregating the fund balance into non-spendable, restricted, committed, assigned and unassigned categories will greatly facilitate the understanding of a school's commitment of financial resources. It means we will have to get used to changes in the familiar fund accounting terminology before the end of the 2010-11 school year.

Birch Run Area Schools
Governmental Funds
Fund Balance - New Format
June 30, 2010

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund balance				
Nonexpendable				
Inventory	\$ 8,983	\$ 2,534	-	\$ 11,517
Prepaid items	718	-	-	718
Restricted for:				
Debt service (voted millage)	-	-	242,282	242,282
Food service (USDA program)	-	137,787	-	137,787
(Donations)	-	-	-	-
Committed to:				
(Board action)	-	-	-	-
Assigned to:				
Capital projects	-	-	152,579	152,579
Unassigned	<u>1,843,922</u>	<u>-</u>	<u>44,483</u>	<u>1,888,405</u>
 Total fund balance	 <u>\$ 1,853,623</u>	 <u>\$ 140,321</u>	 <u>\$ 439,344</u>	 <u>\$ 2,433,288</u>