

Athens Area Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2011

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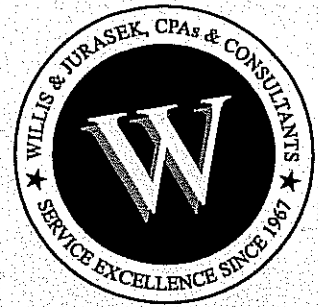
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Independent Auditors' Report

Board of Education
Athens Area Schools
Athens, Michigan

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

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

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

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated September 9, 2011, on our consideration of the School District's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 9, 2011

Management's Discussion and Analysis Year Ended June 30, 2011

Our discussion and analysis of Athens Area Schools' financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2011.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms, the current position of the School District's financial statements and other supplemental information that presents all the School District's revenues and expenditures by program for the General Fund, Food Service Fund, Capital Projects Fund, and Debt Retirement Fund.

FINANCIAL HIGHLIGHTS

The overall condition of all funds and instructional activities remains sound for the School District. All goals related to the financial activities have been met, and if revenue and expenditure patterns can be maintained, sufficient resources for next year will be available.

Total spending for all of our programs was \$6,70,109 for the year. Program revenues (charges for services, operating grants and contributions) totaled \$1,193,515, leaving a net unfunded cost for the year of \$5,276,594. The School District's property taxes, state aid, and other revenue sources were sufficient to cover this total unfunded cost.

USING THIS ANNUAL REPORT

The School District's annual report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Assets and the Statement of Activities (pages 1 - 2), provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Our fund financial statements start on page 3. Our governmental activities statements tell how we financed our services in the short-term, as well as what remains for future spending. Fund financial statements report the School District's operations in more detail than governmental-wide financial statements by providing information about the School District's most significant funds. The remaining statement provides information about activities for which the School District acts solely as an agent for the benefit of student groups.

Reporting the School District as a Whole

One of the most important questions asked about the School District is, "Is the School District as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. We prepared these statements to include all assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenue and expenses, regardless of when cash is received or paid.

These two statements report the School District's *net assets* – the difference between assets and liabilities, as reported in the statement of Net Assets – as one way to measure the School District's financial health or *financial position*. Over time, *increases* or *decreases* in the School District's net assets – as reported in the Statement of Activities – are one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses indicates the School District's *operating results*. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school to assess the *overall health* of the School District.

Management's Discussion and Analysis
Year Ended June 30, 2011

Reporting the School District's Most Significant Funds

The School District's Fund Financial Statements, which begin on page 3, provide detailed information about the School District's most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes other funds to help it control and manage money for particular purposes (like the Food Service Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the Debt Service Fund).

Governmental fund reporting focuses on showing how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. They are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the School District's operations and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between *governmental activities* (reported in the Statement of Net Assets and the Statement of Activities) and *governmental funds* in reconciliations on pages 4 and 6.

The School District as Trustee

The School District is the trustee, or agent, for its student activity funds. All of the School District's agent activities are reported in a separate Statement of Assets and Liabilities – Agency Funds on page 7. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

The School District's net assets were \$3,804,109 at June 30, 2011. Of this amount, \$220,820 was unrestricted. Restricted net assets are reported separately to show legal constraints that limit the School District's ability to use those assets for day-to-day operations. Below we focus our attention on the net assets (TABLE 1) and changes in net assets (TABLE 2) of the School District's governmental activities.

Management's Discussion and Analysis
 Year Ended June 30, 2011
The School District as a Whole (Continued)**TABLE 1 – Net Assets**

June 30, 2011 and 2010

	2011	2010
Assets		
Current Assets	\$5,162,218	\$2,722,202
Noncurrent Assets	<u>4,306,159</u>	<u>4,617,474</u>
Total Assets	<u>\$9,468,377</u>	<u>\$7,339,676</u>
Liabilities		
Current Liabilities	\$2,227,404	\$2,353,398
Long-term Liabilities	<u>3,436,864</u>	<u>1,229,486</u>
Total Liabilities	<u>\$5,664,268</u>	<u>\$3,582,884</u>
Net Assets		
Invested in Capital Assets-Net of related debt	\$ 972,487	\$3,489,330
Restricted	2,610,802	44,920
Unrestricted	<u>220,820</u>	<u>227,710</u>
Total Net Assets	<u>\$3,804,109</u>	<u>\$3,761,960</u>

The \$220,820 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all our bills *today*, including all of our non-capital liabilities (compensated absences and long-term debt); we would have \$220,820 left.

Management's Discussion and Analysis
Year Ended June 30, 2011

The School District as a Whole (Concluded)

TABLE 2 – Changes in Net Assets

Years ended June 30, 2011 and 2010

	2011	2010
Program Revenue		
Charges for Services	\$ 136,532	\$ 226,946
Operating Grants and Contributions	1,056,983	1,189,232
General Revenue		
Property Taxes-general purposes	396,203	339,941
Property Taxes-debt service	595,172	592,706
Unrestricted State and Federal School Aid	4,148,543	4,403,113
Miscellaneous	178,825	82,675
	<u>\$ 6,512,258</u>	<u>\$ 6,834,613</u>
Expenses		
Instruction	\$ 3,576,709	\$ 3,541,637
Support Services	1,985,286	2,130,069
Food Service	233,000	236,240
Community Services	18,469	136,273
Other	363,570	-
Depreciation – Unallocated	350,951	362,136
Interest on Long-Term Debt	42,124	45,156
	<u>\$ 6,470,109</u>	<u>\$ 6,451,511</u>
INCREASE IN NET ASSETS	<u>\$ 42,149</u>	<u>\$ 383,102</u>

As reported in the Statement of Activities on page 2, the cost of all of our governmental activities this year was \$6,470,109.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The School District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2011, the School District amended the General Fund Budget two times.

Athens Area Schools

Management's Discussion and Analysis Year Ended June 30, 2011

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS (CONCLUDED)

General Fund

The actual revenue of the General Fund was \$5,653,018, below the original budget estimates of \$5,815,488, and the final amended budget of \$5,696,621. The decrease in revenue between the original and final budget was due to a larger loss of students originally anticipated offset by a slightly larger increase in State Aid per pupil. Actual revenues were less due to a delinquent property tax, deferred revenues in grants, and special education reimbursement being less because of fewer expenses than anticipated.

The actual expenditures of the General Fund were \$5,686,620, below original budget estimates of \$5,786,632, and the final amended budget of \$5,912,276. The original and final budgets remained constant. The differences between the actual expenditures and the original and final budgets were due to cost containment in all areas, grants not completely spent in the fiscal year, and transfer to Athletics less than anticipated. Even with inflation pressures and rising utility costs, we were still able to reduce our expenditures considerably from what was approved by the Board.

OTHER NON MAJOR FUNDS OPERATING HIGHLIGHTS

Debt Service Fund

The Debt Service Fund experienced a net increase in fund balance of \$57,302 leaving a fund balance of \$102,214 as of June 30, 2011. Property tax revenue increased over the previous year. However, debt principal decreased by a greater amount.

Food Service Fund

The Food Service Fund showed a net income of \$11,273 for the year and a fund balance of \$50,287. Revenues for the year remained constant while expenses decreased. This allowed for more revenues than expenditures for the fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of fiscal year 2011, the School District had \$8,510,674 invested in land and buildings, furniture and equipment, and vehicles. We have estimated that these assets have depreciated by \$4,204,515 through June 30, 2011; therefore, we currently have net book value of \$4,306,159. Capital assets at year-end were as follows:

Land	\$ 109,800
Construction in progress	39,636
Equipment and Vehicles	844,785
Buildings	7,516,453
Less: Accumulated Depreciation	<u>(4,204,515)</u>
Total Capital Assets, Net of Depreciation	<u>\$ 4,306,159</u>

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

At June 30, 2011, the School District had \$ in bonds and notes outstanding, as shown below:

General Obligation Bonds	
2011 Building & Site Bonds	\$2,850,000
Durant Bonds	15,696
Other	
Energy Bond	425,000
Capital leases	<u>42,976</u>
Total	<u>\$3,333,672</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

The following factors were considered in preparing the School District's budget for the 2011-2012 fiscal year:

- The State Aid Membership (Blended FTE Student Count) for FY08/09 was 712, for FY09/10 was at 671, a reduction of 41 FTEs and for 10/11 student count was 624 a reduction of 47 FTE's. We projected the FY11/12 Blended FTE Student Count at 619, based on the stabilization of the economic downturn. We continue to average 10 FTEs coming into our District each year through the foreign exchange program.
- Master Agreements for the four bargaining units representing the teachers, custodial/maintenance staff, bus drivers, and support staff were renegotiated in FY09/10 for cost savings and will expire after FY11/12. Continuing increases in health care and retirement costs are concerns as revenues remain stagnant or decrease.
- The teaching staff was reduced for FY09/10 by 2 full time positions along with making other staff reductions. For FY10/11, the district closed a building relocating students to the Elementary (K-6) and the High School (7-12) due to this closure staff cuts will continue. We reduced the teaching staff by two more positions; the building closure resulted in a reduction of 6 employees. The superintendent continues to serve as a building principal, as well as director of food service, transportation, and custodial/maintenance. The high school principal agreement with a third party contractor has expired and the principal has been replaced with a payroll administrator, hired under a consortium arrangement with a neighboring district to share his services at roughly 90% for Athens. The athletic directorship has been assigned in a budget neutral manner to an existing paraprofessional position.
- The FY09/10 Federal Stimulus helped fund and reduce the cut in the State Aid foundation allowance per pupil. The FY10/11 State's foundation allowance is budgeted to remain at \$6,846 per pupil only if the Federal Edujobs money is delivered as expected. As the State has passed its budgets based on uncertain revenues projections and one-time fixes, including the raid on the School Aid Fund to balance the General Fund, there is concern that State revenue cuts may be inevitable to school districts. Cost containment will need to continue to be at the forefront of the district while putting the students' needs and achievements as the priority in the budget.

Management's Discussion and Analysis
Year Ended June 30, 2011

CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT

This report is designed to give an overview of the financial conditions of the Athens Area Schools. If you have any questions about this report or need further information, please contact the Central Office at 304 E. South St.; Athens, MI 49011; telephone (269) 729-5427.

Athens Area Schools
Statement of Net Assets
June 30, 2011

	Governmental Activities
Assets:	
Cash and investments	\$ 3,809,304
Investments - restricted for State Aid Loan	218,574
Receivables	330
Due from fiduciary fund	1,334
Due from other governmental units	1,104,147
Inventories	5,406
Prepaid expenditures	23,123
Capital assets:	
Cost of capital assets	8,510,674
Less: accumulated depreciation	(4,204,515)
Net capital assets	4,306,159
Total assets	9,468,377
Liabilities:	
Accounts payable and accrued expenses	706,888
State aid anticipation notes	1,490,000
Deferred revenue	30,516
Long-term liabilities:	
Due within one year	
Bonds, capital leases and contracts	569,517
Accrued interest	9,679
Due in more than one year	
Bonds, capital leases and contracts	2,764,155
Compensated absences	93,513
Total liabilities	5,664,268
Net Assets:	
Invested in capital assets, net of related debt	972,487
Restricted for:	
Capital projects	2,508,588
Debt service	102,214
Other projects	-
Unrestricted	220,820
Total net assets	\$ 3,804,109

Athens Area Schools
Statement of Activities
Year Ended June 30, 2011

<u>Functions/Programs</u>	<u>Program Revenue</u>			<u>Governmental</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
		<u>Services</u>	<u>Grants and</u>	<u>Net (Expenses)</u>
			<u>Contributions</u>	<u>Revenues and</u>
				<u>Change in</u>
				<u>Net Assets</u>
Primary government				
Governmental activities:				
Instruction	\$ 3,576,709	\$ -	\$ 850,075	\$ (2,726,634)
Support services	1,985,286	49,676	33,574	(1,902,036)
Food service activities	233,000	86,856	164,921	18,777
Community services	18,469	-	-	(18,469)
Payments to other districts	3,967	-	-	(3,967)
Other	259,603	-	-	(259,603)
Interest on long-term debt	42,124	-	8,413	(33,711)
Depreciation (unallocated)	350,951	-	-	(350,951)
Total governmental activities	<u>\$ 6,470,109</u>	<u>\$ 136,532</u>	<u>\$ 1,056,983</u>	<u>(5,276,594)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				396,203
Property taxes, levied for debt service				595,172
State aid not restricted to specific purposes				3,924,367
Federal grants not restricted to specific purposes				224,176
Unrestricted investment earnings				2,026
Other				176,799
Total general revenues				<u>5,318,743</u>
Change in Net Assets				42,149
Net Assets - Beginning of Year				<u>3,761,960</u>
Net Assets - End of Year				<u>\$ 3,804,109</u>

Athens Area Schools
Balance Sheet
Governmental Funds
June 30, 2011

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash and investments	\$ 1,119,654	\$ 2,509,150	\$ 180,500	\$ 3,809,304
Investments - restricted for State Aid Loan	218,574	-	-	218,574
Taxes receivable, net	-	-	330	330
Due from other funds	31,140	-	-	31,140
Receivable from other governments	1,102,137	-	2,010	1,104,147
Other receivables	-	-	-	-
Inventory	-	-	5,406	5,406
Prepaid expenditures	22,179	-	944	23,123
Total assets	\$ 2,493,684	\$ 2,509,150	\$ 189,190	\$ 5,192,024
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 55,847	\$ -	\$ 7,445	\$ 63,292
Due to other funds	-	562	29,244	29,806
State aid anticipation notes	1,490,000	-	-	1,490,000
Deferred revenue	30,516	-	-	30,516
Salaries payable and related	638,568	-	-	638,568
Accrued expenditures	14,706	-	-	14,706
Total liabilities	2,229,637	562	36,689	2,266,888
 Fund Balances:				
Nonspendable:	-	-	-	-
Inventory	-	-	5,406	5,406
Prepaid expenditures	22,179	-	944	23,123
Restricted	-	2,508,580	146,151	2,654,731
Unassigned	241,868	-	-	241,868
Total fund balances	264,047	2,508,588	152,501	2,925,136
Total liabilities and fund balances	\$ 2,493,684	\$ 2,509,150	\$ 189,190	\$ 5,192,024

Athens Area Schools

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2011

Total Fund Balances - Governmental Funds \$ 2,925,136

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds 4,306,159

Long-term liabilities (bonds payable) not due and payable in the current period and not reported in the funds (3,427,186)

Total Net Assets - Governmental Activities \$ 3,804,109

Athens Area Schools
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2011

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Local sources	\$ 533,000	\$ 211	\$ 682,532	\$ 1,215,743
State sources	4,298,442	-	21,953	4,320,395
Federal sources	425,553	-	151,381	576,934
Interdistrict and other	396,023	-	2,584	398,607
Total revenues	<u>5,653,018</u>	<u>211</u>	<u>858,450</u>	<u>6,511,679</u>
Expenditures:				
Instruction	3,585,329	-	-	3,585,329
Support services	1,985,276	-	-	1,985,276
Food service activities	-	-	233,000	233,000
Community services	18,469	-	-	18,469
Payments to other districts	3,967	-	-	3,967
Debt service	67,749	-	620,265	688,014
Capital outlay	25,830	36,936	-	62,766
Total expenditures	<u>5,686,620</u>	<u>270,631</u>	<u>853,265</u>	<u>6,810,516</u>
Revenues Over (Under) Expenditures	<u>(33,602)</u>	<u>(270,420)</u>	<u>5,185</u>	<u>(298,837)</u>
Other Financing Sources (Uses):				
Proceeds from long-term debt, net	-	2,850,000	-	2,850,000
Transfers in	10,000	-	73,390	83,390
Transfers out	(2,390)	(71,000)	(10,000)	(83,390)
Total other financing sources (uses)	<u>7,610</u>	<u>2,779,000</u>	<u>63,390</u>	<u>2,850,000</u>
Net Changes in Fund Balance	(25,992)	2,508,580	68,575	2,551,163
Fund Balances - Beginning of Year	290,039	8	83,926	373,973
Fund Balances - End of Year	<u>\$ 264,047</u>	<u>\$ 2,508,588</u>	<u>\$ 152,501</u>	<u>\$ 2,925,136</u>

Athens Area Schools

Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds \$ 2,551,163

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

The amount by which depreciation \$350,951 exceeded capital expenditures \$39,636 in the current period.

(311,315)

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal and debt payments as an expenditure, in contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments.

(2,206,322)

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

Compensated absences

8,623

Change in Net Assets of Governmental Activities

\$ 42,149

Athens Area Schools
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	<u>Agency Fund</u>
Assets:	
Cash and cash equivalents	\$ 87,057
Liabilities:	
Due to other funds	\$ 1,333
Due to student groups	85,724
	<u>\$ 87,057</u>

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

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

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

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. All of the School District's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide Statements – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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 revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

District-Wide Statements (Continued) - Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted Federal and State aid.

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

Fund-Based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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, severance pay, claims, and judgments, are recorded only when payment is due.

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

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

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

Capital Projects Fund – Capital Project Funds are used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The District maintains one capital projects fund.

Additionally, the government reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Special Revenue Fund maintained by the District is the Food Service Fund.

Debt Funds – Debt Funds are used to record tax, interest, and other revenue for payment of principal and other expenditures thereof on a particular bond issue. The District maintains one debt fund to record all activity related to the Durant Debt, the 2005 building and site bonds, 2011 building and site bonds, and the energy conservation improvement bonds.

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements.

The agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held in trust for the students and parents.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

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

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

Property Taxes - Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. For the year ended June 30, 2011, the District levied the following amounts per \$1,000 of assessed taxable valuation:

General Fund – Non-principal residence	18.0000
General Fund – Commercial personal property	6.0000
Debt Funds – All taxable values	4.4500

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Receivables and Payables (Continued) - The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with State law and accounting principles generally accepted in the United States of America.

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

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

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The government defines capital assets as assets with an initial individual cost of \$5,000 or greater and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Buses and other vehicles	5-8 years
Furniture and equipment	5-20 years

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Fund Equity – The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are now categorized according to five defined categories of fund balance. These categories consist of nonspendable amounts which are legally or contractually required to be maintained intact, restricted amounts that are constrained for specific purposes set by external parties or law, committed amounts that are constraints set by the highest decision making authority and may only be removed by those individuals, assigned amounts that have an intended but no formal specific purpose, and unassigned amounts which are the residual of the other categories and have no specific purpose.

It is the District's policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

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

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplemental information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any, for the General Fund, are noted in the required supplemental information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end. The District does not consider these amendments to be significant.

Athens Area Schools
Notes to Financial Statements

Note 3 – Deposits and Investments

At year-end, the District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	\$ <u>4,027,878</u>	\$ <u>87,057</u>	\$ <u>4,114,935</u>

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

Deposits (checking and savings accounts, certificates of deposit)	\$ 313,354
Restricted investments	218,574
Investments in MILAF investment fund	<u>3,583,007</u>
Total	<u>\$ 4,114,935</u>

Investment and Deposit Risk

Interest Rate Risk – State law limits the allowable investments and the maturities of some of the allowable investments. 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. The investment in the MILAF investment fund had an average maturity of less than one year.

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. The District's investments policy does not have specific limits in excess of State law on investment credit risk. The District's investment in the MILAF investment fund was rated AAAM by Standard & Poor's.

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. The District has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, \$46,240 of the District's bank balance of \$300,330 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 – Receivables

Receivables at year-end were approximately \$1,104,000 and consist mainly of amounts due from the State of Michigan and reimbursement for federal grants.

Athens Area Schools
Notes to Financial Statements

Note 5 – Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Year-End Balance</u>
Assets not being depreciated:				
Land	\$ 109,800	\$ -	\$ -	\$ 109,800
Construction in progress	-	39,636	-	39,636
Total assets not being depreciated	<u>109,800</u>	<u>39,636</u>	<u>-</u>	<u>149,436</u>
Capital assets being depreciated:				
Building and improvements	7,516,453	-	-	7,516,453
Buses and other vehicles	605,292	-	22,112	583,180
Furniture and equipment	261,605	-	-	261,605
Subtotal	<u>8,383,350</u>	<u>-</u>	<u>22,112</u>	<u>8,361,238</u>
Accumulated depreciation:				
Building and improvements	3,201,625	302,639	-	3,504,264
Buses and other vehicles	494,755	30,767	(22,112)	503,410
Furniture and equipment	179,296	17,545	-	196,841
Subtotal	<u>3,875,676</u>	<u>350,951</u>	<u>(22,112)</u>	<u>4,204,515</u>
Net capital assets being depreciated	<u>4,507,674</u>	<u>(350,951)</u>	<u>-</u>	<u>4,156,723</u>
Net capital assets	<u>\$ 4,617,474</u>	<u>\$ (311,315)</u>	<u>\$ -</u>	<u>\$ 4,306,159</u>

Depreciation expense, which totaled \$350,951, was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

Note 6 – Notes Payable

At June 30, 2011, the School District has State Aid anticipation notes outstanding of \$682,000, \$558,000, and \$250,000 that mature August 20, 2011 with respective interest rates of 0.40%, 0.40%, and 0.80%. The District has \$218,574 of funds on deposit with a financial institution, which are included in investments on the General Fund balance sheet, to be applied against the outstanding balance. The notes are secured by the full faith and credit of the District as well as pledged State Aid.

<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2011</u>
<u>\$ 1,750,000</u>	<u>\$ 1,490,000</u>	<u>\$ 1,750,000</u>	<u>\$ 1,490,000</u>

The District has also approved the issuance of State Aid anticipation notes in the amount of \$1,198,000 and \$350,000 with respective interest rates of 0.311% and 0.60% with a one-year maturity due August 20, 2012 for the 2011-2012 school year.

Athens Area Schools
Notes to Financial Statements

Note 7 – Interfund Receivables, Payables and Transfers

The District reports interfund balances between some of its funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental 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.

Due To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Lunch Fund	\$ 29,506
General Fund	Student Activities Fund	1,048
Lunch Fund	Student Activities Fund	285
General Fund	Debt Fund	23
General Fund	Capital Projects Fund	<u>562</u>
		<u>\$ 31,424</u>

During the current fiscal year, the General Fund transferred \$2,390 to the Lunch Fund for food service costs, the Lunch Fund transferred \$10,000 to the General Fund for indirect costs, and the Capital Projects Fund transferred \$71,000 to the Debt Fund as required by the bond agreement.

Note 8 – Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Long-term obligations can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
General obligation bonds	\$ 1,036,880	\$ 2,850,000	\$ 611,880	\$ 3,275,000	\$ 532,665
Durant debt	23,013	-	7,317	15,696	7,665
Installment purchases:					
Equipment and bus loans/leases	67,457	-	24,481	42,976	29,187
Compensated absences	<u>102,136</u>	<u>-</u>	<u>8,623</u>	<u>93,513</u>	<u>-</u>
Total governmental activities	<u>\$ 1,229,486</u>	<u>\$ 2,850,000</u>	<u>\$ 652,301</u>	<u>\$ 3,427,185</u>	<u>\$ 569,517</u>

Annual debt service requirements to maturity on the above governmental obligations (excluding compensated absences) are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 561,852	\$ 122,723	\$ 684,575
2013	581,710	102,918	684,628
2014	618,537	83,271	701,808
2015	661,573	62,521	724,094
2016	700,000	38,210	738,210
2017 - 2021	<u>210,000</u>	<u>25,700</u>	<u>235,700</u>
Total	<u>\$ 3,333,672</u>	<u>\$ 435,343</u>	<u>\$ 3,769,015</u>

Athens Area Schools
Notes to Financial Statements

Note 8 – Long-Term Debt (Continued)

At June 30, 2011 long-term debt consisted of the following individual issues:

Capital lease obligation, Ervin Leasing Co., secured by office photocopiers, payable in monthly installments of \$692 including interest at an imputed rate of 8.21% through February 25, 2013.	\$ 14,003
Capital lease obligation, Capital Advantage Leasing, secured by equipment, payable in monthly installments of \$322 including interest at a rate of 9.00% through November 16, 2014.	11,503
Capital lease obligation, Holland Bus Co., secured by bus, payable in installments of \$18,268 including interest at 4.57% through August 1, 2011.	17,470
\$605,000 Energy Conservation Improvement Bonds, annual installments of \$15,000 to \$55,000 plus interest at a rate ranging from 3.50% to 4.90% through May 1, 2020.	425,000
2011 School Building and Site Bonds, annual installments of \$485,000 to \$655,000 plus interest at a rate ranging from 3.25% to 4.00% through May 1, 2016.	2,850,000
1998 School Improvement Bonds (Durant Non-Plaintiff Resolution), annual installments of \$7,665 to \$8,031 plus interest at 4.76%, through May 15, 2013.	<u>15,696</u>
	<u>\$ 3,333,672</u>

Durant Non-Plaintiff Bond - Included in Governmental Activities General Obligation Bonds is the Durant Non-Plaintiff Bond. Annual payments of both principal and interest associated with this bond are funded by the State of Michigan via specifically appropriated State Aid and will not require any District debt levy or utilization of any other District financial resources. In the current year, a total of \$8,413 of principal and interest payments were made.

Note 9 – Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injury as well as medical, life and workers compensation benefits provided to employees. School Board liability, errors and omissions, student accident, and all health and life insurances have been purchased through a combination of self-insurance programs and commercial insurance policies.

The School District is a member of the School Employees Group (SEG), Self Insured Workers Disability Compensation Fund (the "Fund"), established pursuant to the provisions of Act 138 of Michigan Public Acts of 1982, which authorizes contracts between school districts to form a self insurance fund, and to prescribe conditions to the performance of these contracts.

Athens Area Schools
Notes to Financial Statements

Note 9 – Risk Management (Continued)

The School District pays monthly premiums to the Fund for workers disability compensation coverage. The agreement for the information of the Fund provides that the Fund will be self-sustaining through member premiums and will purchase both specific and aggregate insurance to the limits determined necessary by the Fund management.

At June 30, 2011, there were no claims, which exceeded insurance coverage, nor have any settled claims during the past three years exceeded insurance coverage. The School District did not have any significant reduction in insurance coverage from previous years.

Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits

Plan Description – The District participates in the Michigan Public School Employees' Retirement System (MPSERS), a state-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan and administered by the twelve-member board of the MPSERS. The MPSERS provides retirement, survivor and disability benefits and postretirement benefits options for health, dental and vision coverage for substantially all employees of the District. The MPSERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, MI 48909-7671 or by calling (517) 322-5103.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 through June 30, 2008 and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members hired July 1, 2008 and thereafter contribute to Member Investment Plan Plus (MIPP) at the rate of 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 6.4% of all wages over \$15,000.

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

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

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate totals 16.94 percent for the period from July 1, 2010 through September 30, 2010 and increased to 19.41% for the base plan and 17.91% for pension plus members effective for the period October 1, 2010 through October 31, 2010. The rate increased to 20.66% for basic plan members and 19.16% for pension plus members for the period November 1, 2010 through June 30, 2011.

Athens Area Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Funding Policy (Continued) - In addition, the District is required to match 50% up to 1% of the employee contributions in the pension plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The School District's contributions to the MPSERS plan for the years ended June 30, 2011, 2010, and 2009 were approximately \$582,000, \$545,000, and \$575,000, respectively. The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

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

Note 11 – Federal and State Grants

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 12 – Restatement of Beginning Fund Balance

To comply with new guidance that became effective during the current year, the Athletic Fund, which was previously reported as a special revenue fund, has been combined with the General Fund. Beginning fund balance of the General Fund was increased by \$7,183 to include the fund balance of the Athletic Fund as of July 1, 2010.

Required Supplemental Information

Athens Area Schools
 Budgetary Comparison Schedule - General Fund
 Year ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
Revenues:			
Local sources	\$ 497,790	536,632	533,000
State sources	4,795,117	4,305,802	4,298,442
Federal sources	177,254	465,072	425,553
Interdistrict and other	345,327	389,115	396,023
Total revenues	<u>5,815,488</u>	<u>5,696,621</u>	<u>5,653,018</u>
Expenditures:			
Instruction:			
Basic programs	2,963,353	2,909,539	2,841,953
Added needs	753,111	781,964	743,376
Support services:			
Pupil	124,193	88,096	80,527
Instructional staff	77,056	105,454	94,668
General administration	259,551	255,565	238,060
School administration	210,716	212,810	205,600
Business	207,170	172,917	168,777
Operation & maintenance	555,660	519,428	486,912
Pupil transportation	458,011	479,489	449,748
Central services	66,457	112,784	124,997
Athletic activities	-	149,715	135,987
Community services:			
Community activities	27,305	20,410	17,656
Non-public school pupils	620	2,456	813
Payments to other districts	7,500	7,500	3,967
Debt service	74,473	67,749	67,749
Capital outlay	1,456	26,400	25,830
Total expenditures	<u>5,786,632</u>	<u>5,912,276</u>	<u>5,686,620</u>
Revenues Over (Under) Expenditures	<u>28,856</u>	<u>(215,655)</u>	<u>(33,602)</u>
Other Financing Sources (Uses):			
Transfers in	-	10,000	10,000
Transfers out	(85,118)	-	(2,390)
Total other financing sources (uses)	<u>(85,118)</u>	<u>10,000</u>	<u>7,610</u>
Net Changes in Fund Balances	(56,262)	(205,655)	(25,992)
Fund Balances - Beginning of Year	<u>290,039</u>	<u>290,039</u>	<u>290,039</u>
Fund Balances - End of Year	<u>\$ 233,777</u>	<u>\$ 84,384</u>	<u>\$ 264,047</u>

Other Supplemental Information

Athens Area Schools
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	<u>Food Service Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash and investments	\$ 78,593	\$ 101,907	\$ 180,500
Taxes receivable, net	-	330	330
Receivable from other governments	2,010	-	2,010
Inventory	5,406	-	5,406
Prepaid expenditures	944	-	944
Total assets	<u>\$ 86,953</u>	<u>\$ 102,237</u>	<u>\$ 189,190</u>
 <u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 7,445	\$ -	\$ 7,445
Due to other funds	29,221	23	29,244
Total liabilities	<u>36,666</u>	<u>23</u>	<u>36,689</u>
 Fund Balances:			
Nonspendable:			
Inventories	5,406	-	5,406
Prepaid expenses	944	-	944
Restricted	43,937	102,214	146,151
Total fund balances	<u>50,287</u>	<u>102,214</u>	<u>152,501</u>
Total liabilities and fund balances	<u>\$ 86,953</u>	<u>\$ 102,237</u>	<u>\$ 189,190</u>

Athens Area Schools
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2011

	Food Service Fund	Debt Service Fund	Total-Other Governmental Funds
Revenues:			
Local sources	\$ 86,962	\$ 595,570	\$ 682,532
State sources	13,540	8,413	21,953
Federal sources	151,381	-	151,381
Interdistrict and other	-	2,584	2,584
Total revenues	<u>251,883</u>	<u>606,567</u>	<u>858,450</u>
Expenditures:			
Food service activities	233,000	-	233,000
Debt service:			
Principal	-	578,141	578,141
Interest and other charges	-	42,124	42,124
Capital outlay	-	-	-
Total Expenditures	<u>233,000</u>	<u>620,265</u>	<u>853,265</u>
Revenues Over (Under) Expenditures	<u>18,883</u>	<u>(13,698)</u>	<u>5,185</u>
Other Financing Sources (Uses):			
Proceeds from long-term debt, net	-	-	-
Transfers in	2,390	71,000	73,390
Transfers out	(10,000)	-	(10,000)
Net other financing sources (uses)	<u>(7,610)</u>	<u>71,000</u>	<u>63,390</u>
Net Changes in Fund Balance	11,273	57,302	68,575
Fund Balances - Beginning of Year	<u>39,014</u>	<u>44,912</u>	<u>83,926</u>
Fund Balances - End of Year	<u>\$ 50,287</u>	<u>\$ 102,214</u>	<u>\$ 152,501</u>

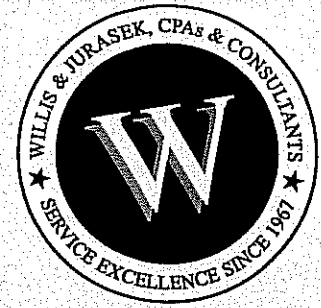
Athens Area Schools

Single Audit Report

Year Ended June 30, 2011

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

Board of Education
Athens Area Schools
Athens, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Athens Area Schools as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 9, 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 Athens Area Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs noted as finding 2011-1 that we consider to be a significant deficiency in internal control over financial reporting.

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Board of Education
Athens Area Schools
Athens, Michigan

Compliance and Other Matters

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

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

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 9, 2011



**Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

Board of Education
Athens Area Schools
Athens, Michigan

Compliance

We have audited Athens Area Schools' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Athens Area Schools' major federal programs for the year ended June 30, 2011. Athens Area Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Athens Area Schools' management. Our responsibility is to express an opinion on Athens Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Athens Area Schools' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Athens Area Schools' compliance with those requirements.

In our opinion, Athens Area Schools complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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 2011-2.

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Internal Control Over Compliance

The management of Athens Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Athens Area Schools' internal control over compliance with 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 the District's 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. The compliance finding noted as finding 2011-2 is also indicative of a significant deficiency in internal controls over compliance.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Athens Area Schools as of and for the year ended June 30, 2011, and have issued our report thereon dated September 9, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the 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 not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 9, 2011

Athens Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Pass-through Grantor's Number	Award/Grant Entitlement Program Amount	Accrued (Deferred) Revenue 7/1/2010	Prior Year Expenditures	Current Year Payments Received	Current Year Expenditures	Accrued (Deferred) Revenue 6/30/2011
U.S. Department of Agriculture								
Child Nutrition Cluster								
Passed through Michigan Department of Education:								
Non-cash Assistance (Commodities):								
National School Lunch Program - Regular	10.555		\$ 15,651	\$ -	\$ -	\$ 15,651	\$ 15,651	\$ -
National School Lunch Program - Bonus	10.555		1,689	-	-	1,689	1,689	-
			<u>17,340</u>	<u>-</u>	<u>-</u>	<u>17,340</u>	<u>17,340</u>	<u>-</u>
Cash Assistance:								
National School Lunch	10.555	101950	1,826	-	-	1,826	1,826	-
		101960	9,148	-	-	9,148	9,148	-
		111950	15,518	-	-	15,518	15,518	-
		111960	76,527	-	-	76,527	76,527	-
			<u>103,019</u>	<u>-</u>	<u>-</u>	<u>103,019</u>	<u>103,019</u>	<u>-</u>
National School Breakfast Program	10.553	101970	2,362	-	-	2,362	2,362	-
		111970	28,660	-	-	28,660	28,660	-
			<u>31,022</u>	<u>-</u>	<u>-</u>	<u>31,022</u>	<u>31,022</u>	<u>-</u>
Total cash assistance			<u>134,041</u>	<u>-</u>	<u>-</u>	<u>134,041</u>	<u>134,041</u>	<u>-</u>
Total United States Department of Agriculture			<u>151,381</u>	<u>-</u>	<u>-</u>	<u>151,381</u>	<u>151,381</u>	<u>-</u>
U.S. Department of Education								
Passed through Michigan Department of Education:								
ARRA Education Stabilization Fund	84.394	112525-1011	77,940	-	-	55,023	77,940	22,917
Education Jobs Fund	84.410	112545-1011	146,236	-	-	78,466	146,236	69,770
Title I	84.010	101530-0910	125,450	16,424	112,396	43,172	26,748	-
		111530-1011	124,292	-	-	26,694	74,321	47,627
			<u>249,742</u>	<u>16,424</u>	<u>112,396</u>	<u>69,866</u>	<u>101,069</u>	<u>47,627</u>
ARRA Title I, Part A	84.389	101535-0910	63,405	2,102	9,243	6,982	4,880	-
		111535-1011	57,892	-	-	-	57,892	57,892
			<u>121,297</u>	<u>2,102</u>	<u>9,243</u>	<u>6,982</u>	<u>62,772</u>	<u>57,892</u>
Total Title I Cluster			<u>371,039</u>	<u>18,526</u>	<u>121,639</u>	<u>76,848</u>	<u>163,841</u>	<u>105,519</u>
Title II, Part A	84.367	100520-0910	46,790	5,714	33,093	12,891	7,177	-
		110520-1011	47,737	-	-	8,392	28,962	20,570
			<u>94,527</u>	<u>5,714</u>	<u>33,093</u>	<u>21,283</u>	<u>36,139</u>	<u>20,570</u>
ARRA Title II, Part D	84.386	114295-1011	1,397	-	-	-	1,397	1,397
Total passed through Michigan Department of Education			<u>691,139</u>	<u>24,240</u>	<u>154,732</u>	<u>229,620</u>	<u>425,553</u>	<u>220,173</u>
Total United States Department of Education			<u>691,139</u>	<u>24,240</u>	<u>154,732</u>	<u>229,620</u>	<u>425,553</u>	<u>220,173</u>
			<u>\$ 842,520</u>	<u>\$ 24,240</u>	<u>\$ 154,732</u>	<u>\$ 381,001</u>	<u>\$ 576,934</u>	<u>\$ 220,173</u>

Athens Area Schools

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Athens Area Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.

Note 2 – Summary of Significant Accounting Policies

Expenditure Reports

Management has reconciled the expenditures reported in the Schedule of Expenditures of Federal Awards to those amounts reported in the annual or final cost reports.

Grant Section Auditor's Report

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

Athens Area Schools
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2011

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditor’s report issued: Unqualified
 Internal control over financial reporting:
 Material weakness identified _____ yes X no
 Significant deficiencies identified that are not
 considered to be material weaknesses X yes _____ no
 Noncompliance material to financial statements noted _____ yes X no

Federal Awards

Internal control over major programs:
 Material weakness identified _____ yes X no
 Significant deficiencies identified that are not
 considered to be material weaknesses X yes _____ no

Type of auditor’s report issued on compliance
 for major programs: Unqualified
 Any audit findings disclosed that are required to be
 reported in accordance with section 510(a) of
 Circular A-133 X yes _____ no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.410	Education Jobs Fund
84.010/84.389	Title I Cluster

Dollar threshold used to distinguish between
 Type A and Type B programs: \$ 300,000
 Auditee qualified as low-risk _____ yes X no

Section II – Financial Statement Findings

2011-1 – Budget Overage

Criteria or Specific Requirement: It is management’s responsibility to ensure that the District does not expend more than the budget adopted by the board for any function area.

Condition: As noted in the required supplemental budget information, expenditures for one function exceeded the final adopted budget.

Recommendation: We recommend the District consider reviewing the procedures for budget amendments to ensure expenditures do not exceed approved budget.

Views of Responsible Officials and Planned Corrective Action: We recognize that expenditures at the function level were over the budgeted amounts. During the reforecast activities that go into developing a new budget, we will carefully review and monitor actual and forecasted spending so that the actual results do not exceed the final adopted budget.

Athens Area Schools
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2011

Section III – Federal Award Findings and Questioned Costs

2011-2 – Cash Management

Criteria or Specific Requirement: In accordance with grant agreements, cash reimbursement for grant expenditures is to be requested after funds have been disbursed.

Condition: During our testing, we noted the final request for the Title I cluster that included advances that were greater than grant disbursement totals.

Cause: For this particular disbursement, management requested reimbursement for final expenditure totals which included accrued salaries and related.

Effect: The District requested funds for a greater amount than the actual cash disbursed.

Recommendation: We recommend the District consider reviewing the procedures related to the requesting of cash reimbursement requests to ensure compliance with the cash management requirements.

Views of Responsible Officials and Planned Corrective Action: Prior to all cash disbursement requests, the business manager will consider the effect of accrued expenses and reverse them out to ensure cash requests are for allowed amounts.

Athens Area Schools
Comments on Resolution of Findings from June 30, 2010
Single Audit Report

Financial Statement Findings:

2010-1 – Maintenance of Capital Asset Schedule

Criteria or Specific Requirement: The District is required to maintain a complete and accurate schedule of assets and accumulated depreciation related to those assets.

Condition: Prior year accumulated depreciation on the District's asset schedule (in excel format) did not agree to the prior year audited financial statements by \$90,000.

Cause: One of the spreadsheet cells was entered as \$5,024 and should have been entered as \$95,024.

Effect: Accumulated depreciation was understated by \$90,000 and did not agree to the prior year capital asset schedule.

Recommendation: We recommend the business manager review the spreadsheets for completeness and accuracy.

Views of Responsible Officials and Planned Corrective Action: The District will add a calculation line to the spreadsheet that will verify the previous year's total depreciation and the current year's depreciation.

Status: The District has implemented its corrective action plan and this finding has been resolved.

2010-2 – Proper Reporting of Interfund Balances

Criteria or Specific Requirement: In Fund Accounting, it is required that the assets and liabilities between funds must agree to each other.

Condition: In the General Fund, the District reported a receivable from the Food Service Fund in the amount of \$20,000. However, the Food Service Fund did not report a corresponding liability to the General Fund.

Cause: The actual disbursement from the Food Service Fund was made after the year-end, and the accounting entry for the accrual was not made.

Effect: The Food Service Fund's liabilities and expenditures were understated. Also, the General Fund and Food Service Fund assets and liabilities did not agree.

Recommendation: The business manager should maintain a schedule of interfund balances to make sure all funds agree to each other.

Views of Responsible Officials and Planned Corrective Action: The District will maintain a schedule of interfund balances verifying all funds agree to each other.

Status: The District has implemented its corrective action plan and reconciles the balances on a monthly basis. This finding has been resolved.

Athens Area Schools
Comments on Resolution of Findings from June 30, 2010 (Continued)
Single Audit Report

Financial Statement Findings:

2010-3-- Indirect Costs

Criteria or Specific Requirement: According to the Michigan Department of Education Office of Audits, school districts are allowed to charge indirect costs to the Food Service Fund based on a maximum 15% indirect cost rate applied to certain expenditures.

Condition: The District's General Fund charged the Food Service Fund \$20,000 for indirect costs, which is approximately \$1,179 more than allowed.

Cause: The business manager was not familiar with the proper method of calculating indirect costs.

Effect: The Food Service fund was charged for indirect costs in excess of the allowable amount.

Recommendation: We recommend the business manager obtain guidance from the Michigan Department of Education on the proper allocation of indirect costs.

Views of Responsible Officials and Planned Corrective Action: The business manager has spoken with the Michigan Department of Education and the Department will be issuing guidance to all schools on the calculation of indirect costs.

Status: The District calculated allowable indirect costs prior to finalizing year-end reports to ensure compliance with limits. This finding has been resolved.

Federal Program Findings:

2010-4-- Title I Cluster

Criteria or Specific Requirement: The District is required to maintain time certifications for employees working on federal programs as outlined in OMB Circular A-87.

Condition: The summer school bus driver whose salary is charged directly to the program did not maintain a time certification.

Cause: The director of the program was not aware of the compliance requirement.

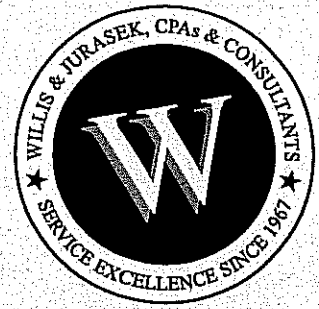
Effect: Costs allocated to the program could be overstated.

Questioned Costs: Not determinable.

Recommendation: The District should continue to provide training to the director and staff involved in the federal program so they can be aware of compliance requirements.

Views of Responsible Officials and Planned Corrective Action: The Program Director has been advised to continue training for herself and staff to adhere to compliance requirements.

Status: The Director went to training during the year to increase awareness of compliance requirements. This finding has been resolved.



September 9, 2011

To the Board of Education
Athens Area Schools
Athens, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Athens Area Schools for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Athens Area Schools are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the District changed accounting policies related to fund balance categories by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the governmental fund financial statements.

We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the capitalized assets and the estimate of related accumulated depreciation. The bulk of the capitalized costs are based upon an asset appraisal done in a prior year. Related depreciation is based upon estimated lives and methods to formulate net book value. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the vested sick time. This estimate is based on accumulated sick days and earnings rates in effect at the time of the estimate. Actual payout of sick time may not equate to the estimate. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. There were no significant audit adjustments recorded at year-end.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 9, 2011.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.