

MARSHALL PUBLIC SCHOOLS

A Rich Tradition of Excellence

Marshall
High School

Alternative
High School

Marshall
Middle School

Gordon
Elementary

Hughes
Elementary

Walters
Elementary



Marshall, Michigan

FINANCIAL STATEMENTS and SINGLE AUDIT ACT COMPLIANCE

**For the Year Ended
June 30, 2011**

MARSHALL PUBLIC SCHOOLS

For the Year Ended June 30, 2011

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MARSHALL PUBLIC SCHOOLS

For the Year Ended June 30, 2011

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INDEPENDENT AUDITORS' REPORT

October 12, 2011

Board of Education
Marshall Public Schools
Marshall, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **MARSHALL PUBLIC SCHOOLS**, (the "District") 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 the District's 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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Marshall Public Schools, as of June 30, 2011, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2011, on our consideration of the District's internal control over financial reporting and 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 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 on pages 3-13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marshall Public Schools' basic financial statements. The combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Marshall Public Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

As described in Note IV - F to the financial statements, the District adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the current year. This statement revised the classifications of fund balance presented in the District's governmental funds.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent initial 'L'.

MANAGEMENT'S DISCUSSION and ANALYSIS

Marshall Public Schools Management's Discussion and Analysis

This section of Marshall Public School's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2011. Please read it in conjunction with the transmittal letter at the front of this report and the District's financial statements, which immediately follow this section.

Financial Highlights

- The District's assets exceeded its liabilities on June 30, 2011 by \$10.3 million.
- The District's total net assets increased by over \$1.1 million, or 12.5%.
- The \$28.4 million of fund expenditures were less than revenues by \$2 million.
- Over \$30 million remains of proceeds from the sale of voter approved school improvement bonds.
- The District's tax base decreased by 4.0% compared with 2.9% increase in the prior year.
- The voters approved the renewal of a 5-year, 1 mil property tax to be levied on all non tax-exempt property for sinking fund purposes.
- The voters also approved renewing the 1-year, operational property tax levied at a rate of 6 mils for commercial personal property, and 18 mils for all other non-PRE property except industrial personal, which is not subject to the operational levy.

Overview of the Financial Statements

This annual report consists of three parts: 1) management's discussion and analysis (this section), 2) the basic financial statements, and 3) required supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

- 1) 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.
- 2) 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.
 - a) The *governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - b) *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 to 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 summarizes 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.

Marshall Public Schools Management's Discussion and Analysis

Figure A-1
Organization of Marshall Public Schools Annual Financial Report

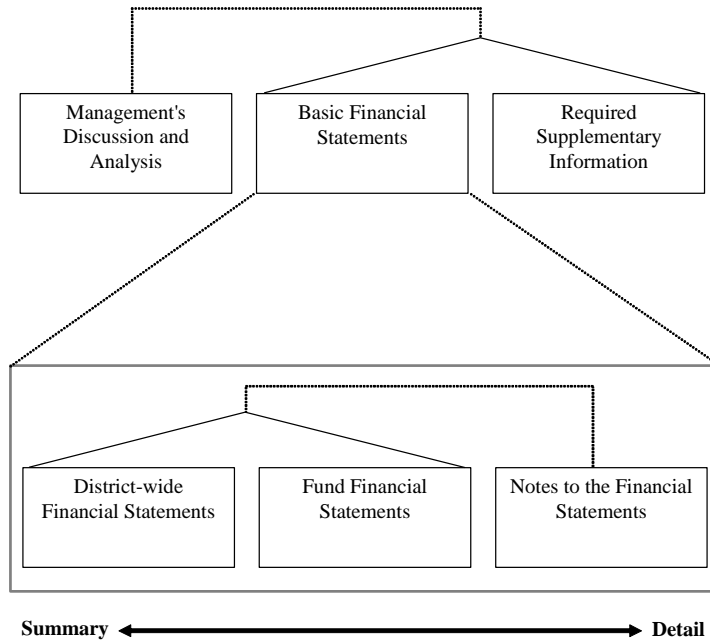


Figure A-2
Major Features of the District-Wide and Fund Financial Statements

	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	1) Statement of net assets 2) Statement of activities	1) Balance Sheet 2) Statement of revenues, expenditures, and changes in fund balances	1) Statement of fiduciary net assets 2) Statement of changes in fiduciary net assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial 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; 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 the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Marshall Public Schools Management's Discussion and Analysis

District-wide Financial Statements

The district-wide financial statements report on 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, is 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 Districts overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District. The primary focus is on its most significant or "major" funds. 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 (such as repaying its long-term debts) or to show that it is properly using certain revenues.

The District has two kinds of funds:

1. *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on: a) how cash and other financial assets that can readily be converted to cash flow in and out, and b) the balances left at year-end that are available for spending. Consequently, the governmental funds' statements provide a detailed short-term view that helps you 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, this report includes reconciliation schedules that explain the relationship, or differences, between the District-wide Statements and the Fund Financial Statements.
2. *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others, such as 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. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

**Marshall Public Schools
Management's Discussion and Analysis**

Financial Analysis of the District as a Whole

As noted earlier, net assets are the difference between assets and liabilities. On June 30, 2011, the District had total assets of \$72.8 million, liabilities of \$62.5 million, and net assets of \$10.3 million. Figure A-3, below, provides a summary of net assets for the years ending on June 30, 2011 and June 30, 2010.

Figure A-3
Condensed Statement of Net Assets

	<u>2011</u>	<u>2010</u>	<u>Change</u>	
Assets				
Current	\$ 39,032,950	\$ 42,073,630	\$ (3,040,680)	(7.2) %
Non-Current	33,764,843	31,101,967	2,662,876	8.6
	<u>\$ 72,797,793</u>	<u>\$ 73,175,597</u>	<u>\$ (377,804)</u>	<u>(0.5) %</u>
Liabilities				
Current	\$ 5,384,107	\$ 5,339,893	\$ 44,214	0.8 %
Non-Current	57,155,714	58,720,881	(1,565,167)	(2.7)
	<u>62,539,821</u>	<u>64,060,774</u>	<u>(1,520,953)</u>	<u>(2.4)</u>
Net Assets				
Invested in capital net of related debt	7,886,223	7,484,629	401,594	5.4
Restricted	1,128,321	588,343	539,978	91.8
Unrestricted	1,243,428	1,041,851	201,577	19.3
	<u>10,257,972</u>	<u>9,114,823</u>	<u>1,143,149</u>	<u>12.5</u>
Liabilities and Net Assets	<u>\$ 72,797,793</u>	<u>\$ 73,175,597</u>	<u>\$ (377,804)</u>	<u>(0.5) %</u>

The above table shows the District's net assets on June 30, 2011 increased by \$1.1 million, or 12.5%. Four key events helped cause the increase. First, revenues for voter approved debt exceeded expenses by \$358,000. Second, expenses for business services, operations and maintenance, and non-instructional technology were less than last year by nearly 8%, or \$267,000. The third significant reason for the \$1.1 million increase is due to the net revenue realized from day care and food service operations. The fourth reason is due to increased interest earnings on proceeds from voter approved bonds. Figure A-4 compares summaries of revenues and expenses from the fiscal years ending 6/30/2011 and 6/30/2010.

**Marshall Public Schools
Management's Discussion and Analysis**

Figure A-4
Changes in Net Assets from Operating Results

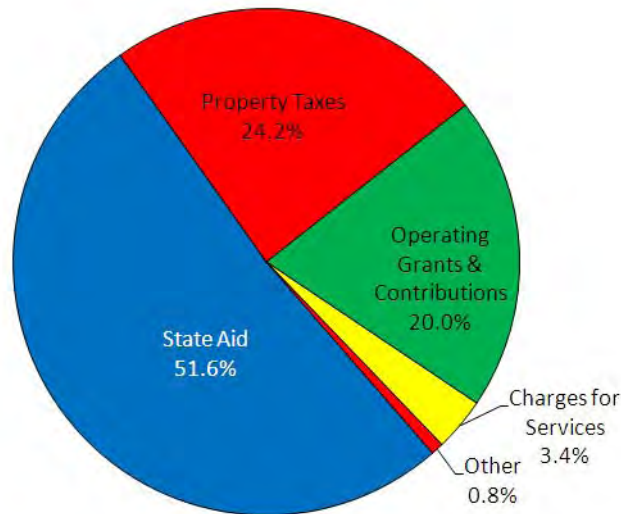
	<u>2011</u>	<u>2010</u>	<u>Change</u>	
Revenues				
Charges for Services	\$ 899,516	\$ 709,799	\$ 189,717	26.7 %
Operating Grants & Contributions	5,192,563	3,985,013	1,207,550	30.3
Unrestricted Contributions	81,177	196,450	(115,273)	(58.7)
Property Taxes	6,374,260	5,254,056	1,120,204	21.3
State Aid	13,586,730	13,458,127	128,603	1.0
Unrestricted Investment Earnings	207,589	44,746	162,843	363.9
	<u>26,341,835</u>	<u>23,648,191</u>	<u>2,693,644</u>	<u>11.4</u>
Expenses				
Instruction and Extra Curricular	12,538,641	12,219,817	318,824	2.6
Supporting Services*	8,687,820	9,121,862	(434,042)	(4.8)
Community Services	264,464	168,551	95,913	56.9
Food Service	592,301	612,765	(20,464)	(3.3)
Interest on Debt	3,115,460	1,323,386	1,792,074	135.4
	<u>25,198,686</u>	<u>23,446,381</u>	<u>\$ 1,752,305</u>	<u>7.5 %</u>
Increase / (Decrease) in Net Assets	<u>\$ 1,143,149</u>	<u>\$ 201,810</u>		

* Includes facilities acquisition and unallocated depreciation. Does not include Athletics (Extra Curricular).

Revenues The District's total revenues of \$26.3 million were more than expenses; increasing net assets by \$1.1 million over last year (see Figure A-4). State formula aid accounted for most of the District's revenue, contributing about 52 cents of every dollar raised. Another 24 percent came from property taxes levied by the District. Operating grants and contributions, both restricted and unrestricted, comprised 20 percent of the revenue (see Figure A-5).

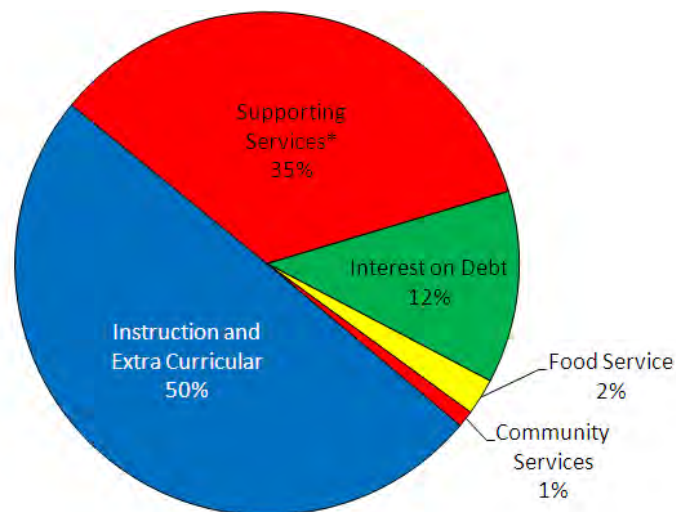
**Marshall Public Schools
Management's Discussion and Analysis**

Figure A-5
Sources of Revenues for Fiscal Year Ending June 30, 2011



Expenses For the year ending June 30, 2011, expenses amounted to \$25.2 million, which is \$1.75 million more than the prior year. The increase can be attributed to increased interest expenses towards long-term debt retirement. Around 50% of the District's expenses were used towards instruction and extra curricular activities; which is very similar to the rate as in the prior year. Supporting services, facilities acquisition, and unallocated depreciation accounted for around 35% of expenses, compared to 39% the prior year. As stated earlier, the total expenses increased from the prior year can be attributed to interest. The interest on debt comprised 12% of expenses for year ending 5.6% of the total expenses compared to 5.0% for the prior year. (see Figure A-6).

Figure A-6
Expenses for Fiscal Year Ending June 30, 2010



* Includes facilities acquisition and unallocated depreciation. Does not include Athletics (Extra Curricular)

Marshall Public Schools Management's Discussion and Analysis

Financial Analysis of the District's Funds

For 2010-11 the District's net assets increased by around \$1.1 million per the district-wide statements, while the District's combined governmental fund balances decreased by \$2 million per the fund financial statements. As stated earlier, the fund financial statements do not encompass the long-term focus of the district-wide statements. This fact causes the discrepancy between the district-wide statements and fund financial statements. The principal payment on long-term debt and capital outlay purchases offer specific examples on how the \$3.1 discrepancy occurs for 2010-11.

During the year ending June 30, 2011, the District made approximately \$1.5 million of principal payments on voter approved debt. The district-wide statements recognized the disbursements as a reduction to long-term liabilities, thus there was no impact to net assets. The fund financial statements treat the principal payments as expenditures, which have the effect of reducing fund equity.

The District's \$3 million investments in capital outlay outpaced depreciation by \$1.6 million. The short-term focus of the fund financial statements treats the entire \$3 million investment as expenditures within a single year. The long-term focus of the district-wide statements accounts for the investment as additions to long-term assets with depreciation expenses to be recorded over the useful life of the assets. As a result, net assets do not decline as great as fund equity during years, like 2010-11, where significant investments in depreciable capital assets occur.

A detail explanation for the discrepancy is provided in the financial statements. The specific report is entitled "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities".

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget to recognize unexpected changes in revenues and expenditures. The final budgeted amounts for both revenues and expenditures were greater than originally budgeted. Significant items causing budget adjustments are enumerated below:

- Most of the \$740,000 increase to revenues is due to increase in federal funding.
- Increased day-care revenues and local contributions account most all other revenue increases.
- Increasing rate for state pension obligations account for over 50% of increased expenditures.
- The remaining items causing increased expenditures in ascending order by amount are increased staffing, increased expenditures from restricted contributions, and wage and contract settlements.

The chart presented in Figure A-7 compares the general fund budgeted and actual revenues and expenditures. Listed below are points which are evident in the chart below and enclosed fund financial statements.

- Revenues of \$20.55 million were greater than budget by \$39,000, or 0.2%, whereas the \$20.14 million of expenditures were \$234,000, or 1.1%, less than budget. As a result, fund balance increased by approximately \$270,000 more than budgeted.
- Comparing salaries and benefits amounts for 2010-11 with the prior year show salaries increased by \$155,000, or 1.4%, whereas benefits increased by almost \$386,000, or 7.2%.

**Marshall Public Schools
Management's Discussion and Analysis**

- Expenditures for natural gas, electricity, telephones, water/sewage, trash removal, and postage were 2.6% less than budget; and were \$64,000, or 8%, less than amounts reported for the 2009-10.
- Expenditures for instruction were greater than the prior year by \$287,000, or 2.5%.
- The 2010-11 Expenditures for Business, Operations and Maintenance, and Central Support each decreased by over 8% from the prior year. Combined, these expenditures decreased by nearly \$267,000.

Figure A-7
General Fund Expenditures - Budget versus Actual

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	
Revenues:				
Local Sources	\$ 3,378,096	\$ 3,429,843	\$ 51,747	1.5 %
Intermediate Sources	1,111,824	1,052,299	(59,525)	(5.4)
State Sources	14,852,739	14,874,614	21,875	0.1
Federal Sources	1,173,194	1,197,832	24,638	2.1
Other Financing	-	-	-	*
	<u>\$ 20,515,853</u>	<u>20,554,588</u>	<u>38,735</u>	<u>0.2</u>
Expenditures:				
Salaries and Wages	11,040,481	10,971,638	68,843	0.6
Employee Benefits	5,771,826	5,724,566	47,260	0.8
Utilities, Phones, etc.*	769,420	749,099	20,321	2.6
Purchased Services	1,778,938	1,770,356	8,582	0.5
Supplies and Materials	582,833	548,744	34,089	5.8
Capital Outlay	73,428	72,673	755	1.0
Miscellaneous	358,350	348,526	9,824	2.7
Indirect - Food Service	-	(44,131)	44,131	*
	<u>20,375,276</u>	<u>20,141,471</u>	<u>\$ 233,805</u>	<u>1.1 %</u>
Net increase / (decrease)	<u>\$ 140,577</u>	<u>\$ 413,117</u>		

* Includes expenditures for natural gas, electricity, telephone, water/wewage, and waste disposal.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2011, the District had invested \$50.5 million in a broad range of capital assets, including school buildings, athletic facilities, computer hardware, and school buses. Accumulated depreciation was \$16.7 million; resulting in the net value of capital assets to be around \$33.8 million. The net value increased by 5.3% over the prior year. Total depreciation expense for the year was just under \$1.4 million. Figure A-8 details the historical costs, accumulated depreciation, and book value of the District's capital assets.

**Marshall Public Schools
Management's Discussion and Analysis**

Figure A-8
Statement of Capital Assets

	Historical Cost	Accumulated Depreciation	Net Asset Value
Land and Buildings			
Land	\$ 500,535	\$ -	\$ 500,535
Construction in Progress	2,455,442	-	2,455,442
Buildings	42,763,190	13,867,597	28,895,593
Site Improvements	974,360	346,008	628,352
	<u>46,693,527</u>	<u>14,213,605</u>	<u>32,479,922</u>
Equipment			
Athletic Equipment	71,693	32,163	39,530
Audio Visual Equipment	13,182	13,182	-
Communications Equipment	350,528	87,157	263,371
Computer Hardware	378,730	378,730	-
Computer Software	26,474	25,004	1,470
Copier Equipment	388,755	274,573	114,182
Custodial Equipment	5,115	5,115	-
Grounds Equipment	76,343	66,063	10,280
Instructional Equipment	59,368	59,368	-
Kitchen Equipment	82,300	59,041	23,259
Maintenance Equipment	45,380	22,510	22,870
Music/stage Equipment	105,964	46,098	59,866
Outdoor Equipment	551,884	369,624	182,260
Surveillance/Security Equipment	174,272	71,442	102,830
	<u>2,329,988</u>	<u>1,510,070</u>	<u>819,918</u>
Vehicles	<u>1,466,697</u>	<u>1,001,694</u>	<u>465,003</u>
Totals at Historical Cost	<u>\$ 50,490,212</u>	<u>\$ 16,725,369</u>	<u>\$ 33,764,843</u>

Long Term Debt

At year-end, the District had approximately \$57.2 million in outstanding long-term debt. This amount is almost \$1.6 million less than the prior year, as shown in Figure A-9.

**Marshall Public Schools
Management's Discussion and Analysis**

**Figure A-9
Statement of Long Term Debt**

	Balance at June 30, 2010	Additions	Payments/ Amortization	Balance at June 30, 2011	Current Portion
Bonds Payable and Related					
2010 Non-Voted Refunding	\$ 550,000	\$ -	\$ 110,000	\$ 440,000	\$ 145,000
1998 Durant Bonds	47,938	-	15,243	32,695	15,967
2001 Bonds	675,000	-	675,000	-	-
2004 Refunding Bonds	495,000	-	495,000	-	-
2005 Refunding Bonds	5,760,000	-	30,000	5,730,000	30,000
2006 Refunding Bonds	6,350,000	-	-	6,350,000	-
2007 Refunding Bonds	2,255,000	-	-	2,255,000	480,000
2007 Bonds	8,700,000	-	-	8,700,000	770,000
2010 A Bonds	15,000,000	-	-	15,000,000	-
2010 B Bonds	18,765,000	-	-	18,765,000	-
2006 Issuance Premiums	129,498	-	11,772	117,726	11,772
2010 A Discounts	(90,000)	-	(5,294)	(84,706)	(5,294)
2010 B Discounts	(220,562)	-	(7,352)	(213,210)	(7,352)
2006 Deferred Costs	(680,719)	-	(61,884)	(618,835)	(61,884)
	<u>57,736,155</u>	<u>-</u>	<u>1,262,485</u>	<u>56,473,670</u>	<u>1,378,209</u>
Staffing Related					
Compensated Absences	217,835	20,830	14,998	223,667	75,000
Early Retirement Incentive	317,250	12,000	99,750	229,500	112,000
	<u>535,085</u>	<u>32,830</u>	<u>114,748</u>	<u>453,167</u>	<u>187,000</u>
Capital Lease Payable					
MOS Lease 1	11,154	-	3,259	7,895	3,698
MOS Lease 2	177,575	-	76,193	101,382	83,326
	<u>188,729</u>	<u>-</u>	<u>79,452</u>	<u>109,277</u>	<u>87,024</u>
Notes Payable					
2005 Bus	13,569	-	13,569	-	-
2006 Bus	35,441	-	35,441	-	-
2006 Bus	32,504	-	32,504	-	-
2008 Bus	113,681	-	37,893	75,788	37,894
2009 Bus	65,717	-	21,905	43,812	21,906
	<u>260,912</u>	<u>-</u>	<u>141,312</u>	<u>119,600</u>	<u>59,800</u>
Total Long-Term Debt	\$ 58,720,881	\$ 32,830	\$ 1,597,997	\$ 57,155,714	\$ 1,712,033

Marshall Public Schools Management's Discussion and Analysis

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of three circumstances that could significantly affect its financial health in the future. They are described below:

1. Significant reductions to the per pupil foundation grant were enacted for the 2011-12 School Year. This event will reduce General Fund revenues by \$1.1 million, or 5%.
2. Senate Bill 34 (SB 34) is proposed legislation to shield all personal property from property taxes. Marshall Public Schools would be negatively impacted if SB 34 were to pass without replacement revenue. Personal property accounts for 10.5 % of the District's taxable valuation subject to property taxes for voter approved debt retirement purposes. Eliminating 10.5% of taxable valuation would require the district to levy higher property taxes for 27 of the next 28 years. In addition, the district's interest expenses would increase by \$5.2 million

The sponsoring State Senator immediately responded to the District's expressed concerns. The Senator informed the district SB 34 is still a work in progress that needs to address existing debt retirement obligations. The Senator further stated replacement revenue likely will be included in the final version. However, he had doubt the final version would include replacement revenue equal to 100% of lost revenue.

Passage of SB 34 would reduce the district's Building and Site Sinking Fund levies to be reduced by approximately \$50,000 per year. Estimates from Senate Fiscal Agency show personal property taxes account for about \$70 per pupil for General Operating purposes. Property taxes for Special Education purposes are levied at the Intermediate School District level. Passage of SB 34 would reduce levies for Special Education purposes by a State-wide average of \$54 per pupil.

3. There exists a legal challenge to the May 2010 State of Michigan enacted reforms to the Michigan Public Schools Employees Retirement System. As a result, the District's actual amount of contributions towards state retirement could increase by 17.6%, or \$324,000, per year. The first year where wages would be subject to the increase would be the school year ending June 30, 2011.

Contacting the District's Financial Management

This financial report is designed to provide the District's 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 financial information, contact the Marshall Public Schools Business Office, 100 East Green Street, Marshall, MI 49068.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

MARSHALL PUBLIC SCHOOLS
Statement of Net Assets
June 30, 2011

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 35,653,947
Receivables	3,326,017
Prepaid items and other assets	52,986
Capital assets not being depreciated	2,955,977
Capital assets being depreciated, net	30,808,866
Total assets	72,797,793
 Liabilities	
Accounts payable and accrued liabilities	3,801,984
State aid note payable	1,076,574
Unearned revenue	505,549
Noncurrent liabilities:	
Due within one year	1,712,033
Due in more than one year	55,443,681
Total liabilities	62,539,821
 Net assets	
Invested in capital assets, net of related debt	7,886,223
Restricted for:	
Debt service	666,801
Construction	425,521
Other purposes	35,999
Unrestricted	1,243,428
Total net assets	\$ 10,257,972

The accompanying notes are an integral part of these financial statements.

MARSHALL PUBLIC SCHOOLS
Statement of Activities
For the Year Ended June 30, 2011

<u>Functions / Programs</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
<u>Expenses</u>	<u>Charges</u>	<u>Operating</u>	<u>Grants and</u>	<u>Revenue</u>
<u>Expenses</u>	<u>for Services</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Revenue</u>
Governmental activities:				
Instruction	\$ 11,874,672	\$ -	\$ 2,363,690	\$ (9,510,982)
Supporting services	8,679,961	-	384,716	(8,295,245)
Community service	264,464	459,627	-	195,163
Athletics	663,969	118,096	-	(545,873)
Food service	592,301	321,793	348,673	78,165
Interdistrict	-	-	1,052,299	1,052,299
Interest on long-term debt	3,115,460	-	1,043,185	(2,072,275)
Unallocated depreciation	7,859	-	-	(7,859)
	<u>\$ 25,198,686</u>	<u>\$ 899,516</u>	<u>\$ 5,192,563</u>	<u>(19,106,607)</u>
General revenues:				
Property taxes				6,374,260
Unrestricted state aid				13,586,730
Grants and contributions not restricted to specific programs				81,177
Unrestricted investment earnings				207,589
				<u>20,249,756</u>
Change in net assets				1,143,149
Net assets, beginning of year				<u>9,114,823</u>
Net assets, end of year				\$ 10,257,972

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

MARSHALL PUBLIC SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2011

<u>ASSETS</u>	<u>General</u>	<u>2010A Capital Projects</u>	<u>2010B Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Assets					
Cash and cash equivalents	\$ 2,650,436	\$ 13,615,204	\$ 18,184,960	\$ 1,203,347	\$ 35,653,947
Accounts receivable	331,731	-	-	-	331,731
Due from other governments	2,961,591	-	-	32,695	2,994,286
Due from other funds	-	-	-	8,328	8,328
Inventory	4,510	-	-	7,670	12,180
Prepaid expenditures	40,685	-	-	121	40,806
<u>TOTAL ASSETS</u>	<u>\$ 5,988,953</u>	<u>\$ 13,615,204</u>	<u>\$ 18,184,960</u>	<u>\$ 1,252,161</u>	<u>\$ 39,041,278</u>
 <u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ 341,708	\$ 711,084	\$ 297,848	\$ 90,181	\$ 1,440,821
Salaries and benefits payable	1,889,905	-	-	-	1,889,905
Due to other governments	131,193	-	-	964	132,157
Due to other funds	8,328	-	-	-	8,328
Deferred revenue	505,549	-	-	32,695	538,244
State aid note payable	1,076,574	-	-	-	1,076,574
Total liabilities	<u>3,953,257</u>	<u>711,084</u>	<u>297,848</u>	<u>123,840</u>	<u>5,086,029</u>
Fund balances					
Nonspendable - inventory	4,510	-	-	-	4,510
Nonspendable - prepaid expenditures	40,685	-	-	7,791	48,476
Restricted for food service	-	-	-	28,208	28,208
Restricted for debt service	-	-	-	666,801	666,801
Restricted for capital projects	-	12,904,120	17,887,112	-	30,791,232
Restricted for capital project sinking fund	-	-	-	425,521	425,521
Unassigned	1,990,501	-	-	-	1,990,501
Total fund balances	<u>2,035,696</u>	<u>12,904,120</u>	<u>17,887,112</u>	<u>1,128,321</u>	<u>33,955,249</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 5,988,953</u>	<u>\$ 13,615,204</u>	<u>\$ 18,184,960</u>	<u>\$ 1,252,161</u>	<u>\$ 39,041,278</u>

The accompanying notes are an integral part of these financial statements.

MARSHALL PUBLIC SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2011

Fund balances - total governmental funds	\$ 33,955,249
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add- capital assets	50,490,212
Deduct- accumulated depreciation	(16,725,369)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred long-term receivables	32,695
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct- bonds and loans payable	(57,501,572)
Add- unamortized bond premium and discount, net	180,190
Add- unamortized bond loss	618,835
Deduct- accrued interest on bonds payable	(339,101)
Deduct- compensated absences	(223,667)
Deduct- early retirement incentives	(229,500)

Net assets of governmental activities	<u>\$ 10,257,972</u>
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The accompanying notes are an integral part of these financial statements.

MARSHALL PUBLIC SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	<u>General</u>	<u>2010A Capital Projects</u>	<u>2010B Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Revenue					
Local sources:					
Property taxes	\$ 2,510,535	\$ -	\$ -	\$ 3,863,725	\$ 6,374,260
Athletics	118,096	-	-	-	118,096
Other	801,212	64,991	115,832	348,559	1,330,594
State sources	14,874,614	-	-	48,795	14,923,409
Federal sources	1,197,832	-	-	1,360,588	2,558,420
Interdistrict sources	1,052,299	-	-	-	1,052,299
	<u>20,554,588</u>	<u>64,991</u>	<u>115,832</u>	<u>5,621,667</u>	<u>26,357,078</u>
Expenditures					
Education:					
Instruction	11,945,773	-	-	-	11,945,773
Support services	7,917,508	-	-	-	7,917,508
Food service activities	-	-	-	636,432	636,432
Debt service:					
Principal	251,312	-	-	1,215,243	1,466,555
Interest	25,708	-	-	2,850,011	2,875,719
Other fiscal charges	-	66,577	77,002	-	143,579
Capital outlay	1,170	1,999,417	691,009	651,256	3,342,852
Other	-	-	-	29,445	29,445
	<u>20,141,471</u>	<u>2,065,994</u>	<u>768,011</u>	<u>5,382,387</u>	<u>28,357,863</u>
Revenue over (under) expenditures	<u>413,117</u>	<u>(2,001,003)</u>	<u>(652,179)</u>	<u>239,280</u>	<u>(2,000,785)</u>
Fund balances, beginning of year, as restated	<u>1,622,579</u>	<u>14,905,123</u>	<u>18,539,291</u>	<u>889,041</u>	<u>35,956,034</u>
Fund balances, end of year	<u><u>\$ 2,035,696</u></u>	<u><u>\$ 12,904,120</u></u>	<u><u>\$ 17,887,112</u></u>	<u><u>\$ 1,128,321</u></u>	<u><u>\$ 33,955,249</u></u>

The accompanying notes are an integral part of these financial statements.

MARSHALL PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2011

Net change in fund balances - total governmental funds \$ (2,000,785)

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

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

Add- capital outlay	3,032,847
Deduct- depreciation expense	(1,405,433)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets

Add- principal payments on long-term liabilities	1,546,007
Deduct- payments received on long-term Durant Settlement receivable	(15,243)
Deduct- amortization of bond premium and discount, net	(874)
Deduct- amortization of bond loss	(61,884)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct- increase in accrued interest payable on bonds and loans	(33,404)
Deduct- increase in the accrual for compensated absences	(5,832)
Add- decrease in early retirement incentives payable	87,750

Change in net assets of governmental activities	<u><u>\$ 1,143,149</u></u>
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The accompanying notes are an integral part of these financial statements.

MARSHALL PUBLIC SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund
For the Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (under) Final Budget</u>
Revenue				
Local sources				
Property taxes	\$ 2,485,230	\$ 2,521,857	\$ 2,510,535	\$ (11,322)
Athletics	155,901	100,220	118,096	17,876
Other	358,798	756,019	801,212	45,193
State sources	15,253,463	14,852,739	14,874,614	21,875
Federal sources	478,586	1,173,194	1,197,832	24,638
Interdistrict sources -				
County special education	1,044,000	1,111,824	1,052,299	(59,525)
Total revenue	<u>19,775,978</u>	<u>20,515,853</u>	<u>20,554,588</u>	<u>38,735</u>
Expenditures				
Instruction				
Basic programs	9,895,443	10,070,175	10,022,638	(47,537)
Added needs	1,954,247	2,002,546	1,923,135	(79,411)
Total instruction	<u>11,849,690</u>	<u>12,072,721</u>	<u>11,945,773</u>	<u>(126,948)</u>
Supporting services				
Pupil services	724,490	765,643	764,090	(1,553)
Instructional support	624,726	639,004	672,961	33,957
General administration	349,627	343,897	329,458	(14,439)
School administration	1,327,504	1,382,829	1,362,828	(20,001)
Business services	426,556	426,300	405,576	(20,724)
Operations and maintenance	2,076,214	2,012,513	2,021,412	8,899
Transportation	1,061,023	1,125,290	1,117,891	(7,399)
Central support	401,765	384,141	358,990	(25,151)
Athletics	615,218	684,005	663,969	(20,036)
Community services	161,587	259,154	264,464	5,310
Facilities acquisition	-	2,726	1,170	(1,556)
Interfund reimbursements	-	-	(44,131)	(44,131)
Total supporting services	<u>7,768,710</u>	<u>8,025,502</u>	<u>7,918,678</u>	<u>(106,824)</u>
Debt service				
Payment on notes	251,312	251,312	251,312	-
Interest payment on notes	25,741	25,741	25,708	(33)
Total debt service	<u>277,053</u>	<u>277,053</u>	<u>277,020</u>	<u>(33)</u>
Total expenditures	<u>19,895,453</u>	<u>20,375,276</u>	<u>20,141,471</u>	<u>(233,805)</u>
Revenue over (under) expenditures	<u>(119,475)</u>	<u>140,577</u>	<u>413,117</u>	<u>272,540</u>
Fund balances, beginning of year, as restated	<u>1,622,579</u>	<u>1,622,579</u>	<u>1,622,579</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,503,104</u>	<u>\$ 1,763,156</u>	<u>\$ 2,035,696</u>	<u>\$ 272,540</u>

The accompanying notes are an integral part of these financial statements.

MARSHALL PUBLIC SCHOOLS
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Private- Purpose Trust Fund	Student Activities Agency Funds
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 156,037	<u>\$ 304,584</u>
Liabilities		
Accounts payable	5,963	-
Due to student groups	<u>-</u>	<u>304,584</u>
Total liabilities	<u>5,963</u>	<u>\$ 304,584</u>
Net assets		
Unrestricted	<u>\$ 150,074</u>	

The accompanying notes are an integral part of these financial statements.

MARSHALL PUBLIC SCHOOLS
Statement of Changes in Fiduciary Net Assets
Private-Purpose Trust Fund
For the Year Ended June 30, 2011

Additions	
Earnings on deposits and investments	\$ 4,210
Deductions	
Material and supplies	<u>23,817</u>
Decrease in net assets	(19,607)
Net assets, beginning of year	<u>169,681</u>
Net assets, end of year	<u><u>\$ 150,074</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

MARSHALL PUBLIC SCHOOLS

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Marshall Public Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. District-wide and fund financial statements

The District-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 primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2011.

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 to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided 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. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

C. Measurement focus, basis of accounting, and financial statement presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. 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.

MARSHALL PUBLIC SCHOOLS

Notes to the Financial Statements

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 government 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, unrestricted state aid, other intergovernmental revenue, 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.

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 *2010A capital projects fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities and improvements.

The *2010B capital projects fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities and improvements.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations, specifically, food service. Any deficit generated by these activities is the responsibility of the general fund.

The *debt service funds* are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The *capital projects sinking fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities and improvements.

The *private-purpose trust fund* accounts for amounts entrusted to the District for scholarship awards and athletic department projects.

MARSHALL PUBLIC SCHOOLS

Notes to the Financial Statements

The *agency funds* account for assets held for student activity groups and organizations and are custodial in nature.

D. Assets, liabilities and equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value.

2. 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 "due to/from other funds". These interfund balances resulted primarily 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 system, and (3) payments between funds are made.

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds 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 items in both District-wide and fund financial statements.

4. Capital assets

Capital assets, which include land, buildings, equipment and vehicles, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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.

MARSHALL PUBLIC SCHOOLS

Notes to the Financial Statements

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and building improvements	30-50
Buses and other vehicles	5-10
Furniture and other equipment	5-20

5. *Compensated absences and termination benefits*

It is the District's policy to permit employees to accumulate various earned but unused vacation and sick pay benefits and retirement incentives. These are accrued when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

A liability for termination benefits is reported in the government-wide statements at the discounted present value of the expected future benefit payments using a discount rate of 5%. The early retirement benefits consist of monthly early retirement incentive cash payments provided to approximately 40 employees over an eight year period. The cost of the obligation is reported in long-term debt.

6. *Long-term obligations*

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

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 in 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 proceeds received, are reported as debt service expenditures.

MARSHALL PUBLIC SCHOOLS

Notes to the Financial Statements

7. *Fund equity*

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action if the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. The District reports *assigned fund balance* for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund.

When the District incurs an expenditure for purposes for which various fund balance classifications can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.

B. Budget to Actual Comparisons – General Fund

Budget to actual comparisons for the General Fund are presented in the fund financial statements at the legal level of budgetary control.

During the year ended June 30, 2011, the District incurred expenditures in excess of amounts appropriated as shown in the Statement of Revenue, Expenditures and Changes in Fund Balance.

MARSHALL PUBLIC SCHOOLS

Notes to the Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets	
Cash and cash equivalents	\$ 35,653,947
Statement of Fiduciary Net Assets	
Private Purpose Trust Fund	156,037
Student Activities Agency Funds	<u>304,584</u>
	<u>\$ 36,114,568</u>
Cash on hand	\$ 1,551
Deposits	35,951,562
Investments	<u>161,455</u>
	<u>\$ 36,114,568</u>

Statutory Authority

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

MARSHALL PUBLIC SCHOOLS

Notes to the Financial Statements

- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allow for all of these types of investments.

Deposits and investments

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following deposits and investments.

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
MBIA MI CLASS	n/a	\$ 45,672	S&P-AAAm
Michigan Liquid Asset Fund (MILAF)	n/a	<u>115,783</u>	S&P-AAAm
		<u>\$ 161,455</u>	

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings on investments are noted above.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$7,874,639 of the District's bank balance of \$36,285,904 was exposed to custodial credit risk because it was uninsured and uncollateralized.

MARSHALL PUBLIC SCHOOLS

Notes to the Financial Statements

Custodial Credit Risk – Investments. For an investment, custodial credit risk 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. State law does not require and the District does not have a policy for investment custodial credit risk. None of the District’s investments are subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District’s investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

B. Receivables

Receivables as of year end for the District’s individual major funds and nonmajor funds in the aggregate, are as follows:

	General	Other Governmental Funds	Totals
Accounts receivable	\$ 331,731	\$ -	\$ 331,731
Due from other governments	2,961,591	32,695	2,994,286
	\$ 3,293,322	\$ 32,695	\$ 3,326,017

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

	Unavailable	Unearned
General Fund	\$ -	\$ 505,549
Nonmajor funds	32,695	-
	\$ 32,695	\$ 505,549

MARSHALL PUBLIC SCHOOLS

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 500,535	\$ -	\$ -	\$ 500,535
Construction in progress	534,927	2,455,442	534,927	2,455,442
Total capital assets not being depreciated	1,035,462	2,455,442	534,927	2,955,977
Capital assets being depreciated:				
Buildings and improvements	42,235,910	1,071,360	-	43,307,270
Vehicles	1,466,697	-	-	1,466,697
Equipment	2,719,296	40,972	-	2,760,268
Total capital assets being depreciated	46,421,903	1,112,332	-	47,534,235
Less accumulated depreciation for:				
Buildings and improvements	12,834,205	1,098,749	-	13,932,954
Vehicles	886,283	115,411	-	1,001,694
Equipment	1,599,449	191,273	-	1,790,722
Total accumulated depreciation	15,319,936	1,405,433	-	16,725,369
Total capital assets being depreciated, net	31,101,967	(293,101)	-	30,808,866
Governmental activities capital assets, net	\$ 32,137,429	\$ 2,162,341	\$ 534,927	\$ 33,764,843

Depreciation expense was charged to the following functions:

Function:	Amount
Basic programs	\$ 10,818
Support services	1,386,756
Unallocated depreciation	7,859
	\$ 1,405,433

MARSHALL PUBLIC SCHOOLS

Notes to the Financial Statements

D. Payables

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>CP-2010A</u>	<u>CP-2010B</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Accounts payable	\$ 341,708	\$ 711,084	\$ 297,848	\$ 90,181	\$ 1,440,821
Salaries and benefits payable	1,889,905	-	-	-	1,889,905
Due to other governments	131,193	-	-	964	132,157
	<u>\$ 2,362,806</u>	<u>\$ 711,084</u>	<u>\$ 297,848</u>	<u>\$ 91,145</u>	<u>3,462,883</u>
Accrued interest on long-term debt					339,101
Total accounts payable and accrued liabilities in government-wide financial statements					<u>\$ 3,801,984</u>

E. Interfund receivables, payables and transfers

At June 30, 2011, interfund receivables and payables consisted of the following:

	<u>Due from</u>	<u>Due to</u>
General Fund	\$ -	\$ 8,328
Nonmajor governmental funds	<u>8,328</u>	<u>-</u>
	<u>\$ 8,328</u>	<u>\$ 8,328</u>

The District often reports interfund balances between many of its funds. These interfund balances resulted primarily 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 system, and (3) payments between funds are made.

MARSHALL PUBLIC SCHOOLS

Notes to the Financial Statements

F. Long-term debt

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 58,597,938	\$ -	\$ (1,325,243)	\$ 57,272,695	\$ 1,440,967
Less:					
Unamortized bond premium	129,498	-	(11,772)	117,726	11,772
Unamortized bond discount	(310,562)	-	12,646	(297,916)	(12,646)
Unamortized bond loss	(680,719)	-	61,884	(618,835)	(61,884)
Notes payable	260,912	-	(141,312)	119,600	59,800
Capital leases	188,729	-	(79,452)	109,277	87,024
Compensated absences	217,835	20,830	(14,998)	223,667	75,000
Early retirement incentives	317,250	12,000	(99,750)	229,500	112,000
	<u>\$ 58,720,881</u>	<u>\$ 32,830</u>	<u>\$ (1,597,997)</u>	<u>\$ 57,155,714</u>	<u>\$ 1,712,033</u>

Compensated absences and early retirement incentives are typically liquidated by the general fund.

Bonds payable at June 30, 2011, are comprised of the following issues:

General Obligation Bonds:

* 1998 Durant School Improvement Bonds, due in annual installments of \$12,652 to \$16,728 through 2013; interest at 4.80%	\$ 32,695
2005 Refunding Bonds, due in annual installments of \$25,000 to \$1,505,000 through 2018; interest at 3.125% to 5.0%	5,730,000
2006 Refunding Bonds, due in annual installments of \$25,000 to \$1,720,000 beginning 2014 through 2021, interest at 4.0% to 5.0%	6,350,000
2007 Refunding Bonds, due in annual installments of \$80,000 to \$1,145,000 beginning 2012 through 2018, interest at 4.00% to 4.125%	2,255,000

MARSHALL PUBLIC SCHOOLS

Notes to the Financial Statements

2007 Building and Site, due in annual installments of \$125,000 to \$770,000 beginning 2012 through 2037, interest at 4.00% to 5.00%	\$ 8,700,000
2011 Refunding Bonds, due in annual installments of \$110,000 to \$150,000 beginning 2011 through 2014, interest at 2.00% to 3.00%	440,000
2011 Building and Site Bonds Series A, due in one installments of \$15,000,000 in 2027, interest at 6.375%	15,000,000
2011 Building and Site Bonds Series B, due in annual installments of \$115,000 to \$1,375,000 beginning 2013 through 2040, interest at 2.45% to 6.70%	<u>18,765,000</u>
	<u>\$ 57,272,695</u>

The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended June 30	Principal	Interest	Total
2012	\$ 1,440,967	\$ 1,925,289	\$ 3,366,256
2013	1,621,728	1,869,114	3,490,842
2014	1,725,000	1,808,338	3,533,338
2015	1,660,000	1,730,716	3,390,716
2016	1,745,000	1,659,612	3,404,612
2017-2021	10,360,000	7,177,760	17,537,760
2022-2026	1,910,000	5,724,882	7,634,882
2027-2031	22,325,000	4,386,438	26,711,438
2032-2037	10,410,000	3,020,350	13,430,350
2038-2040	4,075,000	356,022	4,431,022
	<u>\$ 57,272,695</u>	<u>\$ 29,658,521</u>	<u>\$ 86,931,216</u>

MARSHALL PUBLIC SCHOOLS

Notes to the Financial Statements

Notes Payable

Annual debt service requirements to maturity for the notes payable are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 59,800	\$ 4,133	\$ 63,933
2013	59,800	1,772	61,572
	<u>\$ 119,600</u>	<u>\$ 5,905</u>	<u>\$ 125,505</u>

The notes payable above consist of two bus notes, with annual principal payments ranging from \$21,906 to \$37,894, plus interest at rates from 3.38% to 4.44%.

Capital Lease

The District has entered into lease agreements for financing the purchase of copiers. These lease agreements qualify as capital leases for accounting purposes, and therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments of June 30, 2011 were as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 95,080
2013	22,648
Total minimum lease payments	<u>117,728</u>
Less: amount representing interest	<u>(8,451)</u>
Present value minimum lease payments	<u>\$ 109,277</u>

MARSHALL PUBLIC SCHOOLS

Notes to the Financial Statements

G. Short-term debt

During the year, the District financed certain of its operations through the issuance of State Aid Anticipation Notes. The notes were issued for terms of less than one year, and accordingly are recorded as a liability of the general fund. The District borrowed \$360,000 at an interest rate of .400% and \$440,000 at an interest rate of .400% on August 20, 2010. The notes are due on August 22, 2011. The District also borrowed \$2,200,000 at an interest rate of .800% on August 20, 2010. That note is due on August 19, 2011. Changes in short-term state aid notes for the year ended June 30, 2011, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
State aid note	<u>\$ 2,470,000</u>	<u>\$ 3,000,000</u>	<u>\$ 4,393,426</u>	<u>\$1,076,574</u>

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District participates in the SET/SEG risk pool for all claims except health insurance, which is covered under MESSA, IUOE Trust Fund, and Blue Cross. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

B. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1, and are due upon receipt of the billing by the taxpayer. 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. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

MARSHALL PUBLIC SCHOOLS

Notes to the Financial Statements

C. Defined benefit pension plan

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (“MPERS”), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report can be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

Funding Policy

Member contribution rates vary based on date of hire and certain voluntary elections. Member Investment Plan (“MIP”) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 through June 30, 2008 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Members first hired July 1, 2008 through June 30, 2010 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000. Basic Plan members make no contributions. Members first enrolled on or after July 1, 2010 are enrolled in the Pension Plus Plan which contains a defined contribution component. Member contributions are matched at a rate of 50 percent by the employer, up to a maximum of one percent. 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 benefits on a cash disbursement basis.

The rates for the year ended June 30, 2011 as a percentage of payroll ranged from 16.94 to 20.66 percent for MIP members and 15.44 to 19.16 percent for Pension Plus members. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District’s contributions to MPERS under all retirement plans for the years ended June 30, 2011, 2010, and 2009 were \$2,057,598, \$2,273,547, and \$2,122,928, respectively, equal to the required contributions for each year.

MARSHALL PUBLIC SCHOOLS

Notes to the Financial Statements

Other Postemployment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Sinking fund

The Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the District has complied with the applicable provisions of §1212(1) of the Michigan Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

E. Bonded construction costs

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code.

F. Restatement

The District adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the current year. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. The District's beginning General Fund balance was restated by an increase of \$4,999 due to the elimination of the Athletics Fund which is now combined with the General Fund.

MARSHALL PUBLIC SCHOOLS

Notes to the Financial Statements

G. Construction commitments

The District has two active construction projects as of June 30, 2011 related to the 2010A and 2010B building and site bonds with a remaining contractual commitment of \$4,699,016 and \$4,408,048 respectively. The District expects the projects to be completed during the 2011-2012 year.

H. Invested in capital assets, net of related debt

As of June 30, 2011, net assets invested in capital assets, net of related debt were comprised of the following:

Capital assets not being depreciated	\$ 2,955,977
Capital assets being depreciated, net	30,808,866
Total long term debt	(57,155,714)
Compensated absences and early retirement	453,167
Bonds not serviced by the District	32,695
Capital projects fund balance	<u>30,791,232</u>
Total invested in capital assets, net of related debt	<u><u>\$ 7,886,223</u></u>

* * * * *

120 – DAY BOND AUDIT

INDEPENDENT AUDITORS' REPORT

October 12, 2011

Board of Education
Marshall Public Schools
Marshall, Michigan

We have audited the accompanying schedule of revenue, expenditures and changes in fund balance of the capital projects fund (the "schedule") which accounted for the proceeds and disbursement of the 2007 Building and Site Bonds of *Marshall Public Schools* (the "District") as of and for the five year period ended June 30, 2011. This schedule is the responsibility of the District's management. Our responsibility is to express an opinion on this schedule 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 opinion.

The accompanying schedule was prepared for the purpose of complying with the provisions of the Michigan Revised School Code, Public Act 451 of 1976, as amended (MCL 380.1351a).

In our opinion, the schedule referred to above presents fairly, in all material respects, the results of operations of the 2007 Building and Site Bonds of Marshall Public Schools for the five year period ending June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 12, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.



Marshall Public schools
Capital Projects Fund
2007 Building and Site Bonds
Schedule of Revenue, Expenditures and Changes in Fund Balance
For the Four Year Period Ending June 30, 2011

Revenue	
Local sources	\$ 177,270
Expenditures	
Capital outlay	9,349,289
Revenue under expenditures	(9,172,019)
Other financing sources	
Gain on sale of investments	472,019
Issuance of bonds	8,700,000
Total other financing sources	9,172,019
Net change in fund balance	-
Fund balance, beginning of period	-
Fund balance, end of period	\$ -

COMBINING FUND
FINANCIAL STATEMENTS

MARSHALL PUBLIC SCHOOLS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	Special Revenue	Debt Service				
	Food Service	2010A Debt Service	2010B Debt Service	2007 Refunding	2007 Debt Service	
<u>ASSETS</u>						
Assets						
Cash and cash equivalents	\$ 20,635	\$ 41,694	\$ 188,445	\$ 144,790	\$ 36,326	\$ 58,237
Due from other governments	-	-	-	-	-	-
Due from other funds	8,328	-	-	-	-	-
Inventory	7,670	-	-	-	-	-
Prepays	121	-	-	-	-	-
<u>TOTAL ASSETS</u>	\$ 36,754	\$ 41,694	\$ 188,445	\$ 144,790	\$ 36,326	\$ 58,237
 <u>LIABILITIES AND FUND BALANCES</u>						
Liabilities						
Accounts payable	\$ 755	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other governments	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Total liabilities	755	-	-	-	-	-
Fund balances						
Nonspendable	7,791	-	-	-	-	-
Restricted for food service	28,208	-	-	-	-	-
Restricted for debt service	-	41,694	188,445	144,790	36,326	58,237
Restricted for capital project sinking fund	-	-	-	-	-	-
Total fund balances	35,999	41,694	188,445	144,790	36,326	58,237
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 36,754	\$ 41,694	\$ 188,445	\$ 144,790	\$ 36,326	\$ 58,237

Debt Service				Capital Projects		Total
2005 Debt Service	2004 Debt Service	2001 Debt Service	Durant Debt Service	Sinking Fund	2007 Capital Projects	
\$ 198,130	\$ -	\$ -	\$ -	\$ 515,090	\$ -	\$ 1,203,347
-	-	-	32,695	-	-	32,695
-	-	-	-	-	-	8,328
-	-	-	-	-	-	7,670
-	-	-	-	-	-	121
<u>\$ 198,130</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,695</u>	<u>\$ 515,090</u>	<u>\$ -</u>	<u>\$ 1,252,161</u>
\$ -	\$ -	\$ -	\$ -	\$ 89,426	\$ -	\$ 90,181
821	-	-	-	143	-	964
-	-	-	32,695	-	-	32,695
<u>821</u>	<u>-</u>	<u>-</u>	<u>32,695</u>	<u>89,569</u>	<u>-</u>	<u>123,840</u>
-	-	-	-	-	-	7,791
-	-	-	-	-	-	28,208
197,309	-	-	-	-	-	666,801
-	-	-	-	425,521	-	425,521
<u>197,309</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>425,521</u>	<u>-</u>	<u>1,128,321</u>
<u>\$ 198,130</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,695</u>	<u>\$ 515,090</u>	<u>\$ -</u>	<u>\$ 1,252,161</u>

MARSHALL PUBLIC SCHOOLS
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	Special Revenue	Debt Service				
	Food Service	2010A Debt Service	2010B Debt Service	2007 Refunding	2007 Debt Service	
Revenue						
Local sources:						
Taxes	\$ -	\$ 154,421	\$ 849,437	\$ 486,671	\$ 112,150	\$ 289,720
Earnings from investments and deposits	51	145	477	319	82	182
Food sales	305,839	-	-	-	-	-
Other local revenue	15,903	191	1,049	556	129	357
State aid	31,270	-	-	-	-	-
Federal sources	317,403	687,283	355,902	-	-	-
Total revenue	<u>670,466</u>	<u>842,040</u>	<u>1,206,865</u>	<u>487,546</u>	<u>112,361</u>	<u>290,259</u>
Expenditures						
Food service activities	636,432	-	-	-	-	-
Debt service:						
Principal repayment	-	-	-	-	-	-
Interest and fiscal charges	-	799,531	1,016,862	393,138	90,588	266,400
Other	-	815	1,558	3,460	797	2,533
Capital outlay	-	-	-	-	-	-
Total expenditures	<u>636,432</u>	<u>800,346</u>	<u>1,018,420</u>	<u>396,598</u>	<u>91,385</u>	<u>268,933</u>
Revenue over (under) expenditures	<u>34,034</u>	<u>41,694</u>	<u>188,445</u>	<u>90,948</u>	<u>20,976</u>	<u>21,326</u>
Fund balances, beginning of year	<u>1,965</u>	<u>-</u>	<u>-</u>	<u>53,842</u>	<u>15,350</u>	<u>36,911</u>
Fund balances, end of year	<u>\$ 35,999</u>	<u>\$ 41,694</u>	<u>\$ 188,445</u>	<u>\$ 144,790</u>	<u>\$ 36,326</u>	<u>\$ 58,237</u>

Debt Service				Capital Projects		Total
2005 Debt Service	2004 Debt Service	2001 Debt Service	Durant Debt Service	Sinking Fund	2007 Capital Projects	
\$ 427,988	\$ 440,470	\$ 619,798	\$ -	\$ 483,070	\$ -	\$ 3,863,725
201	512	696	-	1,118	-	3,783
-	-	-	-	-	-	305,839
316	601	861	-	18,953	21	38,937
-	-	-	17,525	-	-	48,795
-	-	-	-	-	-	1,360,588
<u>428,505</u>	<u>441,583</u>	<u>621,355</u>	<u>17,525</u>	<u>503,141</u>	<u>21</u>	<u>5,621,667</u>
-	-	-	-	-	-	636,432
30,000	495,000	675,000	15,243	-	-	1,215,243
236,660	14,850	29,700	2,282	-	-	2,850,011
3,276	4,439	7,931	-	4,633	3	29,445
-	-	-	-	610,594	40,662	651,256
<u>269,936</u>	<u>514,289</u>	<u>712,631</u>	<u>17,525</u>	<u>615,227</u>	<u>40,665</u>	<u>5,382,387</u>
<u>158,569</u>	<u>(72,706)</u>	<u>(91,276)</u>	<u>-</u>	<u>(112,086)</u>	<u>(40,644)</u>	<u>239,280</u>
<u>38,740</u>	<u>72,706</u>	<u>91,276</u>	<u>-</u>	<u>537,607</u>	<u>40,644</u>	<u>889,041</u>
<u>\$ 197,309</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 425,521</u>	<u>\$ -</u>	<u>\$ 1,128,321</u>

SINGLE AUDIT

Marshall Public Schools
Schedule of Expenditures of Federal Awards
For Year Ended June 30, 2011

	Federal CFDA Number	Pass- Through Grantor's Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2010	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2011
U.S. Department of Agriculture								
Passed-through Michigan Department of Education:								
Child Nutrition Cluster:								
Non-cash assistance - Food Distribution:								
	10.555		\$ 48,747	\$ -	\$ -	\$ 48,747	\$ 48,747	\$ -
	10.555		3,157	-	-	3,157	3,157	-
			<u>51,904</u>	<u>-</u>	<u>-</u>	<u>51,904</u>	<u>51,904</u>	<u>-</u>
Passed-through Michigan Department of Education:								
	10.553	101970	3,494	-	-	3,494	3,494	-
	10.553	111970	40,491	-	-	42,253	40,491	1,762
			<u>43,985</u>	<u>-</u>	<u>-</u>	<u>45,747</u>	<u>43,985</u>	<u>1,762</u>
National School Lunch Program:								
	10.555	101950	4,230	-	-	4,230	4,230	-
	10.555	111950	36,927	-	-	37,851	36,591	1,260
	10.555	101960	16,624	-	-	16,624	16,624	-
	10.555	111960	155,670	-	-	161,047	155,669	5,378
			<u>213,451</u>	<u>-</u>	<u>-</u>	<u>219,752</u>	<u>213,114</u>	<u>6,638</u>
			<u>257,436</u>	<u>-</u>	<u>-</u>	<u>265,499</u>	<u>257,099</u>	<u>8,400</u>
			<u>309,340</u>	<u>-</u>	<u>-</u>	<u>317,403</u>	<u>309,003</u>	<u>8,400</u>
Total U.S. Department of Agriculture								
U.S. Department of Education								
Title I Cluster:								
	84.010	101530	257,664	84,079	257,664	-	84,079	-
	84.010	111530	220,183	-	-	220,183	178,348	41,835
			<u>477,847</u>	<u>84,079</u>	<u>257,664</u>	<u>220,183</u>	<u>262,427</u>	<u>41,835</u>
ARRA Title I, Part A:								
	84.389	101535	142,342	23,340	71,171	22,784	46,124	-
	84.389	111535	48,386	-	-	48,386	48,386	-
			<u>190,728</u>	<u>23,340</u>	<u>71,171</u>	<u>71,170</u>	<u>94,510</u>	<u>-</u>
Title II, Part A:								
	84.367	100520	95,688	29,231	95,688	-	29,231	-
	84.367	110520	93,363	-	-	93,363	42,520	50,843
			<u>189,051</u>	<u>29,231</u>	<u>95,688</u>	<u>93,363</u>	<u>71,751</u>	<u>50,843</u>
ARRA Title II, Part D								
	84.358B	114295	5,236	-	-	-	-	-
			<u>5,236</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
ARRA - Education Stabilization Fund								
	84.394	102525	686,472	171,618	686,472	-	171,618	-
	84.394	112525	278,613	-	-	278,613	225,677	52,936
			<u>965,085</u>	<u>171,618</u>	<u>686,472</u>	<u>278,613</u>	<u>397,295</u>	<u>52,936</u>
Education Jobs Fund								
	84.410A	112545	534,503	-	-	534,503	432,947	101,556
			<u>534,503</u>	<u>-</u>	<u>-</u>	<u>534,503</u>	<u>432,947</u>	<u>101,556</u>
			<u>2,362,450</u>	<u>308,268</u>	<u>1,110,995</u>	<u>1,197,832</u>	<u>1,258,930</u>	<u>247,170</u>
			<u>\$ 2,671,790</u>	<u>\$ 308,268</u>	<u>\$ 1,110,995</u>	<u>1,515,235</u>	<u>\$ 1,567,933</u>	<u>\$ 255,570</u>
Total Federal Assistance								
Reconciling Item - ARRA Bond Interest Subsidies	N/A	N/A				1,043,185		
Total Federal Revenue								
			<u>\$ 2,671,790</u>	<u>\$ 308,268</u>	<u>\$ 1,110,995</u>	<u>\$ 2,558,420</u>	<u>\$ 1,567,933</u>	<u>\$ 255,570</u>

1. This schedule is presented on the accrual basis of accounting.
2. Expenditures in this schedule are in agreement with amount reported in the financial statements and the financial reports submitted with Michigan Department of Education.
3. The amounts reported on the Recipient Entitlement Balance Report agree with this schedule for USDA donated food commodities.
4. The amounts reported on the Grants Auditors Report reconcile with this schedule.

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

October 12, 2011

To the Board of Education of
Marshall Public Schools
Marshall, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Marshall Public Schools* (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's financial statements, and have issued our report thereon dated October 12, 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 the District's 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 the District's 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*.

In addition, we noted certain matters that we reported to management of the District in a separate letter dated October 12, 2011.

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

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

October 12, 2011

To the Board of Education of
Marshall Public Schools
Marshall, Michigan

Compliance

We have audited the compliance of *Marshall Public Schools* (the "District") 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 its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's 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 the District's compliance with those requirements.

In our opinion, Marshall Public Schools complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-1.

Internal Control Over Compliance

Management of the District 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 the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2011-1. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on the response.

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



MARSHALL PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified X yes _____ none reported

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

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

MARSHALL PUBLIC SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FOR THE YEAR ENDED JUNE 30, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	Child Nutrition Cluster
84.410	Education Jobs Fund

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

Auditee qualified as low-risk auditee? yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2011-1 Eligibility Determination and Verification – Immaterial Noncompliance; Significant Deficiency in Internal Control over Compliance (Repeat)

Program: Child Nutrition Cluster CFDA# 10.553, 10.555

Criteria: The Office of Management and Budget (OMB) Circular No. A-133 Compliance Supplement requires recipients of federal funds through the School Breakfast and National School Lunch programs to determine the eligibility of enrolled children at their school and verify the incomes from a specific sample of approved applications.

Condition: During our audit procedures we noted three instances out of 60 where the District was unable to provide adequate documentation to support the eligibility determination completed by the school.

Cause: These instances of noncompliance cited above appear to have been an oversight in the application approval process and collection of supporting documentation when changes occur.

MARSHALL PUBLIC SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED JUNE 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Concluded)

Finding 2011-1 Eligibility Determination and Verification – Immaterial Noncompliance; Significant Deficiency in Internal Control over Compliance (Repeat) – (concluded)

Effect: Two students received reduced lunch benefits when they were not eligible for free or reduced benefits, and another was receiving free lunch benefits when they appeared to qualify for reduced benefits per their income listed on their application.

Recommendation:

We recommend that the District implement a process to ensure that eligibility determination and verification is completed correctly and accurately and that all applications are maintained.

**View of
Responsible**

Officials: In the future, there will be a clear documentation available to substantiate changes from the original application.

SECTION IV – PRIOR YEAR FINDINGS

Finding 2010-2 Eligibility Determination and Verification – Significant Deficiency – comment repeated, see finding 2011-1 above

Finding 2010-3 – Claim submission reporting – Per review of current year claim submissions it was noted that the District completed the requirement as necessary

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