

ALLEGAN PUBLIC SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Allegan Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan Public Schools, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Allegan Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Allegan Public Schools as of June 30, 2011 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Notes 1 and 12 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2011, on our consideration of Allegan Public 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 *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xiii and page 31, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 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 Allegan Public Schools' basic financial statements. The additional information on pages 33 through 41 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maney Costeiron PC

October 21, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

This section of Allegan Public Schools' (APS) annual financial report presents an analysis of the District's financial performance during the fiscal year that ended on June 30, 2011.

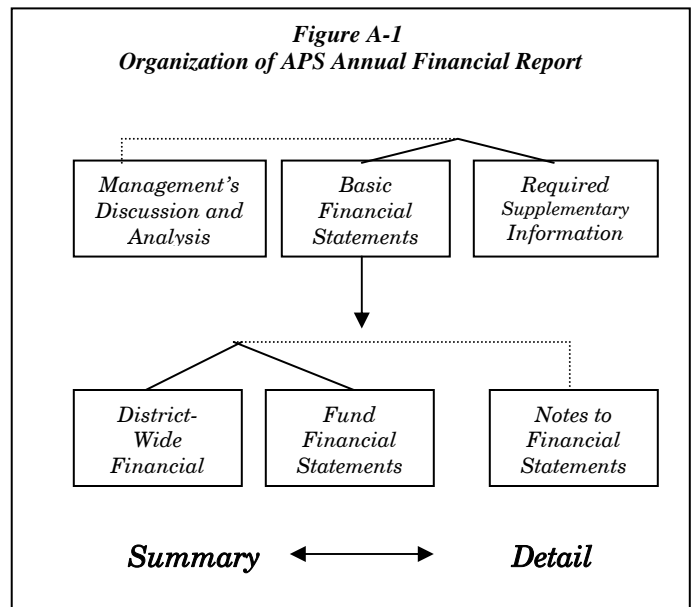
FINANCIAL HIGHLIGHTS

- The District's total net assets increased approximately \$1.3 million.
- Overall revenues were approximately \$28,700,000, fully \$1.3 million more than expenses.
- The total expenses were \$27,400,000.
- Student enrollment remained consistent.
- The District reduced its outstanding long-term debt approximately \$2,340,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include various kinds of statements that present different views of the District:

- The first two statements are district-wide *financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2 Major Features of District-Wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Allegan Public Schools' funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- *Governmental activities* - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like school lunch).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets

The District's combined net assets were more on June 30, 2011, than they were the year before by \$1,309,021.

	2011	2010
Current assets	\$ 8,644,742	\$ 8,050,983
Capital and other non-current assets	41,473,407	43,234,431
Total assets	<u>50,118,149</u>	<u>51,285,414</u>
Long-term debt outstanding	32,173,754	34,517,253
Other liabilities	7,351,046	7,483,833
Total liabilities	<u>39,524,800</u>	<u>42,001,086</u>
Net assets:		
Invested in capital assets, net of related debt	9,348,967	8,260,214
Restricted for food service	51,707	-
Unrestricted	1,192,675	1,024,114
Total net assets	<u>\$ 10,593,349</u>	<u>\$ 9,284,328</u>

Table A-4
Changes in Allegan Public Schools' Net Assets

	2011	2010
Revenues:		
Program revenues:		
Charges for services	\$ 579,592	\$ 631,943
Federal and state categorical grants (operating grants)	2,412,403	2,290,714
General revenues:		
Property taxes	7,001,654	7,119,185
State aid - unrestricted	16,765,697	16,460,302
Federal ARRA sources - unrestricted	950,797	786,275
Other	1,019,746	1,091,120
Total revenues	<u>28,729,889</u>	<u>28,379,539</u>
Expenses:		
Instruction	13,759,846	13,701,096
Support services	8,928,179	9,062,879
Community services	191,541	214,514
Outgoing transfers and other transactions	31,509	19,854
Food services	994,580	972,252
Interest on long-term debt	1,772,843	1,938,997
Unallocated depreciation	1,742,370	1,740,444
Total expenses	<u>27,420,868</u>	<u>27,650,036</u>
Increase in net assets	<u>\$ 1,309,021</u>	<u>\$ 729,503</u>

District Governmental Activities

The current status of the District's finances can be credited both to a struggling State economy and innovative management changes and belt-tightening, resulting in savings for the District for school year 2010-2011:

- The District experienced a decrease of \$170 in the State Foundation Allowance compared to the 2009-10 per student FTE allocation. (Note: The District received and applied a one-time allocation of funds that approximated the lost foundation allowance through federally sponsored Education Jobs Fund, resulting in essentially a budget neutral event to the District).
- The District's 2010-11 foundation allowance was reduced by \$119 per FTE in addition to the \$170 reduction referenced above. However, the State opted to utilize Federal stimulus dollars established through the American Recovery and Reinvestment Act, to maintain the original level of funding. After applying and receiving those funds, this event was budget neutral for the District.

- The retirement rate for public school employees increased during the 2010-11 fiscal year from 16.94% to 20.66%. This resulted in approximately \$340,000 in additional line item expenditures versus prior year.
- The District continued contracts with all employee groups which included a range of 0-2% increase in salaries (plus step increases already negotiated with some of the employee groups).
- The District continued to maintain an Efficiency Plan which was implemented to include economies in staff professional development, food service, transportation, athletics, professional staffing, and maintenance/custodial services. The goal remains to reduce the cost of operating the District and reinvest the savings in programs to modernize and raise the quality of education.
- The District continued an Energy Management program with an estimated cost avoidance savings of \$1,230,000 (from November 2004 through June 2012).

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$3,885,742, which is above last year's ending fund balances of \$3,138,876.

The majority of the District's governmental funds had less expenditures than revenues in 2011; thereby contributing to the increase in total fund balance. For the year, the General Fund ran a surplus where expenditures were \$903,945 less than revenues. The Debt Service Funds ended the year with expenditures exceeding revenues by \$178,910. The Food Service Fund ended the year with revenues exceeding expenditures by approximately \$21,831.

Enrollment in the District was 2,787 compared to 2,800 students in the prior year.

General Fund Budgetary Highlights:

Over the course of the year, the District revised the annual operating budget on two occasions. These budget amendments are:

- Changes made to account for final enrollment counts and changes in assumptions since the original budget were adopted.
- While the District's final budget for the General Fund anticipated that revenues would exceed expenditures by \$571,719, the actual results for the year show a \$903,945 surplus.
- Actual revenues for the General Fund were \$58,904 more than expected.
- Actual expenditures were \$273,222 less than expected, due primarily to salary and employee benefit reductions and other operational expense reductions incurred during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2011 the District had invested \$68.7 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audiovisual equipment and administrative offices. This amount represents a net decrease of \$1,738,742 after depreciation. (More detailed information about capital assets can be found in Note 5 to the financial statements.) Total depreciation expense for 2011 was \$1,896,308.

	2011			2010
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 206,431	\$ -	\$ 206,431	\$ 206,431
Buildings & additions	59,518,685	19,760,455	39,758,230	41,162,991
Technology	1,507,222	1,241,404	265,818	241,295
Athletic equipment	818,783	613,060	205,723	244,211
General equipment	4,959,499	4,610,032	349,467	562,246
Transportation equipment	1,705,470	1,321,230	384,240	491,477
Total	\$ 68,716,090	\$ 27,546,181	\$ 41,169,909	\$ 42,908,651

Long-term Debt

At year-end, the District had \$34.5 million in general obligation bonds and other long-term debt outstanding, a reduction of \$2.3 million. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.)

	2011	2010
General obligation bonds (financed with property taxes)	\$ 27.8	\$ 30.0
Other	6.7	6.8
Total	\$ 34.5	\$ 36.8

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- The District is plaintiff with other school districts in a lawsuit against the State, seeking to rectify inequities in the formula the State uses to apportion special education aid to the districts (Durant/Adair).
- The District will not receive an increase in state funding, and in fact will experience decreases in the funding level in 2011-2012. Further, the District will experience an increase in retirement costs for the next fiscal year. These negative budgetary impacts, combined with the projected loss of student enrollments continue to challenge the financial stability of the District.
- The financial status of the State of Michigan could result in future Executive Order Cuts from the Governor.
- The blended student count for the District has remained fairly stable for the past two years; however, the enrollment trend over the past five years has been declining.
- Health care costs have increased.
- Retirement contributions rates continue to increase.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Superintendent's office, Allegan Public Schools, 550 Fifth Street, Allegan, MI 49010 (269.673.5431).

BASIC FINANCIAL STATEMENTS

**ALLEGAN PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2011**

ASSETS	Governmental activities
CURRENT ASSETS:	
Cash	\$ 3,249,238
Investments	1,796,705
Receivables:	
Accounts receivable	19,895
Due from other governmental units	3,483,294
Inventories	68,405
Prepaid expenses	27,205
	8,644,742
TOTAL CURRENT ASSETS	8,644,742
NONCURRENT ASSETS:	
Deferred charges, net of amortization	303,498
Capital assets	68,716,090
Less accumulated depreciation	(27,546,181)
	41,473,407
TOTAL NONCURRENT ASSETS	41,473,407
TOTAL ASSETS	\$ 50,118,149

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 80,050
Accounts payable - fiduciary fund	70,340
Accrued salaries and related items	1,383,996
Accrued interest	241,728
Deferred revenue	7,295
Notes payable	3,200,000
Current portion of long-term obligations	2,219,637
Current portion of compensated absences and termination benefits	<u>148,000</u>

TOTAL CURRENT LIABILITIES 7,351,046

NONCURRENT LIABILITIES:

Noncurrent portion of long-term obligations	32,004,226
Noncurrent portion of compensated absences and termination benefits	<u>169,528</u>

TOTAL NONCURRENT LIABILITIES 32,173,754

TOTAL LIABILITIES 39,524,800

NET ASSETS:

Invested in capital assets, net of related debt	9,348,967
Restricted for food service	51,707
Unrestricted	<u>1,192,675</u>

TOTAL NET ASSETS 10,593,349

TOTAL LIABILITIES AND NET ASSETS \$ 50,118,149

**ALLEGAN PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net assets</u>
Governmental activities:				
Instruction	\$ 13,759,846	\$ 22,225	\$ 1,479,350	\$ (12,258,271)
Support services	8,928,179	128,512	252,148	(8,547,519)
Community services	191,541	96,481	-	(95,060)
Outgoing transfers and other transactions	31,509	-	-	(31,509)
Food services	994,580	332,374	680,905	18,699
Interest on long-term debt	1,772,843	-	-	(1,772,843)
Unallocated depreciation	1,742,370	-	-	(1,742,370)
Total governmental activities	<u>\$ 27,420,868</u>	<u>\$ 579,592</u>	<u>\$ 2,412,403</u>	<u>(24,428,873)</u>
General revenues:				
Property taxes, levied for general purposes				3,122,314
Property taxes, levied for debt service				3,879,340
State sources - unrestricted				16,765,697
Federal sources - unrestricted				950,797
Intermediate district sources				864,099
Investment earnings				25,569
Other				130,078
Total general revenues				<u>25,737,894</u>
CHANGE IN NET ASSETS				1,309,021
NET ASSETS, beginning of year				<u>9,284,328</u>
NET ASSETS, end of year				<u>\$ 10,593,349</u>

See notes to the financial statements.

**ALLEGAN PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General fund	2008 Debt service fund	Other nonmajor governmental funds	Total governmental funds
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 2,698,436	\$ 164,457	\$ 386,345	\$ 3,249,238
Investments	1,796,705	-	-	1,796,705
Receivables:				
Accounts receivable	19,895	-	-	19,895
Due from other governmental units	3,459,812	-	23,482	3,483,294
Due from other funds	165,681	86,462	-	252,143
Inventories	37,813	-	30,592	68,405
Prepaid expenditures	27,205	-	-	27,205
	\$ 8,205,547	\$ 250,919	\$ 440,419	\$ 8,896,885
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 80,050	\$ -	\$ -	\$ 80,050
Accounts payable - fiduciary funds	70,340	-	-	70,340
Accrued interest	17,319	-	-	17,319
Accrued salaries and related items	1,383,996	-	-	1,383,996
Due to other funds	-	-	252,143	252,143
Deferred revenue	-	-	7,295	7,295
Notes payable	3,200,000	-	-	3,200,000
	4,751,705	-	259,438	5,011,143

See notes to the financial statements.

	<u>General fund</u>	<u>2008 Debt service fund</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
FUND BALANCES:				
Nonspendable:				
Inventories	\$ 37,813	\$ -	\$ 30,592	\$ 68,405
Prepaid expenditures	27,205	-	-	27,205
Restricted for:				
Debt service	-	250,919	98,682	349,601
Food service	-	-	51,707	51,707
Assigned for: Subsequent years' expenditures	905,476	-	-	905,476
Unassigned reported in:				
General fund	2,483,348	-	-	2,483,348
	<u>3,453,842</u>	<u>250,919</u>	<u>180,981</u>	<u>3,885,742</u>
TOTAL FUND BALANCES				
	<u>\$ 8,205,547</u>	<u>\$ 250,919</u>	<u>\$ 440,419</u>	<u>\$ 8,896,885</u>
TOTAL LIABILITIES AND FUND BALANCES				
				\$ 3,885,742
Total governmental fund balances				
Amounts reported for governmental activities in the statement of net assets are different because:				
Value of amortized bond issuance costs			\$ 325,780	
Accumulated amortization			<u>(22,282)</u>	303,498
Capital assets used in governmental activities are not financial resources and are not reported in the funds				
The cost of the capital assets is			68,716,090	
Accumulated depreciation is			<u>(27,546,181)</u>	41,169,909
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Long-term debt				(34,223,863)
Compensated absences and termination benefits				(317,528)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid				<u>(224,409)</u>
Net assets of governmental activities				<u>\$ 10,593,349</u>

See notes to the financial statements.

ALLEGAN PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	<u>General fund</u>	<u>2008 Debt service fund</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
REVENUES:				
Local sources:				
Property taxes	\$ 3,122,314	\$ 2,589,459	\$ 1,289,881	\$ 7,001,654
Investment earnings	16,100	5,987	3,482	25,569
Food sales	-	-	332,374	332,374
Athletics and community service	137,166	-	-	137,166
Other	222,252	-	322	222,574
Total local sources	<u>3,497,832</u>	<u>2,595,446</u>	<u>1,626,059</u>	<u>7,719,337</u>
State sources	17,470,994	-	68,225	17,539,219
Federal sources	1,944,470	-	645,208	2,589,678
Incoming transfers and other	881,655	-	-	881,655
Total revenues	<u>23,794,951</u>	<u>2,595,446</u>	<u>2,339,492</u>	<u>28,729,889</u>
EXPENDITURES:				
Current:				
Instruction	13,553,658	-	-	13,553,658
Supporting services	9,038,428	-	-	9,038,428
Food service activities	-	-	992,350	992,350
Community service activities	191,541	-	-	191,541
Outgoing transfers and other transactions	107,379	-	-	107,379
Debt service:				
Principal repayment	-	1,600,000	563,292	2,163,292
Interest	-	1,122,261	813,201	1,935,462
Other	-	688	225	913
Total expenditures	<u>22,891,006</u>	<u>2,722,949</u>	<u>2,369,068</u>	<u>27,983,023</u>
NET CHANGE IN FUND BALANCES	903,945	(127,503)	(29,576)	746,866
FUND BALANCES:				
Beginning of year	<u>2,549,897</u>	<u>378,422</u>	<u>210,557</u>	<u>3,138,876</u>
End of year	<u>\$ 3,453,842</u>	<u>\$ 250,919</u>	<u>\$ 180,981</u>	<u>\$ 3,885,742</u>

See notes to the financial statements.

**ALLEGAN PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

Net change in fund balances total governmental funds \$ 746,866

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(1,896,308)
Capital outlay	157,566

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	241,564
Accrued interest payable, end of the year	(224,409)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on 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. The effect of these differences is the treatment of long-term debt and related items and are as follows:

Payments on debt	2,322,162
Amortization of bond issuance costs	(22,282)
Amortization of deferred loss on refunding	(94,305)
Amortization of bond premium	109,203
Accrued interest on school bond loan fund	176,334

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences and termination benefits, beginning of the year	110,158
Accrued compensated absences and termination benefits, end of the year	(317,528)

Change in net assets of governmental activities \$ 1,309,021

**ALLEGAN PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2011**

	<u>Agency fund</u>
ASSETS:	
Cash	\$ 57,324
Due from general fund	<u>70,340</u>
	<u><u>\$ 127,664</u></u>
 LIABILITIES:	
Accounts payable	\$ 35
Due to student groups	<u>127,629</u>
	<u><u>\$ 127,664</u></u>

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Allegan Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Allegan Public Schools (the "District") is governed by the Allegan Public Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The District first utilizes restricted resources to finance qualifying activities.

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

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

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

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

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

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

The *2008 debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Other Nonmajor Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service in the special revenue funds.

The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Concluded)

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

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

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

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2011, the foundation allowance was based on pupil membership counts taken in February and September of 2010.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes (formerly known as Non-Homestead) which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The State revenue is recognized during the foundation period and is funded through payments from October 2010 to August 2011. Thus, the unpaid portion at June 30th is reported as due from other governmental units

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

1. Cash and equivalents include amounts in demand deposits and certificates of deposit. (Concluded)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2011, the District levied the following amounts per \$1,000 of assessed valuation:

General fund:	
Non-Principal Residence Exemption (PRE)	18.0000
Commercial Personal Property	6.0000
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	7.5500

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

3. Inventories and prepaid expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds).

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20 - 50 years
Furniture and other equipment	5 - 20 years

The District’s capitalization policy is to capitalize individual amounts exceeding \$5,000.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

6. Compensated absences

The District's contracts generally provide for granting vacation or sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method, over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

9. Net asset reporting

In the computation of invested in capital assets, net of related debt, school bond loan fund and school bond revolving fund principal proceeds of \$4,297,430 are considered capital-related debt. Accrued interest on the school bond loan fund and school bond revolving fund of \$2,099,423 has been included in the calculation of unrestricted net assets.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

10. Fund balance

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance - amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.

Restricted fund balance - amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District's food service and debt service fund balances are considered restricted.

Committed fund balance - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, for the general fund are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2011. The District does not consider these amendments to be significant.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK

As of June 30, 2011, the District had the following investments.

<u>Investment Type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's Rating</u>	<u>%</u>
MILAF External Investment pool - MICMS	\$ 4,283	0.0027	AAAm	8.9%
MILAF External Investment pool -MIMAX	43,848	0.0027	AAAm	91.1%
Total fair value	<u>\$ 48,131</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds, which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2011, the fair value of the District’s investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Continued)

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. As of June 30, 2011, \$4,811,581 of the District's bank balance of \$5,061,581 was exposed to custodial credit risk because it was uninsured and while \$1,350,000 is collateralized the remaining was uncollateralized. The above amounts include interest bearing accounts. The carrying amount on the financial statements is \$3,249,238 as cash, \$1,796,705 as investments and \$57,324 for the fiduciary assets.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments, which have this type of risk.

The amounts are reported in the financial statements as follows:

Cash agency fund	\$ 57,324
Cash - district-wide	3,249,238
Investments - district-wide:	
MILAF	48,131
State set-aside	1,748,574
Total investments - district-wide	1,796,705
	\$ 5,103,267

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - RECEIVABLES

Receivables from governmental units at June 30, 2011 consist of the following:

General fund:	
State aid	\$ 3,186,138
Federal revenue	191,585
Other	82,089
	<u>3,459,812</u>
Food service fund:	
State aid	6,306
Federal revenue	16,556
Other	620
	<u>23,482</u>
	<u><u>\$ 3,483,294</u></u>

No allowance for doubtful accounts is considered necessary.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Assets not being depreciated - land	\$ 206,431	\$ -	\$ -	\$ 206,431
Other capital assets:				
Buildings and additions	59,518,685	-	-	59,518,685
Technology	1,373,555	133,667	-	1,507,222
Athletic equipment	818,783	-	-	818,783
General equipment	4,935,600	23,899	-	4,959,499
Transportation equipment	1,705,470	-	-	1,705,470
Subtotal	68,352,093	157,566	-	68,509,659
Accumulated depreciation:				
Buildings and additions	18,355,694	1,404,761	-	19,760,455
Technology	1,132,260	109,144	-	1,241,404
Athletic equipment	574,572	38,488	-	613,060
General equipment	4,373,354	236,678	-	4,610,032
Transportation equipment	1,213,993	107,237	-	1,321,230
Total accumulated depreciation	25,649,873	1,896,308	-	27,546,181
Net other capital assets	42,702,220	(1,738,742)	-	40,963,478
Net capital assets	<u>\$ 42,908,651</u>	<u>\$ (1,738,742)</u>	<u>\$ -</u>	<u>\$ 41,169,909</u>

Depreciation for assets serving multiple functions is unallocated.

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
Athletics	\$ -
Food services	2,230
Support services	151,708
Unallocated	1,742,370
	<u>\$ 1,896,308</u>

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - NOTES PAYABLE

At June 30, 2011, the District has outstanding \$660,000, \$540,000, and \$2,000,000 revenue notes (state aid notes) dated August 20, 2010. The notes, which have interest rates of 0.40%, 0.40% and 0.80%, respectively, mature August 20, 2011. At June 30, 2011, the District has \$1,748,574 of funds on deposit with a financial institution to be applied against repayment. The notes are secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2010	Additions	Payments	Balance June 30, 2011
\$ 3,200,000	\$ 3,200,000	\$ 3,200,000	\$ 3,200,000

Subsequent to year-end, the District entered into agreements to borrow \$2,000,000 and \$1,200,000 as State aid notes maturing August 20, 2012 and bearing interest at 0.600% and 0.311%, respectively. The notes are secured by the full faith and credit of the District as well as pledged state aid.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT

The District issues general obligations bonds and Michigan Municipal Bond Authority bonds to provide funds for the acquisition, construction and improvement of major capital facilities, as well as, the purchase of equipment. These bonds and notes are direct obligations and pledge the full faith and credit of the District. Long-term debt is as follows:

\$13,925,000 - 2005 refunding bonds due in annual installments of \$555,000 to \$740,000 through May 1, 2030; interest from 3.75% to 5.00%	\$ 13,105,000
\$17,210,000 - 2008 refunding bonds due in annual installments of \$765,000 to \$1,590,000 through May 1, 2022; interest at 5.0%	14,000,000
Plus: premium on bond refunding	1,452,557
Less: deferred amount on bond refunding	<u>(1,451,232)</u>
	27,106,325
General obligation (Energy bonds) due in annual installments of \$45,000 to \$65,000 through May 1, 2023 with interest from 3.6% to 5.0%	660,000
\$463,213 - School Improvement Bonds Limited Obligation Bonds (Durant) due in annual installments of \$29,637 to \$31,048 through May 15, 2013; interest at 4.76%. Certain State Aid payments have been pledged as security	<u>60,685</u>
Total bonded debt	27,827,010
Borrowings from the State of Michigan under the School Bond Loan Fund, including interest	6,396,853
Obligation under contracts for compensated absences and termination benefits	<u>317,528</u>
Total general long-term debt	<u><u>\$ 34,541,391</u></u>

Interest expense (all funds) for the year ended June 30, 2011 was approximately \$1,773,000.

The Durant bonds, including interest, were issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Continued)

The annual requirements to amortize long-term debt outstanding excluding compensated absences and school bond loan fund borrowings as of June 30, 2011, including interest of \$10,543,451 are as follows:

Year ending June 30,	Principal	Interest	Total
2012	\$ 2,219,637	\$ 1,349,341	\$ 3,568,978
2013	2,236,048	1,243,224	3,479,272
2014	2,220,000	1,139,286	3,359,286
2015	2,225,000	1,034,812	3,259,812
2016	2,235,000	930,160	3,165,160
2017-2021	9,135,000	3,133,694	12,268,694
2022-2026	4,595,000	1,342,934	5,937,934
2027-2030	2,960,000	370,000	3,330,000
	<u>\$ 27,825,685</u>	<u>\$ 10,543,451</u>	38,369,136
Premium on bond refunding			1,452,557
Deferred charge on bond refunding			(1,451,232)
Borrowings from the State of Michigan under the School Bond Loan Fund, including interest			6,396,853
Compensated absences and termination benefits			<u>317,528</u>
Total long-term debt including interest			<u>\$ 45,084,842</u>

\$349,601 of funds are available in the debt service funds to service the general obligation debt.

Borrowing from the State of Michigan - The school bond loans payable represents notes payable to the State of Michigan for loans made to the school district, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates ranging from 5.000% - 5.375% for the School Bond Loan Fund note have been assessed for the year ended June 30, 2011. Repayment is required when the millage rate necessary to cover the annual bonded debt services falls below 7.55 mills. The District is required to levy 7.55 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the District, no provision for repayment has been included in the above amortization schedule.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Concluded)

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2011:

	Compensated absences and termination benefits	Bonds and other debt	Total
Balance July 1, 2010	\$ 110,158	\$ 36,737,257	\$ 36,847,415
Additions	210,000	430,688	640,688
Deletions	<u>(2,630)</u>	<u>(2,944,082)</u>	<u>(2,946,712)</u>
Balance June 30, 2011	317,528	34,223,863	34,541,391
Less current portion	<u>(148,000)</u>	<u>(2,219,637)</u>	<u>(2,367,637)</u>
Total due after one year	<u>\$ 169,528</u>	<u>\$ 32,004,226</u>	<u>\$ 32,173,754</u>

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2011, \$27,665,000 of bonds outstanding are considered defeased.

During the fiscal year ended June 30, 2011, the District approved an early retirement incentive plan of which seven employees participated. The plan requires a \$20,000 and \$10,000 payment per participating individual during the years ended June 30, 2012 and 2013, respectively. The liability of \$210,000 for the year ended June 30, 2011, has been recorded at the face amount, as the discounted present value approximates the face amount of the liability.

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members joining the system on or after July 1, 2008 contribute at the following graduated rate: 3% of the first \$5,000, 3.6% of \$5,001 through \$15,000 and 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus Member. The Pension Plus Plan pairs a guaranteed retirement income (defined benefit pension) with a flexible and transferable retirement savings (defined contribution) account.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate through September 30, 2010 was 16.94% of payroll and increased to 19.41% for the base plan and 17.91% for pension plus members effective October 1, 2010 through October 31, 2010 at which time it increased again due to the number of retirees associated with the early retirement incentive to 20.66% for basic plan members and 19.16% for pension plus members for the period from November 1, 2010 through June 30, 2011. In addition, the district is required to match 50% up to 1% of the employees contribution in the pension plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The health care portion is 5.5% before the 3% for the injunction. The District contributions to MPSERS for the years ended June 30, 2011, 2010 and 2009 were \$2,419,000, \$2,150,000 and \$2,124,000, respectively, and were equal to the required contribution for those years.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees. For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit and were paid less than \$18,000 in the prior school year and members who were hired on or after July 1, 2010, with a starting salary of less than \$18,000 are required to contribute 1.5% of the members' compensation. For each school fiscal year that begins on or after July 31, 2011, members shall contribute 3% of compensation into the health care funding account. Effective April 1, 2011, a court order eliminated this requirement. The court order is being appealed by the State of Michigan.

Pension recipients are generally eligible for fully paid Master Health Plan coverage and 90% paid dental plan, vision plan and hearing coverage.

The District is not responsible for the payment of retirement benefits and post-employment benefits which is the responsibility of the State of Michigan.

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2011 are as follows:

Receivable fund		Payable fund	
General fund	\$ 165,681	Food service fund	\$ 134,190
2008 debt service fund	86,462	2005 debt service fund	117,953
	\$ 252,143		\$ 252,143

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. With regard to injuries to employees, the District participates in an association of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The association is considered a public entity risk sharing pool. The District pays annual premiums to the association for insurance coverage. In the event the association's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the policy year may be subject to special assessment to make up the deficiency. The association maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2011 or any of the prior three years.

The District is self-insured for dental coverage. Dental expense for June 30, 2011 and 2010 was approximately \$61,000 and \$70,000, respectively. Any liability for incurred and unreported claims is considered immaterial.

NOTE 11 - TRANSFERS

The general fund did not make any transfers for the year end June 30, 2011.

NOTE 12 - FUND BALANCE RECLASSIFICATION

Beginning July 1, 2010, the District adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which redefined the definition of a special revenue fund. As a result, the athletic activities are now included in the general fund rather than a separate fund. This fund reclassification had no impact on the fund balance for the general fund at June 30, 2010.

REQUIRED SUPPLEMENTARY INFORMATION

**ALLEGAN PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2011**

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
REVENUES:				
Local sources	\$ 3,523,041	\$ 3,487,445	\$ 3,497,832	\$ 10,387
State sources	17,761,320	17,441,895	17,470,994	29,099
Federal sources	912,895	2,104,807	1,944,470	(160,337)
Incoming transfers and other	674,714	701,900	881,655	179,755
Total revenues	<u>22,871,970</u>	<u>23,736,047</u>	<u>23,794,951</u>	<u>58,904</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	10,316,242	10,576,842	10,596,982	(20,140)
Added needs	2,890,597	2,929,725	2,874,589	55,136
Adult and community education	113,757	88,133	82,087	6,046
Total instruction	<u>13,320,596</u>	<u>13,594,700</u>	<u>13,553,658</u>	<u>41,042</u>
Supporting services:				
Pupil	1,697,037	1,641,865	1,589,917	51,948
Instructional staff	797,060	841,440	781,717	59,723
General administration	481,423	515,537	505,923	9,614
School administration	1,311,623	1,381,794	1,369,428	12,366
Business	381,246	403,988	390,498	13,490
Operation/maintenance	2,586,978	2,605,428	2,565,602	39,826
Pupil transportation	1,333,046	1,338,735	1,311,908	26,827
Central	548,972	539,736	523,435	16,301
Total supporting services	<u>9,137,385</u>	<u>9,268,523</u>	<u>9,038,428</u>	<u>230,095</u>
Community services	172,746	192,135	191,541	594
Outgoing transfers and other transactions	90,084	108,870	107,379	1,491
Total expenditures	<u>22,720,811</u>	<u>23,164,228</u>	<u>22,891,006</u>	<u>273,222</u>
EXCESS OF REVENUES OVER EXPENDITURES	151,159	571,819	903,945	332,126
OTHER FINANCING USES:				
Operating transfers to other funds	-	(100)	-	100
NET CHANGE IN FUND BALANCE	<u>\$ 151,159</u>	<u>\$ 571,719</u>	903,945	<u>\$ 332,226</u>
FUND BALANCE:				
Beginning of year			<u>2,549,897</u>	
End of year			<u>\$ 3,453,842</u>	

ADDITIONAL INFORMATION

**ALLEGAN PUBLIC SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2011**

	<u>Food service</u>	<u>Debt service</u>	<u>Total nonmajor governmental funds</u>
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 169,710	\$ 216,635	\$ 386,345
Due from other governmental units	23,482	-	23,482
Inventories	30,592	-	30,592
TOTAL ASSETS	<u>\$ 223,784</u>	<u>\$ 216,635</u>	<u>\$ 440,419</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Due to other funds	\$ 134,190	\$ 117,953	\$ 252,143
Deferred revenue	7,295	-	7,295
TOTAL LIABILITIES	<u>141,485</u>	<u>117,953</u>	<u>259,438</u>
FUND BALANCES:			
Nonspendable:			
Inventories	30,592	-	30,592
Restricted for:			
Food service	51,707	-	51,707
Debt service	-	98,682	98,682
TOTAL FUND BALANCES	<u>82,299</u>	<u>98,682</u>	<u>180,981</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 223,784</u>	<u>\$ 216,635</u>	<u>\$ 440,419</u>

**ALLEGAN PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2011**

	<u>Food service</u>	<u>Debt service</u>	<u>Total nonmajor governmental funds</u>
REVENUES:			
Local sources:			
Property taxes	\$ -	\$ 1,289,881	\$ 1,289,881
Investment earnings	580	2,902	3,482
Food sales	332,374	-	332,374
Other	322	-	322
Total local sources	<u>333,276</u>	<u>1,292,783</u>	<u>1,626,059</u>
State sources	35,697	32,528	68,225
Federal sources	645,208	-	645,208
Total revenues	<u>1,014,181</u>	<u>1,325,311</u>	<u>2,339,492</u>
EXPENDITURES:			
Salaries	290,651	-	290,651
Benefits	211,554	-	211,554
Purchased services	2,175	-	2,175
Supplies and materials	73,319	-	73,319
Other expenses	414,651	225	414,876
Principal repayment	-	563,292	563,292
Interest expense	-	813,201	813,201
Total expenditures	<u>992,350</u>	<u>1,376,718</u>	<u>2,369,068</u>
NET CHANGE IN FUND BALANCES	21,831	(51,407)	(29,576)
FUND BALANCES:			
Beginning of year	<u>60,468</u>	<u>150,089</u>	<u>210,557</u>
End of year	<u>\$ 82,299</u>	<u>\$ 98,682</u>	<u>\$ 180,981</u>

**ALLEGAN PUBLIC SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011**

	<u>Refunding 2005</u>
ASSETS	
ASSETS:	
Cash and cash equivalents	<u>\$ 216,635</u>
LIABILITIES AND FUND BALANCES	
LIABILITIES:	
Due to other funds	\$ 117,953
FUND BALANCES:	
Restricted for debt service	<u>98,682</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 216,635</u>

**ALLEGAN PUBLIC SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2011**

	<u>Durant</u>	<u>Refunding 2005</u>	<u>Total debt service</u>
REVENUES:			
Local sources:			
Property taxes	\$ -	\$ 1,289,881	\$ 1,289,881
Investment earnings	-	2,902	2,902
Total local sources	-	1,292,783	1,292,783
State sources	32,528	-	32,528
Total revenues	<u>32,528</u>	<u>1,292,783</u>	<u>1,325,311</u>
EXPENDITURES:			
Principal repayments	28,292	535,000	563,292
Interest on debt	4,236	808,965	813,201
Other expense	-	225	225
Total expenditures	<u>32,528</u>	<u>1,344,190</u>	<u>1,376,718</u>
NET CHANGE IN FUND BALANCES	-	(51,407)	(51,407)
FUND BALANCES:			
Beginning of year	-	150,089	150,089
End of year	<u>\$ -</u>	<u>\$ 98,682</u>	<u>\$ 98,682</u>

**ALLEGAN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2011**

\$13,925,000 Refunding Bonds issued March 11, 2005:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May1,	June 30,	Amount
\$ 555,000	\$ 308,556	\$ 308,556	2012	\$ 1,172,112
580,000	296,763	296,763	2013	1,173,526
600,000	285,887	285,887	2014	1,171,774
615,000	273,888	273,888	2015	1,162,776
635,000	261,588	261,588	2016	1,158,176
655,000	245,713	245,713	2017	1,146,426
670,000	232,940	232,940	2018	1,135,880
690,000	219,875	219,875	2019	1,129,750
710,000	202,625	202,625	2020	1,115,250
735,000	184,875	184,875	2021	1,104,750
740,000	166,500	166,500	2022	1,073,000
740,000	148,000	148,000	2023	1,036,000
740,000	129,500	129,500	2024	999,000
740,000	111,000	111,000	2025	962,000
740,000	92,500	92,500	2026	925,000
740,000	74,000	74,000	2027	888,000
740,000	55,500	55,500	2028	851,000
740,000	37,000	37,000	2029	814,000
740,000	18,500	18,500	2030	777,000
<u>\$ 13,105,000</u>	<u>\$ 3,345,210</u>	<u>\$ 3,345,210</u>		<u>\$ 19,795,420</u>

The above bond issue bears interest at rates ranging from 3.75% to 5.00%. The bond proceeds were used for refunding a portion of the School District's outstanding 2000 School Building and Site Bonds.

**ALLEGAN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2011**

\$17,210,000 Refunding Bonds issued February 12, 2008:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May1,	June 30,	Amount
\$ 1,590,000	\$ 350,000	\$ 350,000	2012	\$ 2,290,000
1,580,000	310,250	310,250	2013	2,200,500
1,570,000	270,750	270,750	2014	2,111,500
1,560,000	231,500	231,500	2015	2,023,000
1,545,000	192,500	192,500	2016	1,930,000
1,530,000	153,875	153,875	2017	1,837,750
1,515,000	115,625	115,625	2018	1,746,250
775,000	77,750	77,750	2019	930,500
790,000	58,375	58,375	2020	906,750
780,000	38,625	38,625	2021	857,250
765,000	19,125	19,125	2022	803,250
<u>\$ 14,000,000</u>	<u>\$ 1,818,375</u>	<u>\$ 1,818,375</u>		<u>\$ 17,636,750</u>

The above bond issue bears interest at a rate of 5.0%. The bond proceeds were used for refunding a portion of the School District's outstanding 1998 Refunding Bonds.

**ALLEGAN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2011**

2008 Energy Conservation Improvement Bonds

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May1,	June 30,	Amount
\$ 45,000	\$ 14,670	\$ 14,670	2012	\$ 74,340
45,000	13,860	13,860	2013	72,720
50,000	13,005	13,005	2014	76,010
50,000	12,018	12,018	2015	74,036
55,000	10,992	10,992	2016	76,984
55,000	9,824	9,824	2017	74,648
55,000	8,614	8,614	2018	72,228
55,000	7,362	7,362	2019	69,724
60,000	6,098	6,098	2020	72,196
60,000	4,672	4,672	2021	69,344
65,000	3,217	3,217	2022	71,434
65,000	1,625	1,625	2023	68,250
<u>\$ 660,000</u>	<u>\$ 105,957</u>	<u>\$ 105,957</u>		<u>\$ 871,914</u>

The above bond dated September 22, 2008, was issued for the purpose of improving the energy efficiency in the District. The above bond issue bears interest at rates ranging from 3.6% to 5.0%. The amount of the original bond issue was \$785,000.

**ALLEGAN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2011**

\$463,213 1998 School Improvement Bonds (Durant Bonds)
issued November 24, 1998 (Limited Obligation Bonds)

Principal due May 15,	Interest due May 15,	Debt service requirement for fiscal year	
		June 30,	Amount
\$ 29,637	\$ 2,889	2012	\$ 32,526
31,048	1,478	2013	32,526
\$ 60,685	\$ 4,367		\$ 65,052

The above bond issue bears interest at 4.76%.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

**SCHEDULE OF BORROWING - STATE OF MICHIGAN
SCHOOL BOND LOAN FUND
JUNE 30, 2011**

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Fund. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State of Michigan under this program have been summarized as follows:

Year ended June 30,	Loan proceeds (repayments)	Accrued interest	Net change	Balance
2000	\$ 417,581	\$ 14,521	\$ 432,102	\$ 432,102
2001	1,199,605	31,801	1,231,406	1,663,508
2002	1,357,660	80,220	1,437,880	3,101,388
2003	268,991	111,985	380,976	3,482,364
2004	1,426,095	117,002	1,543,097	5,025,461
2005	203,987	152,352	356,339	5,381,800
2006	446,839	229,772	676,611	6,058,411
2007	28,122	289,263	317,385	6,375,796
2008	(314,361)	285,371	(28,990)	6,346,806
2009	(50,000)	299,648	249,648	6,596,454
2010	(174,372)	151,105	(23,267)	6,573,187
2011	(512,717)	336,383	(176,334)	6,396,853
	<u>\$ 4,297,430</u>	<u>\$ 2,099,423</u>		

ALLEGAN PUBLIC SCHOOLS
ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2011

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Allegan Public Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan Public Schools as of and for the year ended June 30, 2011, which collectively comprise Allegan Public Schools' basic financial statements and have issued our report thereon dated October 21, 2011. 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 Allegan Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

We noted certain matters that we reported to management of Allegan Public Schools in a separate letter dated October 21, 2011.

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

Manes Costeiran PC

October 21, 2011

**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**

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Allegan Public Schools

Compliance

We have audited Allegan Public 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 Allegan Public Schools' major federal programs for the year ended June 30, 2011. Allegan Public 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 Allegan Public Schools' management. Our responsibility is to express an opinion on Allegan Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. 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 Allegan Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Allegan Public Schools' compliance with those requirements.

In our opinion, Allegan Public Schools complied, in all material respects, with the compliance 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, 2011.

Internal Control Over Compliance

Management of Allegan Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Allegan Public 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 in accordance 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 Allegan Public 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 a 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 over compliance 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 Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan Public Schools as of and for the year ended June 30, 2011, and have issued our report thereon dated October 21, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Allegan Public 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, the Board of Education, others within the District, 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.

Manes Costeiran PC

October 21, 2011

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue 7/1/2010	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue 6/30/2011
U.S. Department of Agriculture:							
Passed through Michigan Department of Education:							
Child Nutrition Cluster:							
Non-cash Assistance (Donated Food):							
National School Program - Non-bonus	10.555	\$ 69,908	\$ -	\$ 43,330	\$ 69,908	\$ 69,908	\$ -
National School Program - Bonus		1,324	-	13,016	1,324	1,324	-
Total Non-cash Assistance (Donated Food)		<u>71,232</u>	<u>-</u>	<u>56,346</u>	<u>71,232</u>	<u>71,232</u>	<u>-</u>
Cash assistance:							
National School Lunch Program:							
101950 & 101960 Lunch (2009-2010)	10.555	436,711	1,849	385,147	51,564	53,413	-
101980 Snacks (2009-2010)		1,969	-	1,761	208	208	-
111950 & 111960 Lunch (2010-2011)		398,494	-	-	398,494	385,790	12,704
111980 Snacks (2010-2011)		3,185	-	-	3,185	3,162	23
Total National School Lunch Program		<u>840,359</u>	<u>1,849</u>	<u>386,908</u>	<u>453,451</u>	<u>442,573</u>	<u>12,727</u>
National School Breakfast Program:							
101970 Breakfast (2009-2010)	10.553	115,121	880	103,168	11,953	12,833	-
111970 Breakfast (2010-2011)		106,108	-	-	106,108	102,330	3,778
Total National School Breakfast Program		<u>221,229</u>	<u>880</u>	<u>103,168</u>	<u>118,061</u>	<u>115,163</u>	<u>3,778</u>
Special Milk Program for Children:							
101940 Special Milk Program (2009-2010)	10.556	2,707	-	2,480	227	227	-
111940 Special Milk Program (2010-2011)		2,237	-	-	2,237	2,186	51
Total Special Milk Program for Children		<u>4,944</u>	<u>-</u>	<u>2,480</u>	<u>2,464</u>	<u>2,413</u>	<u>51</u>
Total U.S. Department of Agriculture (Cluster Total)		<u>1,137,764</u>	<u>2,729</u>	<u>548,902</u>	<u>645,208</u>	<u>631,381</u>	<u>16,556</u>

The accompanying notes are an integral part of this schedule.

ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue 7/1/2010	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue 6/30/2011
U.S. Department of Education:							
Passed through Michigan Department of Education:							
Title I Cluster:							
Title I, Part A:							
Project number 101530-0910	84.010	\$ 415,778	\$ 244,249	\$ 415,778	\$ -	\$ 244,249	\$ -
Project number 111530-1011		506,860	-	-	506,860	432,119	74,741
Total Title I, Part A		922,638	244,249	415,778	506,860	676,368	74,741
ARRA, Title I, Part A:							
Project number 101536-0910	84.389	211,544	58,950	171,552	-	58,950	-
Project number 111536-1011		39,991	-	-	39,991	-	39,991
Total ARRA, Title I, Part A		251,535	58,950	171,552	39,991	58,950	39,991
Total Title I Cluster		1,174,173	303,199	587,330	546,851	735,318	114,732
Federal Adult Education ABE Instruction:							
Project number 101130-101910	84.002A	76,000	6,882	76,000	-	6,882	-
Project number 111130-111910		68,400	-	-	68,400	52,170	16,230
Total Federal Adult Education ABE Instruction		144,400	6,882	76,000	68,400	59,052	16,230
ARRA Title II, Part D:							
Project number 104295-0910	84.386	8,211	8,211	8,211	-	8,211	-
Title II, Part A:							
Project number 100520-0910	84.367	150,106	21,762	96,866	10,984	32,746	-
Project number 110520-1011		191,854	-	-	161,842	109,842	52,000
Total Title II, Part A		341,960	21,762	96,866	172,826	142,588	52,000

The accompanying notes are an integral part of this schedule.

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue 7/1/2010	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue 6/30/2011
U.S. Department of Education (Concluded):							
Passed through Michigan Department of Education (Concluded):							
ARRA State Fiscal Stabilization Fund:							
Project number 112525-1011	84.394	\$ 325,257	\$ -	\$ -	\$ 325,257	\$ 325,257	\$ -
Education Jobs Fund:							
Project number 112545-1011	84.410A	625,540	-	-	625,540	625,540	-
Total passed through Michigan Department of Education		2,619,541	340,054	768,407	1,738,874	1,895,966	182,962
Passed through Allegan Area Educational Service Agency:							
Special Education Cluster:							
Preschool Incentive							
Project number 100460-1011	84.173	4,872	-	-	4,872	4,872	-
ARRA Preschool Grant:							
Project number 100465-0910	84.392A	6,262	-	-	6,262	6,262	-
ARRA IDEA Flowthrough:							
Project number 100455-0910	84.391	369,424	28,818	186,827	182,577	211,395	-
Total Special Education Cluster		380,558	28,818	186,827	193,711	222,529	-
Passed through Ottawa County Intermediate School District:							
Drug Free Schools and Communities:							
Project number 102860-0910	84.186	7,415	-	7,213	202	202	-
Total U.S. Department of Education		3,007,514	368,872	962,447	1,932,787	2,118,697	182,962

The accompanying notes are an integral part of this schedule.

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Approved grant award amount</u>	<u>Accrued (deferred) revenue 7/1/2010</u>	<u>Prior year expenditures</u>	<u>Current year expenditures</u>	<u>Current year cash receipts</u>	<u>Accrued (deferred) revenue 6/30/2011</u>
U.S. Department of Health and Human Services:							
Passed through Allegan Area Educational Service Agency:							
Medical assistance program	93.778	\$ 11,683	\$ -	\$ -	\$ 11,683	\$ 3,060	\$ 8,623
TOTAL FEDERAL AWARDS		<u>\$ 4,156,961</u>	<u>\$ 371,601</u>	<u>\$ 1,511,349</u>	<u>\$ 2,589,678</u>	<u>\$ 2,753,138</u>	<u>\$ 208,141</u>

The accompanying notes are an integral part of this schedule.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Allegan Public Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciled with the amounts presented in the preparation of the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. ARRA State Fiscal Stabilization Fund (CFDA #84.394), Education Jobs Fund (CFDA #84.410A), Title II, Part A (CFDA #84.367), and Special Education Cluster (CFDA #84.173, #84.391 and #84.392A) were audited as major programs and represent 50.8% of expenditures.

2. The threshold for distinguishing Type A and B programs was \$300,000.

3. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 1,944,470
Other nonmajor governmental funds	645,208
	\$ 2,589,678
	\$ 2,589,678

4. Management has utilized the Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

5. The National School Lunch Program non-cash assistance (donated food) entitlement award was \$71,232. The District received donated food totaling \$71,232 distributed through the Great Lakes Co-op. Based upon confirmation from the Michigan Department of Education, \$71,232 has been recorded.

6. The amounts reported on the Receipt Entitlement Balance Report agree with this schedule for USDA donated food.

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTION COSTS
YEAR ENDED JUNE 30, 2011**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		<i>Unqualified</i>		
➤ Material weakness(es) identified?	_____	Yes	_____ <u>X</u> _____	No
➤ Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	Yes	_____ <u>X</u> _____	No
Noncompliance material to financial statements noted?	_____	Yes	_____ <u>X</u> _____	No

Federal Awards

Internal control over major programs:				
➤ Material weakness(es) identified?	_____	Yes	_____ <u>X</u> _____	No
➤ Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	Yes	_____ <u>X</u> _____	None reported

Type of auditors' report issued on compliance for major programs:		<i>Unqualified</i>		
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Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____	Yes	_____ <u>X</u> _____	No
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Identification of major programs:	
<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.394	ARRA State Fiscal Stabilization Fund
84.367	Title II, Part A
84.173, 84.391 & 84.392A	Special Education Cluster
84.410A	Education Jobs Fund

Dollar threshold used to distinguish between type A and type B programs:	_____	\$	_____ <u>300,000</u> _____	
Auditee qualified as low-risk auditee?	_____	Yes	_____ <u>X</u> _____	No

Section II - Financial Statement Findings

None noted

Section III - Federal Award Findings and Question Costs

None noted

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011**

There were no audit findings for the year ended June 30, 2010.

October 21, 2011

To the Board of Education
Allegan Public Schools

In planning and performing our audit of the financial statements of Allegan Public Schools as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Allegan Public Schools' internal control over financial reporting (internal control) 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 21, 2011 on the financial statements of Allegan Public Schools. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows.

Review of Internet Usage Policy

Employee access to, and use of, the District's Internet resources has increased significantly. Thus, now is a good time to develop or review an official District policy on acceptable use of the Internet. A sound policy can help limit misuse of the Internet and perhaps provide a basis for legal action, should that be necessary. The policy should be communicated to employees on a regular basis. The following are some matters the policy should cover:

- Internet access includes viewing websites, sending and receiving email, transmitting or receiving electronic files, running Internet applications such as games on the District-provided network or Internet, etc.
- Appropriate use of the Internet includes business-related communication with customers, vendors, and other employees; research; information retrieval; and other business-related tasks.
- Inappropriate, prohibited use of the Internet includes accessing or downloading obscene, sexually explicit, pornographic, or politically subversive material; sending or forwarding profane, obscene, sexually explicit, discriminatory, or harassing material; disseminating proprietary or confidential District information or trade secrets without authorization; downloading software subject to licensing restrictions in violation of intellectual property rights; or using the Internet for personal gain, illegal or unauthorized political activity, or to maliciously alter, damage, or destroy information.

- All electronic documents created or stored on, and all communications using, the District's computers are the District's property. Employees should not expect their communications using the District's systems to be private or confidential. The District may access those documents or communications when warranted by business needs or legal requirements. Also, the District can monitor its systems to ensure proper use and prevent security violations.
- Personal use of the Internet (such as for browsing, shopping, playing games, or sending personal email) should be deferred to nonbusiness hours if possible and be kept to a minimum when use is unavoidable during business hours. Personal use should at all times (during business or nonbusiness hours) conform to the above-stated District policies concerning inappropriate, prohibited use.
- Files transferred in should be checked for viruses before being opened.
- Violations of the Internet policy may result in restriction or loss of access, termination, and notification of appropriate authorities if there is evidence of illegal activity.

Debarred Vendor Comparison

The Kalamazoo Regional Educational Service Agency has the ability to match the District's vendor data base against the EPLS federal debarred vendor listing. This debarred vendor report compares vendors based on search criteria of the basic name, city and zip code. The District can request this report when desired. We recommend that the District utilize this report at least semi-annually to identify any potentially debarred vendors in use.

Changes in Employer and Employee Pension Contributions

During the past fiscal year there have been numerous changes to the contribution rates as well the addition of the pension plus plan for new employees. The amounts required to be contributed by the District and employees now vary depending on date of hire and the type of plan employees are in.

We perform limited tests to determine the overall reasonableness of the District's pension contributions. While we found no errors in our testing we recommend controls would be improved if there were periodic reviews of the employer and employee contribution calculations to determine all employee records are accurate and the proper amount of withholding and contributions are being made based on these numerous changes.

This report is intended solely for the information and use of management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Manes Costeiran PC

October 21, 2011

To the Board of Education
Allegan Public Schools

We have audited the financial statements of Allegan Public Schools for the year ended June 30, 2011, and have issued our report thereon dated October 21, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Allegan Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Allegan Public Schools' financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Allegan Public Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Allegan Public Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Allegan Public Schools' compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 27, 2011.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Allegan Public Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011, except for the adoption of GASB 54 (*Fund Balance Reporting and Governmental Fund Type Definitions*). We noted no transactions during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected:

We did not identify any sensitive estimates.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

We did not identify any sensitive disclosures.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

For 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 are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 21, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Allegan Public Schools financial statements or a determination of the type of auditors' 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 Allegan Public Schools auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Very truly yours,

Manes Costeiron PC