

*BLISSFIELD COMMUNITY SCHOOLS*

---



COMMITMENT TO EXCELLENCE  
Annual Financial Statements  
June 30, 2012



BLISSFIELD COMMUNITY SCHOOLS

Blissfield, Michigan

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT**

Year Ended June 30, 2012

**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditors' Report	1 - 2
Management Discussion and Analysis	3 - 12
Basic Financial Statements:	
Government-Wide Statement of Net Assets	13
Government-Wide Statement of Activities	14
Governmental Fund Balance Sheet	15
Reconciliation of Fund Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	16
Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Fiduciary Funds - Statement of Net Assets	19
Notes to Financial Statements	20 - 32
Required Supplemental Information:	
Budgetary Comparison Schedule - General Fund	33
120 - Day Bond Audit:	
Independent Auditors' Report	34
Schedule of Revenue, Expenditures and Changes in Fund Balance - Capital Projects Fund	35
Other Supplementary Information:	
Combining Balance Sheet - Non-Major Governmental Funds	36
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Non-Major Governmental Funds	37
Bonded Debt	38 - 39
Schedule of Expenditures of Federal Awards	40 - 41
Notes to Schedule of Expenditures of Federal Awards	42
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	43 - 44
Report on compliance with requirements that could have a direct and material effect on the each major program and on internal control over compliance in accordance with OMB circular A-133	45 - 46
Schedule of Findings and Questioned Costs	47 - 48
Schedule of Prior Audit Findings	49



CERTIFIED PUBLIC ACCOUNTANTS

ADRIAN, MICHIGAN  
JACKSON, MICHIGAN

## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Blissfield Community Schools  
Blissfield, Michigan 49228

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Blissfield Community Schools as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents. These financial statements are the responsibility of Blissfield Community Schools' management. Our responsibility is to express an opinion on these basic 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 our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Blissfield Community Schools as of June 30, 2012, and 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 dated October 5, 2012 on our consideration of Blissfield Community Schools' internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant provisions and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Blissfield Community Schools' basic financial statements. The accompanying other supplementary information on pages 36 through 39 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Gross, Puckey, Gruel & Roof, P.C.*

Adrian, Michigan  
October 5, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

BLISSFIELD COMMUNITY SCHOOLS

**MANAGEMENT DISCUSSION AND ANALYSIS**

June 30, 2012

The Management's discussion and analysis, a requirement of GASB 34, is intended to be the Blissfield Community Schools' Management Discussion and Analysis (MD&A) of the financial results for the year ended June 30, 2012. This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. Categories for comparison include but are not limited to the following: Total assets, Total liabilities, Total net assets (Fund balance), Program revenues, General revenues, Total revenues, Program expenses, Total expenses, Excess (deficiency)-(Before Contributions, Special and Extraordinary Items, and Transfers), Contributions, Special and Extraordinary Items, Transfers, Change in Net Assets (Fund balance), Ending Net Assets (Fund balance).

Generally Accepted Accounting Principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements. The presentation of these Financial Statements now reflect the direction of GASB Statement No. 54 which requires that fund balances be defined in one of five separate categories (Nonspendable, Restricted, Committed, Assigned, and Unassigned) so that any constraints placed on a government's fund balances are more transparent and better understood by the reader.

This 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 statements and notes to those statements are organized so the reader can understand the District as a whole (government-wide statements), and then proceed to provide an increasingly detailed look at specific financial activities. The fund financial statements report the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds.

The remaining Statement of Fiduciary Net Assets presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

The District's auditor has provided assurance in his independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each part of the Financial Section.

From a financial perspective, Blissfield Community School District (hereafter referred to as the District), being a governmental education entity, seeks to fulfill its mission and commitment to excellence in educating children from kindergarten through the 12<sup>th</sup> grade by providing a learning environment that challenges all students to become lifelong learners and productive citizens. This financial report reflects the fiscal activities performed in compliance with the standards set by the Governmental Accounting Standards Board (GASB). The annual report summarizes the fiscal activities that have taken place during the accounting cycle ending June 30, 2012, as they relate to the efforts of Blissfield Community Schools in carrying out its mission.

Included in this report are a series of financial statements that are used in order to provide a complete overview of the financial activities that took place during the reporting period. In addition, the statements provide useful information that displays the financial condition of the District at the end of the period.

Using the Fund Accounting method, for the period ending June 30, 2012, the District utilized several major Funds for reporting, operational, and capital improvement purposes as follows: General Fund, Capital Project Sinking Fund (2010-2020), and a Qualified School Construction Bond Fund (QSCB) resulting from the purchase of bonds under the American Recovery and Reinvestment Act (ARRA) of 2010. The ARRA QSCB program provides for entities that purchase the bonds to receive federal income tax credits in lieu of interest payments on the bonds, ideally making them interest free loans for the schools or school districts that issue the bonds. The bond issuers must repay the principal of the bond but the interest payments are made by the federal government in the form of tax credits to the bond holder. Principal payments are made into a restricted account, technically owned by the issuing school district, and accumulated through the repayment period with the actual principal payment made to the bond holder at the

BLISSFIELD COMMUNITY SCHOOLS

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2012

expiration of the bond investment period (10 years generally for the ARRA QSCB program) in one lump sum. The issuing district may also earn interest on the restricted principal repayment account throughout the 10 year accumulation period, resulting in even greater likelihood that the interest cost to the issuing district will be 0%. Blissfield Community School District sold ARRA QSCB bonds totaling \$5,000,000 in 2010.

One non-major Fund consisting of the School Lunch Fund was used to report food service activities. Combining totals of all funds except the fiduciary fund (Student Loan Fund) are included in the Government Wide Statement of Net Assets and Government Wide Statement of Activities. The Fiduciary Fund employed by the District is reported as a separate Statement of Net Assets due to its function not being part of the measurement of results in general school operations.

The Government Wide Statement of Activities provides a breakdown of expenses for the various Governmental activities. Revenues from various sources are also separated.

Separate Fund Financial Statements follow the Government Wide Statement of Net Assets and the Government Wide Statement of Activities. These statements provide a separation of financial data for the individual major funds and combined totals for the non-major funds. Footnotes at the end of each of these separate statements explain the basis for how some of the data was arrived at. The General Fund provides the majority of the financial disclosure to measure how well management has handled discretionary revenues and expenses.

Beginning with the Government-Wide Condensed Statement of Net Assets, Assets, Liabilities, and Fund Balance are compared from year ending June 30, 2011 with year ending June 30, 2012, as presented in figure 1 below.

**Figure 1**  
**Condensed Statement of Net Assets (Fund Balance)- (in thousands of dollars)**

	General Fund		All Other Funds		Total Government Wide		Percentage
	2011	2012	2011	2012	2011	2012	Change
							2011-2012
Current Assets	\$4,784	\$4,651	\$4,357	\$1,924	\$9,141	\$6,575	-28.07%
Noncurrent Assets	-	-	7,772	10,526	7,772	10,526	35.43%
Total assets	4,784	4,651	12,129	12,450	16,913	17,101	1.11%
Current Liabilities	1,272	1,186	557	29	1,829	1,215	-33.57%
Noncurrent Liabilities	-	-	4,615	5,065	4,615	5,065	9.75%
Total liabilities	1,272	1,186	5,172	5,094	6,444	6,280	-2.55%
Net Assets							
Investment in capital assets, net of related debt	-	-	6,535	6,364	6,535	6,364	-2.62%
Restricted	-	-	203	189	203	189	-6.90%
Unrestricted	3,512	3,465	219	802	3,731	4,267	14.39%
Total Net Assets	\$3,512	\$3,465	\$6,957	\$7,355	\$10,469	\$10,820	3.35%

*Note: totals may not add due to rounding*

BLISSFIELD COMMUNITY SCHOOLS

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2012

In Reviewing Figure 1 above, the following are Management's explanations and comments.

- On a Total Government-Wide comparison basis, Current Assets decreased by 28.07% for the fiscal year ending June 30, 2012, when compared to the prior year ending June 30, 2011. Decreases in Current Assets on a Government-Wide basis are not generally a positive measurement of an organization's performance. In this instance, however, the majority of the decrease Government-Wide is directly related to cash spent for capital improvements in the Capital Project Sinking Fund and the 2011 Qualified School Construction Bond (QSCB) Fund. The Capital Project Sinking Fund is restricted to capital improvement activity only and cannot be used toward the general operations of the District. Construction projects in progress at June 30, 2011, and some new projects, were completed during the period ending June 30, 2012 resulting in all of the \$3,378,489 of cash remaining in the 2011 QSCB Bond Fund to be spent by June 30, 2012. The Capital Project Sinking Fund has been designated by the Board of Education to provide principal repayment of the 5,000,000 Bond purchased under the 2010 QSCB Bond program. If the Capital Project Sinking Fund should fall short of providing adequate cash to make annual principal and interest payments, the General Fund will be required to fund the remainder of the payment. The Board of Education has acted to commit 1,000,000 of the Fund Balance General Fund for the purpose of capital improvements. Declining real estate property values, Headlee Rollback provisions, and State of Michigan action to eliminate tax on non-real estate personal property such as commercial equipment, could result in a reduction of an estimated \$60,000 annually in revenue for the Capital Project Sinking Fund as early as next year. Therefore, it is possible that the General Fund may be required to partially fund QSCB Bond payments as early as the fiscal year ending June 30, 2013. If property values continue to decline, it is possible that Blissfield Community School District will need to spend all of the \$1,000,000 Committed Fund Balance in the General Fund to repay the QSCB Bond over the next eight years. A closer look at the actual impact of the personal property tax reduction and real estate property values on Capital Project Sinking Fund revenues at June 30, 2013, will help to project the need for the General Fund to repay remaining QSCB principal payments. The General Fund, cash and cash equivalents (Current Assets) declined by \$132,647 or 2.77%. Management concerns remain high as reductions in future State revenues are likely due to continued decline of Michigan's economy, property value decline, and local declining student enrollment. General inflation on fixed expenditures and increased cost of employee benefits only add to the concern of management to control expenditures consistent with declining revenues.
- As mentioned in the paragraph above, construction projects District-wide that were in progress at the period ending June 30, 2011 were completed by June 30, 2012. These capital projects were funded primarily by proceeds from the QSCB Bonds sold in the previous period ending June 30, 2011. As a result, Non-current Assets increased by 35.43% when comparing period ending June 30, 2012 to same period for 2011. Changes in the Non-current Asset category reflect activities primarily in the fixed assets (net of accumulated depreciation) of the District. Changes in fixed assets (land, buildings, furniture & equipment, and vehicles) are not usually reflective of any direct impact they have on the primary operations of the District with educational programs. However, when an increase in the value of fixed assets occur, it generally means that property, buildings, and equipment are being added (or at least improved) and is one indication of the intent of management to improve our buildings and other facilities. Management is hopeful that by improving the fixed assets of the District, the result will be an improvement in the learning environment for the students to reach their educational potential.
- Management closely monitors Current Liabilities as they relate to salaries, benefits, health insurance, and other related salary expenditures. Cost monitoring for this area in recent years has been very important as health insurance and State mandated retirement plan cost for employees experienced disproportionate increases when compared to changes in most other expenditure areas. However, new State laws imposing caps on health care Plan cost paid by the District will now at least restrict cost increases for future Collective Bargaining Agreements with Blissfield Education Association (BEA). Current Liabilities decreased by 9.01% Government-Wide when compared to the same period ending June 30, 2011. Non-Major Funds account for only a small portion of the change in Current Liabilities with most of the change represented in the General Fund. Action by the Board of Education to reduce

BLISSFIELD COMMUNITY SCHOOLS

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2012

wages and benefits of employee groups other than the BEA for the period ending June 30, 2012 accounted for most of the change in current liabilities over the period ending June 30, 2011. The State of Michigan has acted to also limit or freeze increases in the retirement Plan payments mandated to be paid by public schools into the Michigan Public School Employees Retirement System (MPERS). This action by the State should prove helpful in controlling future benefit costs.

- Government-wide Non-current Liabilities declined a modest .90% during the period ending June 30, 2012. Most Non-current Liabilities are reflective of the Long-term Liability of the District to repay the remaining principal due on the initial \$5,000,000 QSCB Bonds purchased in the period ending June 30, 2011. Principal and interest payments will continue over the next eight years. The remaining Non-current Liability reflects the accumulation of employee's unused sick and personal leave days (\$103,863) as well as the remaining balance of the 1998 Durant School Improvement Bonds (\$7,251). Even though the 1998 Durant School Improvement Bond is disclosed as a liability of Blissfield Community School District, the annual payment to satisfy the bond payoff is transferred directly from the Michigan State Legislature as required by law.
- Unreserved/Undesignated Fund Balance for period ending June 30, 2012 on a Government-Wide basis is up 3.35% as compared to period ending June 30, 2011. The increase Government-wide represents improvement in the Non-current asset categories related primarily to capital improvements, net of depreciation. The majority of the increase in the value of District fixed assets represent improvements to the buildings, and do not represent an improvement of cash reserves available for future operational expenditures. However, Management has relied in part on expected savings in energy from the improved efficiencies of the buildings to realize budgeted expenditure reductions in the General Fund for the period ending June 30, 2012. In fact, the estimated and budgeted energy cost reductions due to the capital improvements completed were mostly realized as the electric and natural gas cost declined by \$31,467 for the twelve-month period ending June 30, 2012 when compared to the same twelve month period ending June 30, 2011. Therefore, these fixed asset improvements will indirectly provide improved financial resources available for discretionary educational programming, rather than being required to meet higher fixed operational expenditures that would continue if the fixed asset improvements were not made. The General Fund Unreserved/Undesignated Fund Balance for the period ending June 30, 2012 declined by \$46,800 or .46% of expenditures. While deficit spending for the year ending June 30, 2012 is not desirable, it does reflect an improvement of \$167,902 over budget (-\$214,702). However, the budgeted purchase of a new school bus was included in the projected deficit budget and that purchase was unable to be completed by June 30. The purchase of the bus would have increased the deficit spending level by \$55,663 (Total purchase price of \$75,663 with \$20,000 paid by the LISD with Federal EPA Grant funds) to a total of \$102,463. The bus purchase will be completed in the next period ending June 30, 2013. The increase in budgeted expenditures for the bus purchase in the period ending June 30, 2013 will not be \$55,663, but only \$37,831.50 as the LISD has agreed to increase their contribution from the Federal EPA grant funds to 50% of the purchase price or \$37,831.50. Trends of declining State revenues are expected for at least the foreseeable future which increases Management's efforts on controlling expenditures. Many risk factors could quickly erode Fund Balance levels further for the foreseeable future. The State of Michigan may impose reductions in State Aid to the District at any time during the year and has done so in the recent past. Economic indicators at both the State and National level indicate a continued slumping economy. Declining enrollment for Blissfield Community School District is expected for the next several years. In summary, stagnant or declining revenues with increasing fixed expenditures is a combination that is unavoidable under the current economic environment and is expected to continue for the foreseeable future. Any significant financial event that may require the reduction of General Fund Balance could cause management to recommend offsetting reductions in expenditures. Continuing declining General Fund Balance could become a serious problem if not addressed while the District is financially strong. Management believes that "Unassigned" Fund Balance in the General Fund should be protected at approximately 25% of total expenditures in order to ensure effective ongoing educational operations. The total Fund Balance in the General Fund, less Committed Fund Balance of \$1,000,000 for capital expenditures and \$99,477 for track resurfacing, is \$2,365,816 or 23.42% of total Expenditures and Other Financing Uses at the

BLISSFIELD COMMUNITY SCHOOLS

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2012

conclusion of the period ending June 30, 2012. Management understands that only the “Unassigned” Fund Balance can be relied upon as an indication of available resources for future designation to general educational operations.

As presented in Figure 2 below, Government-Wide Statement of Activities, Program Revenues, and Expenses are compared for year ending June 30, 2011, with year ending June 30, 2012.

In reviewing Figure 2 above on a Government Wide basis, the following are Management’s explanations and comments.

<b>Figure 2</b>			
<b>Changes in Net Assets (Fund Balance) from Operating Results- (in thousands of dollars)</b>			
	Total Activities Government Wide		Percentage Change
	2011	2012	2011-2012
<i>Revenues</i>			
Program revenues			
Charges for services	\$ 349	\$ 360	3.15%
Operating Grants & Contributions	1,706	1,517	-11.08%
Capital Grants & Contributions	-	-	
Total Program revenues	2,055	1,877	-8.66%
General revenues			
Local assessments (Prop. Tx, Trnsf.)	1,935	1,923	-0.62%
State allocations	7,451	7,533	1.10%
Investment earnings	98	29	-70.41%
Miscellaneous -(Insurance Dividend)	15	13	-13.33%
Other (Transfers)	-	-	0.00%
Total General revenues	9,499	9,498	0.01%
Total revenues & Other sources	11,554	11,376	-1.55%
<i>Expenses</i>			
Instruction	6,949	7,103	2.22%
Supporting Services	3,646	3,447	-5.46%
Capital Outlay	305	-	-100.00%
Community Services	-	1	N/A
Interest Expense	1	16	1500.00%
Other Expense	14	47	235.71%
Depreciation (unallocated)	331	410	23.87%
Total expenses	11,246	11,024	-1.97%
<i>Change in fund balances</i>	<u>\$ 308</u>	<u>\$ 352</u>	

Note: totals may not add due to rounding

- Program Revenues decreased for the period ending June 30, 2012 by \$178,031 or 8.6%. The decrease is primarily a result of declining revenues in Federal Operating Grants & Contributions, most significantly

BLISSFIELD COMMUNITY SCHOOLS

**MANAGEMENT DISCUSSION AND ANALYSIS**

June 30, 2012

the ARRA Grant allocations. Total Revenues would have actually been down further by \$281,074 without the one-time Education Jobs Funds (Ed Jobs) Federal grant. As of June 30, 2012, Federal Ed Jobs grant funds are expired and are not expected to be replaced with another funding source for the 2012-2013 fiscal year.

- General revenues for the period ending June 30, 2012, overall were up modestly by \$1,692 or .01%. The Investment earnings portion of the total General revenues, experienced a decline of \$68,627 or 70.41%. The decrease in Investment earnings resulted mostly from a decline of interest earned on reserve cash in the QSCB Bond group of accounts due to construction expenditures exhausting cash that was earning interest in the period ending June 30, 2011. In addition, the District experienced a lower rate of return on reserve General Fund Cash & Investments during the period. State allocations are paid directly on the number of students enrolled. Once again, concerns remain high over negative funding pressures at the State of Michigan and National level that could impact future revenues. Declining student enrollment continues to impact per pupil State revenues and, according to demographic studies, is expected to continue for at least the next several years. Investment earnings on General Fund reserves are expected to experience continued downward pressures going into the next fiscal year.
- Total revenues from operations for the period ending June 30, 2012 were down by 1.55% when compared to the same period ending June 30, 2011. Even with the "one-time" revenue sources mentioned earlier with the Federal Ed Jobs grant funding, total Program Revenues were still down. Declining State revenues is a trend that is not favorable in balancing expenditures with revenues for future fiscal year cycles. It is not expected that Federal sources of revenue will continue, especially when these revenues were awarded with caution from both the Federal and State agencies as "one-time" sources. Again, the outlook of continued slowdown for the State of Michigan shows no end in sight and will most likely translate to continued pressure on public schools to reduce, or at least control, operational expenditures.
- Instruction expenditures for the period ending June 30, 2012 increased by \$154,726 or 2.22% when compared to the same period ending June 30, 2011. By way of contrast, Supporting Services expenditures were down by \$199,072 or 5.46% when comparing the same periods. Maintaining Instructional expenditures demonstrates management's philosophy to protect Instructional programs, even in a declining revenue climate. Continuing to reduce expenditures in support areas, where operationally prudent, may be necessary if overall enrollment and revenues continue to decline. Management concerns have elevated over the possibility that further reductions in supporting service areas may begin to affect the quality of programming if further reductions become necessary. However, Management recognizes that with declining enrollment and an unstable State of Michigan economic forecast, expenditures must be controlled in relation to expected revenues. By maintaining financial strength, management can confidently recommend continued commitment of resources to enhance instruction and promote technological initiatives. Management's continued priority and attention in the future, under the supervision of the Board, will be focused on evaluating all aspects of operations in order to balance expenditures with revenues whenever possible. Careful consideration will be given to all programs and parties when making expenditure reductions and/or improvements in revenues. Management recognizes that the interests of students, parents, community members, staff, and the Board must be considered when making recommendations for changes involving expenditure reductions and increases in revenue items such as fees for services that will impact the public.
- The combination of Community Services, Interest, and Other Expense experienced little change in the period ending June 30, 2012 when compared the period ending June 30, 2011. The most significant of the three categories, Other Expense, was up by \$32,407 for the fiscal year ending June 30, 2012 when compared to the period ending June 30, 2011. The increase primarily represents tax collections that are returned to Lenawee County for property tax value adjustments issued by the Lenawee County Tax Board of Review.
- Depreciation expense does not necessarily reflect any particular direct change in actual cash for the period. Primarily, total Depreciation expense is an accounting practice of allocating a portion of past

BLISSFIELD COMMUNITY SCHOOLS

**MANAGEMENT DISCUSSION AND ANALYSIS**  
June 30, 2012

expenditures of cash on capital improvements over a specified period of time expected to be the useful life of each separate particular asset. Increases in Depreciation expense is at least an indication that financial resources are being spent to ensure the District facilities are being improved. Continuing the allocation of financial resources to improve facilities supports the goal to provide a pleasing and safe environment for students to learn and for the use of the general community.

- Fund Balance on a Government-Wide basis increased \$43,128 for the period ending June 30, 2012. Because the Government-Wide Fund Balance calculation includes all funds including the Capital Project Sinking Fund, management reviews and analyzes the General Fund separately in order to better evaluate direct educational operations. Management continues concern regarding rising fixed expenditures, especially due to the expectation of decreases in the per pupil revenue from the State of Michigan for the foreseeable future. In addition, declining enrollment only compounds concern of Management to maintain focus in balancing expenditures with expected revenues. Declining enrollment directly reduces revenues from the State as allocations are made on a per pupil basis. Management will continue to aggressively seek ways to control expenditures through continued service and supplies bidding as well as evaluation of all program operations as we have done over the year ending June 30, 2012. As always, avoiding any reductions in the direct education programs will be the primary goal of management, under the direction of the Board, as we focus on our mission and commitment to educational excellence.

Figure 3 below represents comparative data for period ending June 30, 2011 to the period ending June 30, 2012 for the Fiduciary Funds under management by Blissfield Community Schools. These funds are utilized for student activity accounts and for providing financial assistance to students graduating from the District who are pursuing higher education on a full time basis equal to 12 credit hours or more per semester.

<b>Figure 3</b>				
<b>Fiduciary Funds-Condensed Statement of Net Assets (Fund Balance) (in thousands of dollars)</b>				
		<u>Fiduciary Funds</u>		<u>Percentage</u>
		<u>2011</u>	<u>2012</u>	<u>Change</u>
				<u>2011-2012</u>
<b>Assets</b>				
	Cash and deposits	\$ 332	\$ 430	29.52%
	Student Receivables	607	722	18.89%
	Investments	<u>906</u>	<u>730</u>	-19.46%
	Total assets	1,846	1,882	1.97%
<b>Liabilities</b>				
	Due to student groups	306	328	7.32%
	Due to student loan accounts	<u>1,540</u>	<u>1,553</u>	0.86%
	Total liabilities	\$1,846	\$1,882	1.93%
<i>Note: totals may not add due to rounding</i>				

- When comparing Total assets of the Fiduciary Fund at June 30, 2012 with Total assets at June 30, 2011, the Fund experienced an increase of \$35,597 or 1.97%. The student Activities accounts portion of the

BLISSFIELD COMMUNITY SCHOOLS

**MANAGEMENT DISCUSSION AND ANALYSIS**

June 30, 2012

Fiduciary Funds consisting of assets held for student groups accounted for \$22,038 of the increase. Blissfield Community School District Student Loan Program experienced an increase of assets in the Fiduciary Fund of \$13,559 or .86%. The increase in the Student Loan Program, while not significant, is at least positive. Any increase is welcome considering the downward pressures on investment returns under the current economic climate. Unfortunately, if annual increases in these assets do not keep up with inflation, it could be argued that the real value of the assets is actually declining.

- At least 75% to 85% of all assets in the Student Loan portion of the Fiduciary Fund will continue to be invested in fixed instruments with high ratings, leaving 15% to 25% invested in Equities as an overall investment strategy. This investment strategy will continue unless the Board of Education should decide on changes in asset allocation. The percent of Student loan receivables to Total assets in the Student Loan Program was 46% as of June 30, 2012. Generally, Student loan receivables has maintained about a 40% share of the total Student Loan Program assets. The increase is directly related to the change approved by the Board of Education to now loan up to \$16,000 to students attending post high school educational programs, rather than the \$8,000 cap previously established. Management recommends that the Board review and monitor total student loans in relation to total Student Loan Program assets and consider changing loan limits if the ratio of total loans to total assets exceeds 50%.
- The amount of cash available for student activities and student loans is separate from the general District Governmental Activities represented on the Government-Wide financial statements represented in this report. Student activities funds and the Blissfield Community School District Student Loan Program funds do not represent any material cash value available for the general operations of the District.

The Budgetary Comparison Schedule-General Fund, shows Total revenues received were under the final Budget Amendment estimate in the amount of \$139,139 or by 1.35%. The Revenue categories experiencing the most significant deviation from Budget were Special Education Transfers from the LISD, State sources (State Aid), and Federal sources.

Management follows a budgetary practice of conservative revenue estimating, rather than a policy of overestimating, in order to guide decisions that will control expenditures related to expected revenues. Actual Total Expenditures were under the final Amended Budget by \$284,041 or 2.71%. Management closely evaluates all expenditure areas when making budgetary recommendations in order to best reflect protection of the quality and variety of educational programs. Management also recognizes that expenditures must be controlled in order to maintain a fiscal policy of protecting the financial strength of the District to meet future demands for a quality and continuously improving educational system. Maintaining financial strength relies in part on having enough resources to withstand any significant, sudden, and unavoidable reduction in revenues and/or increase in expenditures. The State of Michigan has proven that revenue cuts all the way to the end of a fiscal year are not only possible, but remain very probable for the foreseeable future. Unexpected expenditures could occur at any time. With capital improvement funding from the Capital Project Sinking Fund committed for the next eight years, Management believes that financial reserves are important to maintain at current levels if possible, to guard against any sudden and significant expenditure having a negative impact on educational programs.

Since budget amounts must be prepared in advance of the regular June Board Meeting in order to comply with legal budget guidelines, a conservative approach is used because of unknown expenditures and revenues before the close of the year on June 30. Revenues generally can be calculated more closely than expenditures because there is little management decision in determining the revenue items. However, revenues and expenditures may have significant changes in the last 60 days of the fiscal year due to events outside our control. The "one-time" revenue and expenditure reduction items mentioned throughout this Management Discussion and Analysis are examples of items that could have either a positive or negative impact on final financial results for the period ending June 30.

Primarily capital assets acquired with resources within each of the funds are reported as expenses of the fund under the appropriate function. However, capital assets are not reported within the separate fund but flow and accumulate to a separate statement of Capital Assets. This statement of Capital Assets is located within this report in detail for the review and information of the reader. Capital assets acquired, depreciated, and disposed of are updated to the capital

BLISSFIELD COMMUNITY SCHOOLS

**MANAGEMENT DISCUSSION AND ANALYSIS**  
June 30, 2012

asset group of accounts. Fixed asset category totals for the District at the period ending June 30, 2011 are compared to year ending June 30, 2012 in Figure 4 below.

<b>Figure 4</b>			
<b>Capital Assets (net of depreciation, in thousands of dollars)</b>			
	Total Activities Government Wide		Percentage Change
	2011	2012	2011-2012
Land	\$ 81	\$ 81	0.00%
Construction in progress	1,026	-	-100.00%
Buildings and additions	6,024	9,839	63.33%
Furniture and equipment	128	131	2.34%
Vehicles	447	417	-6.71%
Total	<u>\$7,706</u>	<u>\$10,468</u>	35.84%

*Note: totals may not add due to rounding*

- In reviewing Figure 4 above, Total Capital Assets improved by 35.84% for the period ending June 30, 2012, when compared with the prior period ending June 30, 2011. Capital Assets totals at the end of each fiscal cycle ending June 30, are calculated net of accumulated depreciation.
- Before depreciation expense was applied, additions to Capital Assets were \$4,197,622 which is a strong indication that the Board and Management are recognizing the need to continually improve facilities and the learning environment. Depreciation expense for the period ending June 30, 2012 totaled \$410,344 which offsets a portion of the increase to the Capital Asset group of accounts. Improvements to all educational buildings as well as the purchase of vehicles and equipment are included in the increase of capital value.

Long-term liability outstanding for the District as of June 30, 2012, for the Durant School Improvement Bonds totaled \$7,251. However, these bonds are paid by a direct transfer from the State of Michigan and require no financial obligation from the general operations of the District.

Every effort will be made by Management to limit the need to increase General Fund support for athletic expenditures over the level of support already being provided by the General Fund for athletic programs. The General Fund is currently used for all other educational programs. With the Athletic Fund being dissolved as of July 1, 2010, Management recommends continuing to restrict the amount of Fund Balance that was in the Athletic Fund before being dissolved, as of July 1, 2009 (\$99,477), through the "Committed" portion of the Fund Balance in the General Fund by way of the Resolution of the Board of Education in the 2010-2011 fiscal year. In addition, Management recommends continuing to restrict \$1,000,000 of the Fund Balance in the General Fund as "Committed" for the possible need to make the QSCB principal and interest payments over the next eight years.

BLISSFIELD COMMUNITY SCHOOLS

**MANAGEMENT DISCUSSION AND ANALYSIS**

June 30, 2012

The MPERS pension plan cost rate paid by the District was increased during the year from 20.66% to 24.46%. Poor performance in the equity market and overall National economy has caused the need to increase the employer MPERS contribution for the past several fiscal years. However, the State of Michigan has taken action to limit additional increases in the required MPERS contributions by school districts during the 2012-2013 fiscal year. Legal challenges to the overall MPERS reform has resulted in uncertainty for the State to maintain the commitment to limit required MPERS contributions in the future. This item will be monitored closely by Management going forward as it can have a significant impact on total expenditures in the area of employee benefits.

In summary, the overall financial strength of the District has improved on a Government-wide basis. Management will continue to exercise caution with all decisions having an impact on the financial position of the District due to pessimistic future economic forecasts of the State of Michigan and expert economists. Management will focus their attention to maintain or improve the quality of our educational programs and atmosphere in the midst of a weak economic outlook. Careful evaluation of all expenditures over the next period will be a priority by Management while seeking to reduce expenditures where possible. New revenues from local sources such as the formation of endowments, grants, and other sources will continue to be a goal of Management going forward. With fixed expenditures expected to rise again in the next accounting period ending June 30, 2013, it will be extremely important to control or reduce discretionary expenditures. Revenues are expected to decline in the next fiscal year ending June 30, 2013, which only compounds the sense of urgency to control expenditures. Enrollment is expected to continue in a flat to declining pattern for the next several years creating additional downward pressure on revenues. In the midst of challenging financial forecasts, Management remains committed to excellence in serving our students and community. We will continue to accomplish our goals to protect the educational programs necessary to fulfill our mission of providing a learning environment that will challenge students to become life-long learners and productive citizens.

Some chart comparison data for the prior reporting period may be different than originally reported in the prior period due to several conditions including but not limited to; new methods of reporting the same data based on Governmental Accounting Standards Board (GASB) changes, prior period adjustments after the reporting period closed, and changes in reporting methods by Management intended to provide better clarity to the reader of this report.

This financial report is designed to provide a general overview of the Blissfield Community School District's financial operations. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Daniel J. Garno  
Chief Financial Officer  
Blissfield Community Schools  
630 South Lane Street  
Blissfield, Michigan 49228  
Fax: (517) 486-5701, Phone (517) 486-2205

**BASIC FINANCIAL STATEMENTS**

BLISSFIELD COMMUNITY SCHOOLS

GOVERNMENT-WIDE STATEMENT OF NET ASSETS

June 30, 2012

	<u>Governmental Activities</u>
<b><u>ASSETS</u></b>	
<b>CURRENT ASSETS:</b>	
Cash and deposits	\$ 3,949,277
Investments	149,396
Accounts receivable	1,536,070
Taxes receivable	18,310
Due from other governmental units	11,914
Prepaid expenditures	330
Restricted investments - capital projects	902,318
Inventory	<u>6,916</u>
<b>TOTAL CURRENT ASSETS</b>	<b>6,574,531</b>
<b>NONCURRENT ASSETS:</b>	
Deferred charges, net of amortization	58,280
Fixed assets	19,894,830
Less: accumulated depreciation	<u>(9,426,853)</u>
<b>TOTAL NONCURRENT ASSETS</b>	<b><u>10,526,257</u></b>
<b>TOTAL ASSETS</b>	<b><u>\$ 17,100,788</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 90,287
Salaries and related payroll payables	1,070,140
Prepaid lunch sales	5,130
Deferred revenue	25,244
Current long-term obligations	<u>24,536</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,215,337</b>
<b>NONCURRENT LIABILITIES:</b>	
Noncurrent long-term obligations	<u>5,064,858</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<b><u>5,064,858</u></b>
<b>TOTAL LIABILITIES</b>	<b>6,280,195</b>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	6,363,717
Restricted for special revenue (food service)	189,125
Restricted for capital projects	820,078
Restricted for debt service	902,318
Unrestricted	<u>2,545,355</u>
<b>TOTAL NET ASSETS</b>	<b><u>10,820,593</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 17,100,788</u></b>

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

BLISSFIELD COMMUNITY SCHOOLS

**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2012

	<u>Program Revenues</u>			Governmental Activities
			Operating	Net (Expense)
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
Governmental activities:				
Instruction	\$ 7,103,442	\$ 1,800	\$ 1,233,291	\$ (5,868,351)
Supporting services	3,446,895	357,887	284,294	(2,804,714)
Capital Outlay	(298)	-	-	298
Community services	1,469	-	-	(1,469)
Interest on long-term debt	16,003	-	-	(16,003)
Other expense	46,543	-	-	(46,543)
Depreciation (unallocated)	410,334	-	-	(410,334)
Total governmental activities	<u>\$ 11,024,388</u>	<u>\$ 359,687</u>	<u>\$ 1,517,585</u>	(9,147,116)
General Revenues:				
Local sources				1,923,213
State sources				7,533,041
Investment earnings				29,199
Insurance dividend				<u>13,160</u>
Total general revenues and transfers				<u>9,498,613</u>
<b>CHANGE IN NET ASSETS</b>				351,497
<b>NET ASSETS</b> , beginning of year				<u>10,469,096</u>
<b>NET ASSETS</b> , end of year				<u>\$ 10,820,593</u>

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

BLISSFIELD COMMUNITY SCHOOLS

**BALANCE SHEET GOVERNMENTAL FUNDS**

June 30, 2012

	<u>General</u>	<u>Capital Project Sinking Fund</u>	<u>2011 Capital Project Fund</u>	<u>Debt Service Fund</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>						
<b>ASSETS:</b>						
Cash and deposits	\$ 2,943,230	\$ 820,078	\$ -	\$ -	\$ 185,969	\$ 3,949,277
Investments	149,396	-	-	-	-	149,396
Accounts receivable	1,527,784	-	-	-	8,286	1,536,070
Taxes receivable	18,310	-	-	-	-	18,310
Due from other governmental units	11,914	-	-	-	-	11,914
Interest receivable	330	-	-	-	-	330
Restricted investments - debt service	-	-	-	902,318	-	902,318
Inventory	-	-	-	-	6,916	6,916
<b>TOTAL ASSETS</b>	<b><u>\$ 4,650,964</u></b>	<b><u>\$ 820,078</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 902,318</u></b>	<b><u>\$ 201,171</u></b>	<b><u>\$ 6,574,531</u></b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>						
<b>LIABILITIES:</b>						
Accounts payable	\$ 90,287	\$ -	\$ -	\$ -	\$ -	\$ 90,287
Salaries and related payroll payables	1,070,140	-	-	-	-	1,070,140
Prepaid lunch sales	-	-	-	-	5,130	5,130
Deferred revenue	25,244	-	-	-	-	25,244
<b>TOTAL LIABILITIES</b>	<b><u>1,185,671</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>5,130</u></b>	<b><u>1,190,801</u></b>
<b>FUND BALANCES:</b>						
Nonspendable:						
Inventories	-	-	-	-	6,916	6,916
Restricted for:						
Food service	-	-	-	-	189,125	189,125
Capital projects	-	820,078	-	-	-	820,078
Debt service	-	-	-	902,318	-	902,318
Committed for:						
Capital projects	1,000,000	-	-	-	-	1,000,000
Subsequent year expenditures	316,131	-	-	-	-	316,131
Assigned	-	-	-	-	-	-
Unassigned	2,149,162	-	-	-	-	2,149,162
<b>TOTAL FUND BALANCES</b>	<b><u>3,465,293</u></b>	<b><u>820,078</u></b>	<b><u>-</u></b>	<b><u>902,318</u></b>	<b><u>196,041</u></b>	<b><u>5,383,730</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 4,650,964</u></b>	<b><u>\$ 820,078</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 902,318</u></b>	<b><u>\$ 201,171</u></b>	<b><u>\$ 6,574,531</u></b>

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

BLISSFIELD COMMUNITY SCHOOLS

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET  
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF  
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS**

Year Ended June 30, 2012

<b>Total governmental fund balances</b>		\$ 5,383,730
Amounts reported for governmental activities in the statement of net assets are different because:		
Value of amortized bond issuance costs	72,850	
Accumulated Amortization	<u>(14,570)</u>	
		58,280
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
The cost of capital assets is	19,894,830	
Accumulated depreciation is	<u>(9,426,853)</u>	
		10,467,977
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Long-term debt obligations	(4,985,531)	
Compensated absences	<u>(103,863)</u>	
		<u>(5,089,394)</u>
<b>Change in net assets of governmental activities</b>		<b>\$ <u>10,820,593</u></b>

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

BLISSFIELD COMMUNITY SCHOOLS  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
Year Ended June 30, 2012

	General	Capital Project Sinking Fund	2011 Capital Project Fund	Debt Service Fund	Non-Major Funds	Total Governmental Funds
<b>REVENUES:</b>						
Local sources						
Property taxes	\$ 873,934	\$ 536,151	\$ -	\$ -	\$ -	\$ 1,410,085
Food service sales	-	-	-	-	262,633	262,633
Interest	7,033	-	22,166	-	-	29,199
Athletic Admissions	95,254	-	-	-	-	95,254
Other	410,417	104,511	-	-	-	514,928
Total local sources	<u>1,386,638</u>	<u>640,662</u>	<u>22,166</u>	<u>-</u>	<u>262,633</u>	<u>2,312,099</u>
State sources	8,131,866	-	-	-	73,862	8,205,728
Federal sources	583,420	-	-	-	261,478	844,898
Total revenues	<u>10,101,924</u>	<u>640,662</u>	<u>22,166</u>	<u>-</u>	<u>597,973</u>	<u>11,362,725</u>
<b>EXPENDITURES:</b>						
Instructional	7,114,223	-	-	-	-	7,114,223
Supporting services	2,698,011	-	-	-	474,946	3,172,957
Athletics	273,938	-	-	-	-	273,938
Capital outlay	97,243	88,031	2,924,081	-	62,235	3,171,590
Community services	1,469	-	-	-	-	1,469
Debt service:						
Principal	-	-	-	-	37,694	37,694
Interest	-	-	2,651	-	13,352	16,003
Other expense	-	70	36,473	-	-	36,543
Total expenditures	<u>10,184,884</u>	<u>88,101</u>	<u>2,963,205</u>	<u>-</u>	<u>588,227</u>	<u>13,824,417</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(82,960)</u>	<u>552,561</u>	<u>(2,941,039)</u>	<u>-</u>	<u>9,746</u>	<u>(2,461,692)</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Incoming transfers	23,000	-	464,868	902,318	-	1,390,186
Outgoing transfers	-	(464,868)	(902,318)	-	(23,000)	(1,390,186)
Insurance dividends	13,160	-	-	-	-	13,160
Total other financing sources	<u>36,160</u>	<u>(464,868)</u>	<u>(437,450)</u>	<u>902,318</u>	<u>(23,000)</u>	<u>13,160</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(46,800)</u>	<u>87,693</u>	<u>(3,378,489)</u>	<u>902,318</u>	<u>(13,254)</u>	<u>(2,448,532)</u>
<b>FUND BALANCES:</b>						
Beginning of year	<u>3,512,093</u>	<u>732,385</u>	<u>3,378,489</u>	<u>-</u>	<u>209,295</u>	<u>7,832,262</u>
End of year	<u>\$ 3,465,293</u>	<u>\$ 820,078</u>	<u>\$ -</u>	<u>\$ 902,318</u>	<u>\$ 196,041</u>	<u>\$ 5,383,730</u>

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

BLISSFIELD COMMUNITY SCHOOLS

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BLANACES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2012

**Net change in fund balances total governmental funds** \$ (2,448,532)

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

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

Depreciation expense	(410,334)
Capital outlay	3,171,888

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:

Payments on other long term debt	37,694
Amortization of bond issuance costs	(7,285)
Amortization of bond discount	(2,715)

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

Accrued compensated absences, beginning of the year	114,644
Accrued compensated absences and termination benefits, end of the year	<u>(103,863)</u>

**Change in net assets of governmental activities** \$ 351,497

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

BLISSFIELD COMMUNITY SCHOOLS

STATEMENT OF FIDUCIARY ASSETS & LIABILITIES

June 30, 2012

	<u>Trust and Agency</u>
<u>ASSETS</u>	
Cash and deposits	\$ 429,937
Student loan receivables	721,553
Investments	<u>730,053</u>
<b>Total assets</b>	<b><u>\$ 1,881,543</u></b>
<u>LIABILITIES</u>	
Due to student groups	\$ 328,177
Due to student loan accounts	<u>1,553,366</u>
<b>Total liabilities</b>	<b><u>\$ 1,881,543</u></b>

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

BLISSFIELD COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

**I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting entity**

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

**B. Government-wide and fund financial statements**

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

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

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

The District first utilizes restricted resources to finance qualifying activities.

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

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

BLISSFIELD COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

**I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and fund financial statements (Continued)**

The District does not allocate indirect costs.

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

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

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

The School District reports the following major governmental funds:

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

The *Capital Projects funds* (95-99 sinking fund) are used to account for financial resources to be used for the acquisition or construction of major capital facilities, major remodeling and improvements. The School District has complied with the applicable provisions of section 1212(l) of the State of Michigan School Code.

The *2011 capital projects fund accounts* for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The *2011 debt service fund accounts* for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The 2011 capital projects fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

Beginning with the year of bond issuance, the District has reported the annual construction activity in the capital projects fund. The projects for which the 2010 Serial Bonds were issued were considered complete on June 1, 2012 and the cumulative expenditures recognized for the construction period were as follows.

The following is a summary of the revenue and expenditures for the capital projects bond activity since inception:

Revenue and other financing sources	<u>\$ 5,055,224</u>
Expenditures	<u>\$ 5,019,674</u>

BLISSFIELD COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

**I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and fund financial statements (Concluded)**

Additionally, the School District reports the following fund types:

*Fiduciary Funds* (student loan fund and student activity funds) account for assets held by the School District as an agent for other groups and organizations and is custodial in nature. Fiduciary funds are not included in the government-wide Statement of Net Assets and Statement of Activities.

*Special Revenue funds* (school lunch fund) are used to account for the proceeds of specific revenue sources (other than capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations.

The *debt service fund* - Durant accounts for the resources accumulated and payments made for principal and interest on long-term limited obligation debt as a result of the Durant settlement.

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

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

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

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

Property taxes received and grant and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

**D. Assets, liabilities, and net assets or equity**

1. Deposits and investments

The School District's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments are reported at fair value based on quoted market prices.

BLISSFIELD COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

**I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, liabilities, and net assets or equity (Continued)**

2. Receivables and payables

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

3. Inventories and prepaids

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the general and special revenue funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital assets

Capital assets, which include property and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25 – 50
Furniture and equipment	5 – 15
Vehicles and buses	7

5. Compensated absences

Vacation and Sick Pay – Vacation days are earned by most year-round employees at rates specified under contractual provisions. Retiring/terminated employees are paid for unused accumulated vacation days. The School District’s sick pay and personal leave policies allow for accumulation of up to a certain number of days depending on the employee group involved. Upon termination of employment, all accumulated sick and personal days are forfeited. It is the School District’s policy to recognize the cost of such leave at the time payments are made.

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated vacation days. The liability has been calculated for employees who currently are eligible to receive termination payments. The amount reported is salary related and includes no fringe benefits.

BLISSFIELD COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

**I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, liabilities, and net assets or equity (Continued)**

6. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities on the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. 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. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

8. Property taxes

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

For the year ended June 30, 2012, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General fund:	
Non-Principal Residence Exemption (PRE)	18.00
Commercial Personal Property	6.00
Capital projects sinking fund:	
PRE, Non-PRE, Commercial Personal Property	1.75

9. Fund Balance

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

BLISSFIELD COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

**I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**D. Assets, liabilities, and net assets or equity (Concluded)**

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

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

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

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

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

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

**II: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

The general and special revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect results, and consists only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. All annual appropriations lapse at fiscal year end. The budgets for the General and special revenue funds are adopted on a functional basis.

**B. Excess of Expenditures Over Appropriations**

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. In the general-purpose financial statements, the School Board's actual expenditures and budgetary expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for those budgetary funds were adopted to the functional level. During the year ended June 30, 2012, the School District did not have any expenditures exceed the apportioned amount on the approved budget.

BLISSFIELD COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

**III: DETAILED NOTES ON ALL FUNDS**

**A. Cash deposits and investments**

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

<b>Statement of Net Assets</b>	
Cash and cash equivalents	\$ 3,949,277
Investments	149,396
Restricted investments – capital projects	902,318
<b>Statement of Fiduciary Assets and Liabilities</b>	
Cash and cash equivalents	429,937
Investments	730,053
	<hr/>
	\$ 6,160,981
	<hr/> <hr/>
Bank deposits (checking accounts, savings accounts and CDs)	\$ 4,824,718
Investments in government backed securities	1,186,867
Investments in corporate equity and bonds	7,681
Investments in governmental liquid asset funds	141,715
	<hr/>
	\$ 6,160,981
	<hr/> <hr/>

State statutes authorize the School District to deposit and invest in:

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

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

BLISSFIELD COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

**III: DETAILED NOTES ON ALL FUNDS (Continued)**

**A. Cash deposits and investments (Concluded)**

The School District chooses to disclose its investments by specifically identifying each. At June 30, 2012, the School District had the following investments.

<u>Investment:</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Bank deposits (checking and savings)	N/A	\$ 4,094,665	N/A
Corporate debt and equities *	Various N/A	730,053	Various
MBIA Municipal Investors Service Corp. - Class	N/A	7,681	S&P – AAAM
U.S. agencies:			
Government backed securities	N/A	1,186,867	S&P – AAAM
Michigan Liquid Asset Fund	N/A	<u>141,715</u>	S&P – AAAM
		<u>\$ 6,160,981</u>	

\* The School District is the custodian of a student loan fund (A Fiduciary Fund), whose investments are reviewed and approved annually by the probate court of Lenawee County, Michigan.

**B. Investment and deposit risk**

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

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

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned. State law does not require and the School District does not have a policy for deposit custodial credit risk. As of year end, \$2,194,415 of the School District’s bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the School District does not have a policy for investment custodial credit risk.

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

BLISSFIELD COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

III: DETAILED NOTES ON ALL FUNDS (Continued)

C. Receivables

Receivables as of year end for the School District consist of the following:

Intergovernmental	\$ 1,536,070
Taxes receivable	18,310
	<u>1,554,380</u>

The amounts due from other governmental units include amounts due from state and local sources for various projects and programs. No allowance for doubtful accounts is considered necessary.

D. Capital assets

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Reclass / Disposals	Balance June 30, 2012
<u>Assets, not being depreciated:</u>				
Land	\$ 81,000	\$ -	\$ -	\$ 81,000
Construction in process	1,025,734	-	1,025,734	-
Subtotal	<u>1,106,734</u>	<u>-</u>	<u>1,025,734</u>	<u>81,000</u>
<u>Assets being depreciated:</u>				
Buildings and improvements	13,656,770	4,082,823	-	17,739,593
Furniture and equipment	388,875	22,958	-	411,833
Vehicles	1,570,563	91,841	-	1,662,404
Subtotal	<u>15,616,208</u>	<u>4,197,622</u>	<u>-</u>	<u>19,813,830</u>
<u>Accumulated depreciation:</u>				
Buildings and improvements	7,631,671	269,230	-	7,900,901
Furniture and equipment	261,103	19,444	-	280,547
Vehicles	1,123,745	121,660	-	1,245,405
Total accumulated depreciation	<u>9,016,519</u>	<u>410,334</u>	<u>-</u>	<u>9,426,853</u>
Assets being depreciated - Net	<u>6,599,689</u>	<u>3,787,288</u>	<u>-</u>	<u>10,386,977</u>
Capital Assets - Net	<u>\$ 7,706,423</u>	<u>\$ 3,787,288</u>	<u>\$ 1,025,734</u>	<u>\$ 10,467,977</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated."

BLISSFIELD COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

III: DETAILED NOTES ON ALL FUNDS (Concluded)

E. Long-term liabilities

Long-term debt and other obligations of the School District at June 30, 2012, are summarized as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Amount due in one year
1998 Durant School Improvement Bonds, due in annual installments of \$7,596 to \$35,852; Interest at 4.8%*	\$ 44,945	\$ -	\$ 37,694	\$ 7,251	\$ 7,251
2011 Qualified School Construction Bonds, due in annual installments to the sinking fund ranging from \$445,000 to \$570,000; Payoff at the end of the bond term May 2020; Interest at 5.5%	5,000,000	-	-	5,000,000	-
Compensated absences	114,644	-	10,781	103,863	20,000
Discount on bond issuance	(24,435)	-	(2,715)	(21,720)	(2,715)
TOTAL	<u>\$5,135,154</u>	<u>\$</u>	<u>\$ 45,760</u>	<u>\$ 5,089,394</u>	<u>\$ 24,536</u>

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

Compensated absences are generally liquidated by the general fund.

Future principal and interest payment requirements on outstanding debt are as follows:

	Principal	Interest	Total
2013	\$ 7,251	\$ 275,345	\$ 282,596
2014	-	275,000	275,000
2015	-	275,000	275,000
2016	-	275,000	275,000
2017-2020	5,000,000	1,100,000	6,100,000
Total	<u>5,007,251</u>	<u>2,200,345</u>	<u>7,207,596</u>
Discount on bond issuance	(21,720)	-	(21,720)
Accumulated compensated absences	103,863	-	103,863
	<u>\$ 5,089,394</u>	<u>\$ 2,200,345</u>	<u>\$ 7,289,739</u>

The above interest payments do not include the interest credit on the qualified school construction bond (QSCB). See page 38 for a complete schedule showing the QSCB credit.

BLISSFIELD COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

**IV: OTHER INFORMATION**

**A. Risk Management**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**B. Employee Retirement System – Defined Benefit Plan**

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

The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public Schools Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling 1-800-381-5111.

*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. Members hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. For members hired after July 1, 2008 the rate for over \$15,000 increased to 6.4%. Basic Plan members make no contributions. The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPERS who became a member of MPERS 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 current rate is 24.46% of annual covered payroll. The contribution requirements of plan members and the School District are established by the MPERS Board of Trustees. The School District's contribution to MPERS for the years ended June 30, 2012, 2011 and 2010 were \$1,195,326, \$1,059,945, and \$1,041,899, respectively, equal to the required contributions for each year.

*Other Post Employment Benefits.* Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 75 of 2010 requires each actively employed member of MPERS after June 30, 2010 to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees. For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit and were paid less than \$18,000 in the prior school year and members who were hired on or after July 1, 2010, with a starting salary of less than \$18,000 are required to contribute 1.5% of the members' compensation. For each school fiscal year that begins on or after July 1, 2011, members shall contribute 3% of compensation into the health care funding account.

BLISSFIELD COMMUNITY SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

**IV: OTHER INFORMATION (Continued)**

**B. Employee Retirement System – Defined Benefit Plan (Concluded)**

On June 28, 2010, the Michigan Court of Claims issued an injunction in response to a challenge to the authority of the State to require employees who began working before July 1, 2010, to contribute 3% of reportable wages to the retiree health care trust at MPSERS. As a result, the State has adjusted the contribution rate due on employees' wages paid between November 1, 2010 and September 30, 2011 to 20.66% for members who first worked prior to July 1, 2010 and 19.16% for Pension Plus members. In March 2011, the Court of Claims granted the plaintiffs' motions for summary disposition finding that the mandatory 3% contribution violated both the U.S. and Michigan constitutions. The State has appealed the ruling to the Michigan Court of Appeals; The Court of Appeals has accepted the appeal and ordered an expedited review. The Court of Appeals also granted the State's motion for a stay of proceedings and ordered that the 3% deduction continue to be collected and placed into an escrow account until further order of the court. Should the plaintiffs prevail in the litigation; the escrowed funds will be returned to the state employees.

Under the MPSERS Act, all retirees have the option of continuing health, dental, and vision coverage.

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

**C. Upcoming Accounting Pronouncements**

The District is currently evaluating the impact the following standards will have on the financial statements when adopted in future fiscal years 2013 through 2015.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was issued in December 2010. This statement incorporates into the GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, was issued by the GASB in June 2011 and will be effective for the District's 2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was issued by the GASB in March 2012 and will be effective for the District's 2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement provides supplemental guidance when implementing GASB Statement 63.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the GASB in June 2012 and will be effective for the District's 2015 fiscal year. The statement requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and

BLISSFIELD COMMUNITY SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2012

**IV: OTHER INFORMATION (Concluded)**

**C. Upcoming Accounting Pronouncements (Concluded)**

the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense.

**D. Subsequent Events**

In preparing these financial statements, the district has evaluated events and transactions for potential recognition or disclosure through October 5, 2012 , the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

BLISSFIELD COMMUNITY SCHOOLS

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

Year Ended June 30, 2012

	GENERAL FUND			
	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Over(Under)</u>
<b>REVENUES:</b>				
Local sources				
Property taxes	\$ 826,009	\$ 867,218	\$ 873,934	\$ 6,716
Interest	15,500	7,100	7,033	(67)
Athletics	91,400	89,725	95,254	5,529
Other	<u>396,272</u>	<u>492,254</u>	<u>410,417</u>	<u>(81,837)</u>
Total local sources	1,329,181	1,456,297	1,386,638	(69,659)
State sources	7,755,796	8,063,831	8,131,866	68,035
Federal sources	<u>680,936</u>	<u>680,935</u>	<u>583,420</u>	<u>(97,515)</u>
Total revenues	<u>9,765,913</u>	<u>10,201,063</u>	<u>10,101,924</u>	<u>(99,139)</u>
<b>EXPENDITURES:</b>				
Instructional	7,172,800	7,263,875	7,114,223	(149,652)
Supporting services	2,649,480	2,753,508	2,698,011	(55,497)
Athletics	270,489	270,489	273,938	3,449
Capital outlay	55,042	170,431	97,243	(73,188)
Community services	<u>10,722</u>	<u>10,622</u>	<u>1,469</u>	<u>(9,153)</u>
Total expenditures	<u>10,158,533</u>	<u>10,468,925</u>	<u>10,184,884</u>	<u>(284,041)</u>
<b>EXCESS (DEFICIENCY) OF</b>				
<b>REVENUES OVER EXPENDITURES</b>				
	<u>(392,620)</u>	<u>(267,862)</u>	<u>(82,960)</u>	<u>184,902</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Incoming transfers	35,000	40,000	23,000	(17,000)
Insurance dividends	<u>14,000</u>	<u>13,160</u>	<u>13,160</u>	<u>-</u>
Total other financing sources	<u>49,000</u>	<u>53,160</u>	<u>36,160</u>	<u>(17,000)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (343,620)</u>	<u>\$ (214,702)</u>	<u>(46,800)</u>	<u>\$ 167,902</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>3,512,093</u>	
End of year			<u>\$ 3,465,293</u>	

**120 – DAY BOND AUDIT**



CERTIFIED PUBLIC ACCOUNTANTS

ADRIAN, MICHIGAN  
JACKSON, MICHIGAN

## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Blissfield Community Schools  
Blissfield, Michigan 49228

We have audited the accompanying schedule of revenue, expenditures and changes in fund balances of the capital projects fund (the "schedule") which accounted for the proceeds and disbursement of the 2011 Building and Site Bonds of *Blissfield Community Schools* (the "District") as of and for the two year period ended June 30, 2012. This schedule is the responsibility of the District's management. Our responsibility is to express an opinion on this schedule based on our audit.

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

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

In our opinion, the schedule referred to above presents fairly, in all material respects, the results of operations of the 2011 Building and Site Bonds of Blissfield Community Schools for the two year period ending June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

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

*Gross, Puckey, Gruel & Roof, P.C.*

Adrian, Michigan  
October 5, 2012

BLISSFIELD COMMUNITY SCHOOLS  
**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
CAPITAL PROJECTS FUND**  
For the Two Year Period Ending June 30, 2012

**REVENUES:**

Investment Income	\$ 104,539
-------------------	------------

**EXPENDITURES:**

Capital outlay	4,907,700
Debt service:	
Principal	65,266
Interest	2,651
Bond issuance costs	110,531
Other expense	28,922
Total expenditures	5,115,070

**EXCESS (DEFICIENCY) OF REVENUES  
OVER (UNDER) EXPENDITURES**

(5,010,531)

**OTHER FINANCING SOURCES (USES):**

Incoming transfers	10,531
Proceeds from sale of bonds	5,000,000
Total other financing sources	5,010,531

**EXCESS (DEFICIENCY) OF REVENUES AND  
OTHER FINANCING SOURCES OVER (UNDER)  
NET CHANGE IN FUND BALANCES**

-

**FUND BALANCES:**

Beginning of year	-
End of year	\$ -

**OTHER SUPPLEMENTARY INFORMATION**

BLISSFIELD COMMUNITY SCHOOLS

**COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS**

June 30, 2012

	School Lunch Fund	Durant Bond Fund	Total
<u>ASSETS</u>			
Cash and deposits	\$ 185,969	\$ -	\$ 185,969
Accounts receivable	8,286	-	8,286
Inventory	6,916	-	6,916
	<u>\$ 201,171</u>	<u>\$ -</u>	<u>\$ 201,171</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
LIABILITIES:			
Prepaid lunch sales	<u>\$ 5,130</u>	-	<u>\$ 5,130</u>
TOTAL LIABILITIES	5,130	-	5,130
FUND BALANCES:			
Nonspendable - inventory	6,916	-	6,916
Restricted - Food service	<u>189,125</u>	-	<u>189,125</u>
TOTAL FUND BALANCE	<u>196,041</u>	-	<u>196,041</u>
	<u>\$ 201,171</u>	<u>\$ -</u>	<u>\$ 201,171</u>

BLISSFIELD COMMUNITY SCHOOLS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS**

June 30, 2012

	School Lunch Fund	Durant Bond Fund	Total
	<u>          </u>	<u>          </u>	<u>          </u>
REVENUES:			
Local sources			
Food service sales	\$ 262,633	-	\$ 262,633
Total local sources	<u>262,633</u>	<u>-</u>	<u>262,633</u>
State sources	22,816	51,046	73,862
Federal sources	<u>261,478</u>	<u>-</u>	<u>261,478</u>
Total revenues	<u>546,927</u>	<u>51,046</u>	<u>597,973</u>
EXPENDITURES:			
Support services	474,946	-	474,946
Capital outlay	62,235	-	62,235
Debt service:			
Principal	-	37,694	37,694
Interest	<u>-</u>	<u>13,352</u>	<u>13,352</u>
Total expenditures	<u>537,181</u>	<u>51,046</u>	<u>588,227</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>9,746</u>	<u>-</u>	<u>9,746</u>
OTHER FINANCING SOURCES (USES):			
Transfers	<u>(23,000)</u>	<u>-</u>	<u>(23,000)</u>
Total other financing sources (uses)	<u>(23,000)</u>	<u>-</u>	<u>(23,000)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	<u>(13,254)</u>	<u>-</u>	<u>(13,254)</u>
FUND BALANCES:			
Beginning of year	<u>209,295</u>	<u>-</u>	<u>209,295</u>
End of year	<u>\$ 196,041</u>	<u>\$ -</u>	<u>\$ 196,041</u>

BLISSFIELD COMMUNITY SCHOOLS

**BONDED DEBT**

June 30, 2012

\$108,189 Durant Bond issued November 24, 1998

<u>Principal Due</u>	<u>Interest Due</u>	<u>Debt service requirement for fiscal year</u>	
<u>May 1</u>	<u>May 15</u>	<u>June 30,</u>	<u>Amount</u>
\$ 7,251	\$ 345	2013	\$ 7,596
<u>\$ 7,251</u>	<u>\$ 345</u>		<u>\$ 7,596</u>

The above bond issue bears interest at 4.76%. The bond proceeds were used for erecting, furnishing and equipping additions to the existing high school building and developing and improving the site.

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

BLISSFIELD COMMUNITY SCHOOLS

**BONDED DEBT**

June 30, 2012

\$5,000,000 School Building and Site Bonds (Federally taxable-Qualified School Construction Bonds) issued in 2010:

Principal Due	Interest Due			Debt service requirement for fiscal year		Total Annual Sinking Fund Deposit Required
	May 1	May 1	November 1	QSCB Credit	June 30,	
\$ -	\$ 137,500	\$ 137,500	\$ (269,500)	2012	\$ 5,500	\$ 465,000
-	137,500	137,500	(269,500)	2013	5,500	470,000
-	137,500	137,500	(269,500)	2014	5,500	480,000
-	137,500	137,500	(269,500)	2015	5,500	485,000
-	137,500	137,500	(269,500)	2016	5,500	495,000
-	137,500	137,500	(269,500)	2017	5,500	510,000
-	137,500	137,500	(269,500)	2018	5,500	530,000
-	137,500	137,500	(269,500)	2019	5,500	550,000
5,000,000	137,500	-	(134,750)	2020	5,002,750	570,000
<u>\$ 5,000,000</u>	<u>\$ 1,237,500</u>	<u>\$ 1,100,000</u>	<u>\$ (2,290,750)</u>		<u>\$ 5,046,750</u>	<u>\$ 4,555,000</u>

The above bonds were authorized at an election May 11, 2010 and have an interest rate of 5.5%. The bonds were issued for the purpose of erecting, furnishing and equipping an addition to and partially remodeling, furnishings and refurbishing, and equipping and re-equipping the school building, in part for security purposes; acquiring, installing and equipping, developing and improving play fields and playgrounds; developing and improving parking areas and the site; and paying the costs of issuing the bonds.

The District designated the above bonds as "Qualified School Construction Bonds" as defined in Section 54F of the Internal Revenue Code of 1986, as amended, and will irrevocably elect under section 6431(f)(2) of the code to receive direct payments from the United States Treasury equal to the lesser of the amount of interest payable on the bonds or the amount of interest which would have been payable on the bonds if interest were determined at the applicable credit rate determined under Section 54A(b)(c) of the code. The District will deposit all such credits into the sinking fund pledged for the payment of the bonds.

BLISSFIELD COMMUNITY SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For Fiscal Year Ended June 30, 2012

Federal Grantor	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 6/30/11	(Memo only) Prior years expenditures	Current year expenditures	Current year receipts	Accrued (deferred) revenue 6/30/12
<b>U. S. Department of Agriculture:</b>								
Passed through MI Department of Education:								
Child Nutrition Cluster								
Non-cash assistance (commodities):								
National School Lunch Program - Regular	10.555		\$ 24,974	\$ -	\$ -	\$ 24,975	\$ 24,975	\$ -
National School Lunch Program - Bonus			4,001	-	-	4,001	4,001	-
			<u>28,975</u>	<u>-</u>	<u>-</u>	<u>28,976</u>	<u>28,976</u>	<u>-</u>
Cash assistance:								
School Breakfast Program	10.553	111970	45,203	-	39,609	5,594	5,594	-
		121970	45,888	-	-	45,888	45,888	-
			<u>91,091</u>	<u>-</u>	<u>39,609</u>	<u>51,482</u>	<u>51,482</u>	<u>-</u>
National School Lunch	10.555	111950	26,756	-	26,756	-	-	-
		111960	147,799	-	127,892	19,907	19,907	-
		121950	-	-	-	-	-	-
		121960	155,556	-	-	155,556	155,556	-
			<u>330,111</u>	<u>-</u>	<u>154,648</u>	<u>175,463</u>	<u>175,463</u>	<u>-</u>
Summer Feeding Program	10.559	110900	5,027	-	-	5,027	5,027	-
		111900	530	-	-	530	530	-
			<u>5,557</u>	<u>-</u>	<u>-</u>	<u>5,557</u>	<u>5,557</u>	<u>-</u>
Total cash assistance			<u>426,759</u>	<u>-</u>	<u>194,257</u>	<u>232,502</u>	<u>232,502</u>	<u>-</u>
Total Child Nutrition Cluster			<u>455,734</u>	<u>-</u>	<u>194,257</u>	<u>261,478</u>	<u>261,478</u>	<u>-</u>
<b>Total U.S. Department of Agriculture</b>			<u>455,734</u>	<u>-</u>	<u>194,257</u>	<u>261,478</u>	<u>261,478</u>	<u>-</u>

The accompanying notes are an integral part of this schedule.

BLISSFIELD COMMUNITY SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For Fiscal Year Ended June 30, 2012

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 6/30/11	(Memo only) Prior years expenditures	Current year expenditures	Current year receipts	Accrued (deferred) revenue 6/30/12
<b>U. S. Department of Education:</b>								
Passed through MI Department of Education:								
Title I - Part A Grants	84.010	121530-1112	142,087	-	-	123,037	85,462	37,575
			<u>142,087</u>	<u>-</u>	<u>-</u>	<u>123,037</u>	<u>85,462</u>	<u>37,575</u>
Title I - Part C Grants (Migrant)	84.011	111830-2011	94,695	-	-	94,695	94,695	-
		121890-1112	65,613	-	-	35,027	33,659	1,368
			<u>160,308</u>	<u>-</u>	<u>-</u>	<u>129,722</u>	<u>128,354</u>	<u>1,368</u>
Title II Part A	84.367	120520-1112	54,841	-	-	42,687	34,727	7,960
Education Jobs Fund	84.410	112545-10-11	281,074	-	-	281,074	281,074	-
Total passed through MI Department of Education			<u>638,310</u>	<u>-</u>	<u>-</u>	<u>576,520</u>	<u>529,617</u>	<u>46,903</u>
Passed through Lenawee ISD:								
Title II	84.366B		2,450	-	-	2,450	2,450	-
Title II, Part D	84.386A		2,340	-	-	2,340	2,340	-
<b>Total Department of Education</b>			<u>643,100</u>	<u>-</u>	<u>-</u>	<u>581,310</u>	<u>534,407</u>	<u>46,903</u>
<b>US Department of Health and Human Services:</b>								
Passed through Lenawee ISD:								
Medicaid Outreach	93.780		2,110	-	-	2,110	2,110	-
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<u>\$ 1,100,944</u>	<u>\$ -</u>	<u>\$ 194,257</u>	<u>\$ 844,898</u>	<u>\$ 797,995</u>	<u>\$ 46,903</u>

The accompanying notes are an integral part of this schedule.

**BLISSFIELD COMMUNITY SCHOOLS**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2012**

**NOTE 1 – BASIS OF PRESENTATION**

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Education Jobs Fund (CFDA #84.410) was audited as a major program, representing 33% of expenditures. The District is a low risk auditee.
2. The threshold for distinguishing Type A and Type B programs was \$300,000.
3. Federal expenditures are reported as revenue in the following funds in the financial statements:

General Fund	\$ 583,420
Other nonmajor governmental funds	<u>261,478</u>
Total expenditures per SEFA	<u>\$ 844,898</u>

4. Management has utilized the Grants Auditors Report in preparing the Schedule of Expenditures of Federal Awards.



ADRIAN, MICHIGAN  
JACKSON, MICHIGAN

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

To the Board of Education  
Blissfield Community Schools

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

**Internal Control Over Financial Reporting**

Management of Blissfield Community Schools is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Blissfield Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Blissfield Community Schools internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Blissfield Community Schools' internal control over financial reporting.

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

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

## **Compliance and Other Matters**

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

We noted certain matters that we reported to management of Blissfield Community Schools in a separate letter dated October 5, 2012.

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

*Gross, Puckey, Gruel & Roof, P.C.*

Adrian, Michigan  
October 5, 2012



CERTIFIED PUBLIC ACCOUNTANTS

ADRIAN, MICHIGAN  
JACKSON, MICHIGAN

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

**INDEPENDENT AUDITORS' REPORT**

To the Board of Education  
Blissfield Community Schools

**Compliance**

We have audited the Blissfield Community Schools' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Blissfield Community Schools' major federal programs for the year ended June 30, 2012. Blissfield Community 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 Blissfield Community Schools' management. Our responsibility is to express an opinion on Blissfield Community 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 Blissfield Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Blissfield Community Schools' compliance with those requirements.

In our opinion, Blissfield Community 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, 2012.

## Internal Control Over Compliance

Management of Blissfield Community Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Blissfield Community 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Blissfield Community Schools' internal control over compliance.

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

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

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.

*Gross, Puckey, Gruel & Roof, P.C.*

Adrian, Michigan  
October 5, 2012

BLISSFIELD COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012

Section I - Summary of Auditors' Results

---

**Financial Statements**

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified:  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  No

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified:  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  No

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  Yes  No

Identification of major programs:

<u>Name of Federal Program Cluster</u>	<u>CFDA Number(s)</u>
Education Jobs Fund	84.410

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

Auditee qualify as low-risk auditee?  Yes  No

**BLISSFIELD COMMUNITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2012**

---

**Section II - Financial Statement Findings**

---

None

---

**Section III - Federal Award Findings and Questioned Costs**

---

None

**BLISSFIELD COMMUNITY SCHOOLS**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**For The Year Ended June 30, 2012**

There were no findings in the prior year.