

**CONSTANTINE PUBLIC SCHOOLS
CONSTANTINE, MICHIGAN**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

FOR THE YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Constantine Public Schools
Constantine, Michigan

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

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

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

In accordance with Government Accounting Standards, we have also issued our report dated November 4, 2011, on our consideration of Constantine Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for 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 11 and 31, 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 opinions on the financial statements that collectively comprise Constantine Public Schools' basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Constantine Public Schools. The combining nonmajor fund financial statements 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 basic financial statements taken as a whole.

Norman & Paulsen

Norman & Paulsen, P.C.

Three Rivers, Michigan
November 4, 2011

**Administration's Discussion and Analysis
For Fiscal Year Ended June 30, 2011**

Constantine Public Schools, a K-12 School District located in St. Joseph County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Constantine Public Schools Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2011.

Accounting principles generally accepted in the United States of America (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements

For the most part, the fund financial statements are comparable to prior year's financial statements. The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the state of Michigan, The District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Funds, Fitness Center and Food Service Fund.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as the financial resource. The current year's payment of principal and interest on long-term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

District Wide Financial Statements

These statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the district are reported in the Statement of Net Assets of the District wide financial statements.

**Administration's Discussion and Analysis
For Fiscal Year Ended June 30, 2011**

Summary of Net Assets:

The following summarizes the net assets at Fiscal years ended June 30, 2011 and June 30, 2010:

Net Assets Summary

	June 30, 2011	June 30, 2010
Assets		
Current assets	\$ 3,784,364	\$ 5,008,062
Restricted assets-debt service	1,548,635	1,417,676
Capital assets	32,604,180	32,665,963
Less: Accumulated depreciation	<u>(9,479,195)</u>	<u>(8,792,660)</u>
Capital assets, net book value	<u>23,124,985</u>	<u>23,873,303</u>
Total Assets	<u>\$ 28,457,984</u>	<u>\$ 30,299,041</u>
Liabilities		
Current liabilities	\$ 3,304,810	\$ 4,462,110
Long-term liabilities	<u>19,981,111</u>	<u>21,050,264</u>
Total liabilities	23,285,921	25,512,374
Net Assets		
Invested in capital assets, net of related debt	2,113,717	2,084,465
Restricted for debt service	1,550,589	1,418,251
Unrestricted	<u>1,507,757</u>	<u>1,283,951</u>
Total net assets	<u>5,172,063</u>	<u>4,786,667</u>
Total liabilities and net assets	<u>\$ 28,457,984</u>	<u>\$ 30,299,041</u>

Analysis of financial Position:

During fiscal year ended June 30, 2011, the district's net assets increased by \$385,396. A few of the significant factors affecting net assets during the year are discussed below:

1. Gym Floor Replacement

A new gym floor was installed at the high school. The previous floor was replaced due to sections of the floor breaking loose and creating a possible hazardous situation for students using the floor. The original gym floor was a laminate type floor and it was replaced with a more

traditional wood floor. Constantine Public Schools is currently in litigation with the parties responsible for installing the original gym floor.

2. Telephone System Upgrade

The telephone system for the district was upgraded this year at a cost of \$47,656. This upgrade was necessary to ensure the safety of our students. The former system had failed several times and repairs were no longer an option due to the age of the equipment.

3. Depreciation Expense

GASB 34 requires school Districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets.

For fiscal year ended June 30, 2011, the net increase in accumulated depreciation was \$686,535, \$917,079 of current year depreciation expense reduced by \$230,544 of accumulated depreciation removed from the books related to the disposal of equipment.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with accounting principles generally accepted in the United States of America (GAAP), depreciation expense is recorded based on the original cost of the asset less an estimated salvage value.

One way to think of depreciation expense is that in order to maintain net assets at the same level, acquisitions of capital outlay and capitalized major maintenance projects would have to equal the annual depreciation expense. In other words, to stay even in net assets the District would have had to capitalize \$686,535 in assets during the year.

4. Capital Outlay Acquisitions

Actual capital outlay acquisitions for fiscal year ended June 30, 2011 were \$204,837. Combined with the increase in accumulated depreciation and retirement of assets, net assets (i.e., net book value) invested in capital assets decreased by \$712,242 during the year. Accumulated depreciation is based on original cost; it does not take into consideration inflation. As a result, the actual investment in capital outlay would have to be more than depreciation expense in order to maintain assets at the same level of maintenance and upkeep. Footnote 6 on page 24 discusses Capital Assets in further detail.

Major acquisitions during the year included

Lockers in the Middle School	\$25,195
Air handling system for the woodshop at Middle School	24,946
Bleachers, score board, high jump pit, fencing	52,016
Lunchroom equipment	20,774
Driveway improvements at Eastside	31,440
Site improvements at Middle School	12,295

**Administration's Discussion and Analysis
For Fiscal Year Ended June 30, 2011**

Classroom equipment	14,707
Maintenance equipment	23,464

Results of Operations:

For the fiscal years ended June 30, 2011 and June 30, 2010, the District wide results of operations were:

	June 30, 2011		June 30, 2010	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
General Revenue:				
Property Taxes levied for General Operations	\$ 1,343,983	9.17	\$ 1,379,126	9.17
State of Michigan Aid, Unrestricted	8,637,733	58.93	8,653,544	57.51
Michigan's Foundation Grant Allowance	9,981,716	68.10	10,032,670	66.68
Property Taxes levied for Debt Service	1,940,026	13.24	1,979,752	13.16
Other – income	91,597	0.62	108,692	0.72
Total General Revenue	12,013,339	81.96	12,121,114	80.56
Program Revenue:				
Charges for Services – Local	475,890	3.25	494,787	3.29
Operating Grants – Federal and State	2,168,044	14.79	2,429,899	16.15
Total Program Revenues	2,643,934	18.04	2,924,686	19.44
Total Revenues	14,657,273	100.00	15,045,800	100.00
Expenses				
Instruction and instructional support	6,689,236	46.87	7,633,630	52.82
Support Services	4,462,408	31.27	3,750,470	26.95
Athletics	338,414	2.37	300,702	2.08
Food Service	758,186	5.31	703,800	4.87
Fitness Center	16,499	0.11	17,462	0.12
Interest expense/bond amortization	1,090,055	7.64	1,104,797	7.65
Depreciation (Unallocated)	917,079	6.43	940,273	6.51
Total Expenses	14,271,877	100.00	14,451,134	100.00
Increase in Net Assets	385,396		594,666	

**Constantine Public Schools
Revenues by Source**

1. Property Taxes levied for General Operations (General Fund Property Taxes)

The District levied 16.6887 mills of property taxes for operations (General fund) on Non-Homestead Properties for the 2010-11 school year. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5%, whichever is less. In addition, the District's taxable valuation is adjusted to reflect the increase or decrease in real estate values for properties that sold during the year. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50% of the market value.

The District's non-homestead property levy for the 2010-11 fiscal year was \$1,341.334. The non-homestead property tax levy increased by 5.71% for the 2009-2010 fiscal year but then decreased slightly in the current fiscal year. In 2008-2009 the levy had decreased by 21.01% due mainly to the personal property tax exemption offered by the State of Michigan in 2008.

The following summarizes the District's non-homestead levy the past five years:

<u>Fiscal Year</u>	<u>Non-Homestead Tax Levy</u>	<u>% Increase from Prior Year</u>
2010-2011	1,356,868	(0.40%)
2009-2010	1,362,280	5.71%
2008-2009	1,288,638	(21.01%)
2007-2008	1,631,497	11.01%
2006-2007	1,469,670	6.1%
2005-2006	1,384,342	3.3%

Average Increase Last 6 Years = 0.785%

2. State of Michigan Aid, Unrestricted

The State of Michigan aid, unrestricted is determined by the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment – Blended at 75% of current year fall count and 25% of prior year winter count
- c. The District's non-homestead levy

Per Student, Foundation Allowance:

Annually, the State of Michigan sets the per student foundation allowance. The Constantine Public Schools foundation allowance has been \$7,316 per student for the last 3 school years. This amount reflected an increase of \$112 from the 2007-08 school year which was \$7,204 per student.

Student Enrollment:

The District's student enrollment for the fall count of 2010-11 was 1,466 students. The District's enrollments increased in 2009-2010 after having declined over the two prior years but then enrollment declined in 2010-2011 to its lowest level in the last seven years. The following summarizes fall student enrollments in the past seven years (FTE – Full Time Equivalent):

<u>Fiscal Year</u>	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2010-2011	1466	(38)
2009-2010	1504	20
2008-2009	1484	(44)
2007-2008	1528	(52)
2006-2007	1580	24
2005-2006	1556	58
2004-2005	1498	(48)

Subsequent to year-end June 30, 2011, preliminary student enrollments for 2011-2012 indicate that enrollments will decrease by approximately 40 students.

3. Property Taxes levied for Debt Service:

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2010-2011, the district's debt millage levy was 6.80 mills, generating a levy of \$1,667,076, compared to a levy of \$1,969,103 for 2009-2010.

The District's debt service obligations are discussed in footnote 8 on pages 25-27 of the financial statements.

4. Food Service Sales to Students and Adults:

The District's food and milk sales to students and adults decreased \$4,138 to \$233,476 when compared to the prior school year. This was due to more students qualifying for free or reduced price meals. The district had an increase in lunches served to free/reduced students of 14,000 and 10,000 for breakfast. Neither school lunch nor milk prices were increased during the year. The total expenditures from Food Services operations exceeded revenues for the year by \$6,221. The District invested in \$20,774 of capital assets for use in the lunch program.

**Administration's Discussion and Analysis
For Fiscal Year Ended June 30, 2011**

General Fund Budget & Actual Revenues & Expenditures

General Fund Expenditures Budget Vs. Actual 5-Year History

Fiscal Year	Expenditures Original Budget	Expenditures Final Budget	Expenditures Final Actual	Expenditures Variance Actual & Original Budget	Expenditures Variance Actual & Final Budget
2005-2006	13,272,504	11,330,964	11,328,744	14.65%	0.02%
2006-2007	11,677,288	12,170,577	12,176,411	(4.27%)	(0.05%)
2007-2008	11,422,762	12,189,303	12,155,120	(6.41%)	0.28%
2008-2009	11,392,361	11,568,384	11,560,086	(1.47%)	0.07%
2009-2010	11,199,577	11,413,247	11,409,889	(1.88%)	0.03%
2010-2011	11,522,783	12,001,605	12,002,094	(4.16%)	0.00%
6 Year Average	11,747,929	11,779,013	11,772,057	(0.21%)	0.06%

General Fund Revenue Budget Vs. Actual 6-Year History

Fiscal Year	Revenues Original Budget	Revenues Final Budget	Revenues Final Actual	Revenues Variance Actual & Original Budget	Revenues Variance Actual & Final Budget
2005-2006	11,294,440	11,499,261	11,519,117	1.99%	0.17%
2006-2007	11,684,721	12,240,413	12,271,118	5.0%	0.25%
2007-2008	11,719,211	12,118,348	12,095,605	3.2%	(0.19%)
2008-2009	11,680,096	11,668,693	11,668,707	(0.10%)	0.00%
2009-2010	11,138,902	12,295,983	12,196,854	9.5%	(0.81%)
2010-2011	11,095,465	11,956,875	11,955,007	7.8%	0.02%
6 Year Average	11,435,472	11,962,940	11,951,056	4.6%	(0.09%)

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Constantine Public Schools amends its budget during the school year. For Fiscal year 2010-2011, the budget was amended in November 2010, April, 2011 and June 2011. The June 2011 budget amendment was the final budget for the fiscal year.

**Administration's Discussion and Analysis
For Fiscal Year Ended June 30, 2011**

Change from Original to Final Budget:

General Fund Revenues:

	2010-11	%	2009-10	%
Total Revenues Original Budget	11,095,465	100.00%	11,138,902	100.00%
Total Revenues Final Budget	11,956,875	107.76%	12,295,983	110.39%
Increase/(Decrease) in Budgeted Revenues	861,410	7.76%	1,156,991	10.39%

The District's final general fund revenues were less than the final budget by \$1,868.

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

	2009-10	%	2009-10	%
Total Expenditures Original Budget	11,522,783	100.00%	11,199,577	100.00%
Total Expenditures Final Budget	12,001,605	104.16%	11,413,247	101.91%
Increase/(Decrease) in Budgeted Expenditures	478,822	4.16%	176,023	1.91%

The District's final general fund expenditures exceeded the final budget by \$489

The budget is shown in greater detail on page 31 of the financial statements.

Professional Teaching Staff Changes for 2010-11 Operations

The District's teaching staff has decreased due to a retirement incentive offered at the end of the 2009-2010 school year. A total of 17 teachers resigned which allowed the district to practice attrition and reassign where necessary. The teaching staff for 2010-11 can be summarized:

	FTE 2010-11	FTE 2009-10	FTE Inc/(Dec)
Regular Education Teachers	75	85	(10.00)
Special Education Teachers	10	10	.0

Factors Bearing on the District's Future

The volatility of funding from the State of Michigan has a direct bearing on the future of Constantine Public Schools. If the State suffers a budget shortfall, recent history shows they borrow from another fund or stabilization revenues to cover the shortfall. If they continue, eventually state funds will not have the monies available to cover other areas suffering a shortfall. Consequently, the per pupil foundation allowance will be directly affected, which in turn, flows down to the students in this community. Resources will have to be reduced, hampering the district from making purchases needed for curriculum goals.

Constantine Public Schools is still levying less than the 18 mills for non-homestead property originally voted on when Proposal A was approved in the early 1990's. The levy for 2010-2011 school year on non-homestead property is at a permanent rollback of 16.6887. Per student, Constantine Public Schools levied \$71.80 less than all other neighboring schools in St. Joseph County. Several times the district has taken the headlee restoration back to the polls for approval, but it has been defeated. Constantine Public Schools has lost a total of \$612,332 in tax dollars from non-homestead property owners because of this permanent rollback which began in 2000-2001 and continues to this day. The renewal of the 18 mills must be voted on and approved before 2015 or Constantine Public Schools will face dire financial shortfalls which would ultimately close our doors.

The current unstable economic outlook for all schools in the State of Michigan is one of the largest factors facing Constantine Public Schools and the future of the students in this community.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Constantine Public Schools (269) 435-8900.

CONSTANTINE PUBLIC SCHOOLS

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents (Note 3)	\$ 237,297
Investments (Note 3)	1,627,843
Receivables, net (Note 4)	11,365
Due from other governments (Note 4)	1,897,521
Inventories	6,742
Prepaid expenses	3,596
Restricted assets for debt service and capital projects	1,548,635
Capital assets - net (Note 6)	<u>23,124,985</u>
 Total Assets	 <u><u>\$ 28,457,984</u></u>
LIABILITIES	
Accounts payable	\$ 284,094
Accrued interest	185,450
Accrued payroll and other liabilities	729,902
State aid note (Note 7)	1,000,000
Student lunch deposits	6,925
Noncurrent liabilities	
Due within one year (Notes 8 and 9)	1,098,439
Due in more than one year (Notes 8)	20,939,292
less: unamortized bond issuance costs (Note 8)	(303,566)
less: unamortized deferred refunding amounts (Note 8)	<u>(654,615)</u>
 Total Liabilities	 <u><u>\$ 23,285,921</u></u>
NET ASSETS	
Invested in capital assets	
Net of related debt	\$ 2,113,717
Restricted for debt service	1,550,589
Unrestricted	<u>1,507,757</u>
 Total Net Assets	 <u><u>\$ 5,172,063</u></u>

See accompanying notes to financial statements

CONSTANTINE PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental activities			
Instruction and instructional student support	\$ 6,694,036	\$ 152,881	\$ 1,618,422
Support services	4,457,608	-	10,359
Athletics	338,414	75,445	-
Food services	758,186	233,473	539,263
Fitness Center	16,499	14,091	-
Interest expense	1,017,505	-	-
Bond amortization(unallocated)	72,550	-	-
Depreciation (unallocated)	917,079	-	-
Total Governmental Activities	\$ 14,271,877	\$ 475,890	\$ 2,168,044

General Revenues

- Property taxes, levied for general operations
- Property taxes, levied for debt service
- State of Michigan aid, unrestricted
- Interest
- Other
- Loss on disposal of capital assets

Total General Revenues

Change in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

See accompanying notes to financial statements

Governmental
Activities

Net (expenses)
Revenue and
Changes in
Net Assets

\$ (4,922,733)
(4,447,249)
(262,969)
14,550
(2,408)
(1,017,505)
(72,550)
(917,079)

(11,627,943)

1,343,983
1,940,026
8,637,733
2,192
113,981
(24,576)

12,013,339

385,396

4,786,667

\$ 5,172,063

CONSTANTINE PUBLIC SCHOOLS

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General Fund	2005 Debt Service Fund	2006 Debt Service Fund	Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 222,032	\$ -	\$ -	\$ 15,265
Investments	1,599,933	-	-	27,910
Receivables, net	11,365	-	-	-
Due from other funds	10,801	-	-	51,910
Due from other governments	1,895,567	430	391	1,133
Inventories	-	-	-	6,742
Prepaid expenses	3,596	-	-	-
Restricted cash and investments	-	638,253	667,227	243,155
Total Assets	\$ 3,743,294	\$ 638,683	\$ 667,618	\$ 346,115
LIABILITIES				
Accounts payable - current	\$ 261,812	\$ -	\$ -	\$ 22,282
Other accrued liabilities	729,902	-	-	-
Due to other funds	51,910	-	-	10,801
Accrued interest	30,328	-	-	-
State aid note	1,000,000	-	-	-
Lunch fund deposits	-	-	-	6,925
Total Liabilities	\$ 2,073,952	\$ -	\$ -	\$ 40,008
FUND BALANCES				
Nonspendable	\$ 3,596	\$ -	\$ -	\$ 6,742
Restricted				
Debt Service	-	638,683	667,618	244,288
Food Service	-	-	-	52,706
Fitness Center	-	-	-	2,371
	-	638,683	667,618	299,365
Assigned				
Computer technology	55,000	-	-	-
Roof and maintenance	222,700	-	-	-
Emergency maintenance	50,000	-	-	-
Unemployment	20,675	-	-	-
	348,375	-	-	-
Unrestricted	1,317,371	-	-	-
Total Fund Balances	\$ 1,669,342	\$ 638,683	\$ 667,618	\$ 306,107
Total liabilities and fund equity	\$ 3,743,294	\$ 638,683	\$ 667,618	\$ 346,115

See accompanying notes to financial statements

CONSTANTINE PUBLIC SCHOOLS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	2005 Debt Service Fund	2006 Debt Service Fund	Nonmajor Governmental Funds
Revenues				
Local sources	\$ 1,556,181	\$ 427,054	\$ 388,230	\$ 1,373,436
State sources	9,379,477	-	-	44,955
Federal sources	878,996	-	-	504,667
Interdistrict sources	140,353	-	-	-
Total Revenues	11,955,007	427,054	388,230	1,923,058
Expenditures				
Current				
Instruction	7,324,091	-	-	-
Support services	4,339,589	6,456	6,023	11,865
Athletics	338,414	-	-	-
Fitness Center	-	-	-	16,499
Food Service	-	-	-	778,960
Debt service				
Principal	-	55,000	25,000	729,010
Interest	-	323,751	314,487	347,582
Total Expenditures	12,002,094	385,207	345,510	1,883,916
Excess (deficiency) of Revenues Over Expenditures	(47,087)	41,847	42,720	39,142
Fund Balance - Beginning of Year	1,716,429	596,836	624,898	266,965
Fund Balance - End of Year	\$ 1,669,342	\$ 638,683	\$ 667,618	\$ 306,107

See accompanying notes to financial statements

CONSTANTINE PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	<u>Agency Fund Student Activities</u>
ASSETS	
Cash and cash equivalents	<u>\$ 108,576</u>
Total Assets	<u><u>\$ 108,576</u></u>
LIABILITIES	
Due to student groups	<u>\$ 108,576</u>
Total Liabilities	<u><u>\$ 108,576</u></u>

See accompanying notes to financial statements

CONSTANTINE PUBLIC SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Constantine Public Schools conform to accounting principles generally accepted in the United States of America as applicable to Districts. The following is a summary of the significant policies:

A. Reporting Entity

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

B. District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities that rely to a significant extent on fees and charges for support. All of the District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) sales for food services and ticket sales to athletic events; and (2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. Taxes, intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue.

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

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

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

Fund-based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to severance pay, and claims and judgments are recorded only when payment is due.

CONSTANTINE PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When both restricted and unrestricted resources are available for use, it the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

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

The District reports deferred revenue on its governmental funds' balance sheets. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the district has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

For Constantine Public School District taxpayers, properties are assessed as of December 31 and the related property taxes are levied and become a lien on the following December 1 for 100% of the taxes which are due by March 1st. Taxes are considered delinquent on March 1st, at which time penalties and interest are assessed and the total obligation is added to the county tax rolls. Property taxes become available for expenditure and are thus recognized as revenue in the fiscal year they are levied. The District has adopted a policy of writing off uncollected delinquent taxes after three years. The state taxable value of all real and personal property for the fiscal year ended June 30, 2011, was \$268,325,966. The millage rate for general operations was 16.6887 mills and 6.8 mills for debt retirement.

The State of Michigan utilizes a foundation allowance approach that provides for a specific annual amount of revenue per student based on a statewide formula. The foundation allowance is funded from a combination of state and local sources. The School Aid Act and School Code of Michigan primarily govern revenues from state sources. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

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

The District reports the following major governmental funds:

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

Special Revenue Funds – The District's Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The District's Special Revenue Fund is the Food Services. Any operating deficit generated by these activities is the responsibility of the General Fund.

Debt Service Fund – The District's Debt Service Funds are used to record tax, interest, other revenue for payment of interest, principal, and other expenditures on long-term debt.

CONSTANTINE PUBLIC SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Projects Funds – The Capital Projects Fund is used to record both bond proceeds and other revenue and the disbursement of monies specifically designed for acquiring land improvements, buildings, and equipment and for major remodeling and repairs. The fund operates until the purpose for which the fund was created has been accomplished.

Fiduciary Funds – The District's only fiduciary fund is the Student Activities Agency Fund. This fund accounts for assets held by the District in a trustee capacity or as an agent, is custodial in nature (assets equal liabilities), and does not involve the measurement of results of operations. The Student Activities Agency Fund currently maintained by the District records the transactions of student groups for school and school-related purposes. The funds are segregated and held in a trust for the students.

D. Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are recorded at fair value, based on quoted market prices, or estimated fair value.

During the fiscal year ended June 30, 2011 short-term General Fund investments were limited to the Michigan Liquid Asset Fund (MILAF) and Fidelity government portfolio. MILAF is an investment pool managed by PFM Asset Management LLC that allows school districts within the State of Michigan to pool funds for investment purposes. This fund has an AAAM rating by Standard and Poor's and invests only in funds approved by Michigan Statute. The Fidelity government portfolio normally invests at least 80% of assets in U.S. Government securities and repurchase agreements for those securities.

E. Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." These "internal balances" between governmental funds are eliminated in the district-wide financial statement.

No allowance for uncollectible accounts has been provided. Management has evaluated the accounts and believes they are all collectible.

F. Inventories and Prepaid Costs

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased, including United States Department of Agriculture Commodities inventory received by the Food Service Fund. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

G. Restricted Assets

Revenues from property tax collections and related interest in the Debt Service Funds are required to be set aside for future repayments of bonded indebtedness. These amounts have been classified as restricted assets.

CONSTANTINE PUBLIC SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets

Capital assets, i.e., land, buildings, equipment and vehicles, are reported in the applicable governmental column in the district-wide financial statements. The District defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are expensed in the current period. The District does not have infrastructure-type assets.

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

Buildings and improvements	20 - 50 years
Buses and other vehicles	5 - 10 years
Furniture and other equipment	5 - 20 years

I. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that is probable that the benefits will result in termination payments.

The entire compensated absence liability is reported on the district-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. At June 30, 2011, there was no current portion due. The noncurrent portion of the liability is not reported.

J. Accrued Liabilities

All payables and accrued liabilities are reported in the district-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources.

K. Long-Term Obligations

In the district-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the governmental fund statements the face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures, whereas these costs related to the refunding bonds issued in 2005 and 2006 have been amortized on the statement of net assets. Current year principal payments are reported as an expenditure on the governmental fund statements whereas on the statement of net assets the payments reduce the long-term obligation.

CONSTANTINE PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Equity

The District adopted Governmental Accounting Standards Board (GASB) Statement No. 54, **Fund Balance Reporting and Governmental Fund Type Definitions**, effective for fiscal year ended June 30, 2011. 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:

- 1) **Nonspendable fund balance** reflects amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact, e.g., inventories or prepaid expenses.
- 2) **Restricted fund balance** is reported when externally imposed constraints are placed on the use of resources by taxpayers, grantors, contributors, bondholders, or laws or regulations of other governments, e.g., food service fund monies, debt service fund monies.
- 3) **Committed fund balance** is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment.
- 4) **Assigned fund balance** reflects those amounts constrained by the Board's intent to use them for a specific purpose and are neither restricted nor committed. Intent is permitted to be made by the Board itself or an official to whom the Board has delegated the authority to assign amounts to be used for specific purposes.
- 5) **Unassigned fund balance** is reserved for the residual classification for the general fund. It represents fund balance that has not been assigned to other funds, nor restricted, committed or assigned to specific purposes within the general fund. Positive amounts are reported only in the general fund.

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. Net assets related to debt service are required to be shown as restricted.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CONSTANTINE PUBLIC SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and Special Revenue Funds. All annual appropriations lapse at fiscal year end. Public hearings are held to obtain taxpayer comments before the Board approves the budgets. During the current year, the budget was amended in a legally permissible manner.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the departmental level. A comparison of General Fund actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) is presented as Required Supplemental Information.

NOTE 3 DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes local government units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan. The District is authorized to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Board has designated five banks and the Michigan School District Liquid Asset Fund (MILAF) for the deposit of the District's funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized bank investment pools and interlocal agreement investment pools, but not the remainder of State statutory authority as listed above.

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

<u>Activities</u>	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Deposits (checking accounts)	\$ 237,297	\$56,437	\$ 293,734
Deposits in Fidelity money market accounts	27,910	52,139	80,049
Deposits in MILAF investment pools	1,599,933	-	1,599,933
Restricted deposits in checking	151,363	-	151,363
Restricted deposits in Fidelity money market	120,676	-	120,676
Restricted deposits in MILAF investment pools	<u>1,276,596</u>	-	<u>1,276,596</u>
	<u>\$3,413,775</u>	<u>\$108,576</u>	<u>\$3,522,351</u>

Custodial credit risk – The District's cash and cash equivalents are subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. At June 30, 2011, the District had \$54,971 of bank deposits, all of which was covered by Federal depository insurance. (FDIC) There were \$124,187 of outstanding checks and \$306,513 deposits in transit at June 30, 2011. The fiduciary fund had bank deposits of \$60,087 of which all was covered by FDIC. There were \$3,650 of outstanding checks and \$-0- deposits in transit at June 30.

CONSTANTINE PUBLIC SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

In addition to checking deposits the District held monies in two funds that are neither insured or guaranteed by the FDIC nor collateralized. The first fund, Michigan Liquid Asset Funds (MILAF) has a AAAM rating by Standard and Poor's which minimizes the risk and invests in financial instruments approved by Michigan statute. The second fund, Fidelity Institutional Government Portfolio Class II money market fund normally invests at least 80% of its assets in U.S. Government securities and repurchase agreements for those securities. At June 30, 2011, the portfolio diversification was: 48.00% repurchase agreements; 43.9% Federal agency funds; and 7.1% agency fixed U.S. Treasury bills and notes.

The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest rate risk - Interest rate risk is the risk that the market value of investments will fall due to changes in market interest rates. The Michigan Liquid Asset Fund (MILAF) cash management investment pools have a 7 day yield which reduces interest rate risk to minimal. At fiscal year end, the fund was earning 0.03% interest and the MAX class was earning 0.05% interest. At June 30, 2011 the Fidelity Institutional Money Market Government Portfolio Class II had a 7 day yield of 0.01% interest.

NOTE 4 RECEIVABLES

At June 30, 2011, net receivables were comprised of:

Insurance overpayment	\$ 10,813
Michigan Transit Services Association	552
Total	<u>\$ 11,365</u>

At June 30, 2011, due from other governments were comprised of:

State aid – General Fund	\$1,698,315
State aid – summer lunch and amendment	8,265
Federal categorical grants	178,209
Kalamazoo Regional Education Service Agency	1,000
Kalamazoo Area Math & Science Center	749
Sturgis Public Schools	1,758
Burr Oak Community School	1,829
St. Joseph Country Treasurer	7,041
Constantine Township Treasurer	355
Total	<u>\$1,897,521</u>

NOTE 5 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to:	Due from:	
General Fund	Fitness Center	\$10,801
Lunch Fund	General Fund	41,299
Fitness Center	General Fund	<u>10,611</u>
Total		<u>\$62,711</u>

CONSTANTINE PUBLIC SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 6 CAPITAL ASSETS

The following summarizes the changes in capital assets for the fiscal year ended June 30, 2011:

	Balance July1, <u>2010</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2011</u>
Capital assets being depreciated:				
Buildings and additions	\$27,579,283	\$ -	\$ -	\$27,579,283
Buses and other vehicles	1,423,484	-	-	1,423,484
Furniture and Equipment	<u>3,600,774</u>	<u>204,837</u>	<u>266,620</u>	<u>3,538,991</u>
Subtotal	<u>32,603,541</u>	<u>204,837</u>	<u>266,620</u>	<u>32,541,758</u>
Less Accumulated depreciation for:				
Buildings and additions	5,245,247	592,559	-	5,837,806
Buses and other vehicles	1,129,762	119,505	-	1,249,267
Furniture and equipment	<u>2,417,651</u>	<u>205,015</u>	<u>230,544</u>	<u>2,392,122</u>
Subtotal	<u>8,792,660</u>	<u>917,079</u>	<u>230,544</u>	<u>9,479,195</u>
Net capital assets being depreciated	<u>23,810,881</u>	<u>(712,242)</u>	<u>36,076</u>	<u>23,062,563</u>
Capital assets not being depreciated:				
Land	<u>62,422</u>	<u>-</u>	<u>\$ -</u>	<u>62,422</u>
Total Capital Assets- Net of depreciation	<u>\$23,873,303</u>	<u>(\$712,242)</u>	<u>\$ 36,076</u>	<u>\$23,124,985</u>

Depreciation expense for fiscal year ended June 30, 2011 was \$917,079. Depreciation expense was not allocated to governmental activities as the District considers its assets to impact multiple activities and allocation is not practical.

Construction Commitments – The District had no major construction projects during the year or commitments for ones at year end.

NOTE 7 SHORT-TERM DEBT

The District's state aid anticipation note activity and the amount outstanding are as follows:

	Beginning Balance	Additional Borrowings	Paybacks	Balance June 30
2009/10	\$2,000,000	\$ -	\$(2,000,000)	\$ -
2010/11	<u>-</u>	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
	<u>\$2,000,000</u>	<u>\$1,000,000</u>	<u>\$(2,000,000)</u>	<u>\$1,000,000</u>

CONSTANTINE PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 7 SHORT-TERM DEBT (CONTINUED)

The District accrued \$59,191 of interest expense at June 30, 2010. The interest and principal totaling \$2,059,191 were paid in full on August 20, 2010, the due date of the outstanding \$2,000,000 note. Subsequent to this pay off the District borrowed \$1,000,000 due in August 2011 at 2.95% interest. The District has accrued \$30,328 of interest expense at June 30, 2011. In August 2011 this note was paid in full and the District borrowed \$1,300,000 due in August 2012 at 1.48% interest rate. State aid anticipation notes are backed by the full faith and credit of the District and mature within one year.

NOTE 8 LONG-TERM DEBT

The District issues bonds and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The refunding bonds dated April 25, 2006, were issued to refund outstanding 2002 School Building and Site Bonds which are callable on or after November 1, 2012, and are due and payable May 1, 2025 (\$2,070,000 only) and May 1, 2029; and to pay the costs of issuing the bonds. The net proceeds of \$7,320,049, plus an additional \$183,893 were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. The escrow fund is composed of cash and non-callable direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America. The bonds maturing on May 1, 2024 are term bonds subject to mandatory redemption at par. Redemption dates on May 1st of 2016 through 2024, inclusive, require principal payments plus interest increasing incrementally every two years from \$20,000 to \$30,000. On May 1, 2024, additional principal of \$850,000 is due. The difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding totaled \$473,207. An economic gain (difference between the present value of the old and new debt service payments) of \$281,110 resulted from the refunding.

The refunding bonds dated June 7, 2005 were issued to refund outstanding 2002 School Building and Site Bonds which are callable on or after November 1, 2012, and are due and payable May 1, 2018 through May 1, 2021, inclusive, and the May 1, 2022 and May 1, 2023 sinking fund redemptions of the May 1, 2025 term bond. The issuance will also be used to pay certain costs of issuance. The net proceeds of \$7,975,899, plus an additional \$30,447, were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. The fund composed of cash and non-callable direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America. The bonds maturing on May 1, 2018 are term bonds subject to mandatory redemption at par. Redemption dates of May 1, 2016, 2017, and 2018 require principal payments plus interest of \$65,000, \$70,000 and \$1,280,000, respectively. The difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding totaled \$410,580. An economic gain (difference between the present value of the old and new debt service payments) of \$282,315 resulted from the refunding.

In 2005 and 2006 the District defeased in substance certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on those bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the general purpose governmental financial statements. The District's portion of bonds outstanding that are considered defeased in substance is \$14,530,000.

CONSTANTINE PUBLIC SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 8 LONG-TERM DEBT (CONTINUED)

The Durant Non-Plaintiff bond, including interest, was issued in anticipation of payments to the District as appropriated and to be appropriated by the State of Michigan under §11g (3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The bond is a self-liquidating bond and is not a general obligation of the District within any constitutional or statutory limitations.

At June 30, 2010, the District entered into a Voluntary Separation Agreement with seventeen teachers requiring their resignation in exchange for two future payments totaling \$459,000, comprised of \$15,000 being made to each respective individual's 403(b) accounts on October 20, 2010 and a second payment of \$12,000 each to be made by October 20, 2011.

Long-term obligations for the District for the year ended June 30, 2011 is summarized below:

	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
General Obligation Bonds					
2002 School Building and Site Serial Bonds due in annual installments of \$210,000 to \$1,160,000 through May 1, 2017, with interest at 2.0% - 5.0% and an installment of \$430,000 on May 1, 2024 with interest at 5.0%. \$ 7,170,000	\$ 7,170,000	\$ -	(\$720,000)	\$ 6,450,000	\$ 805,000
2005 Refunding Bonds due in annual installments of \$45,000 to \$1,290,000 through May 2023 with interest at 3.0 – 4.3%. 8,010,000	8,010,000	-	(55,000)	7,955,000	55,000
2006 Refunding Bonds Due in annual installments of \$25,000 to \$1,270,000 through May 2029 with Interest at 3.5 – 4.35%. 7,415,000	7,415,000	-	(25,000)	7,390,000	25,000
Self-liquidating Bond					
1998 School Improvement Bond; Durant Non-Plaintiff bond due in annual installments of \$10,359 to \$48,884, due through May 15, 2013, including interest at 4.76%. 28,337	28,337	-	(9,010)	19,337	9,439
Total bonds payable	22,623,337	-	(809,010)	21,814,337	894,439
Compensated absences	43,926	7,764	(32,285)	19,405	-
Severance pay	459,000	-	(255,000)	204,000	204,000
Total	<u>\$23,126,263</u>	<u>\$7,764</u>	<u>(\$1,096,295)</u>	<u>\$22,037,742</u>	<u>\$1,098,439</u>

CONSTANTINE PUBLIC SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 8 LONG-TERM DEBT (CONTINUED)

Total interest expense on the above obligations in fiscal year ended June 30, 2011 was \$980,540.

Annual debt service requirements to maturity for the above bond obligations are as follows:

<u>Year-end June 30</u>	<u>General Obligation</u>		<u>Durant Bond</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2012	\$ 885,000	\$ 951,414	\$ 9,439	\$ 920	\$ 1,846,773
2013	980,000	914,202	9,888	471	1,904,561
2014	1,080,000	866,153	-	-	1,946,153
2015	1,135,000	812,953	-	-	1,947,953
2016	1,190,000	757,053	-	-	1,947,053
2017 - 2021	6,455,000	2,931,318	-	-	9,386,318
2022 - 2026	6,345,000	1,608,487	-	-	7,953,487
2027 - 2029	<u>3,725,000</u>	<u>319,693</u>	<u>-</u>	<u>-</u>	<u>4,044,693</u>
	<u>\$21,795,000</u>	<u>\$9,161,273</u>	<u>\$19,327</u>	<u>\$1,391</u>	<u>\$30,976,991</u>

NOTE 9 CAPITAL LEASES

During fiscal year ended June 30, 2010, the District entered into two lease agreements as lessee for financing the acquisition of a John Deere 5425 Tractor and loader, and a Skidster. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of the lease inception. The equipment has been capitalized at \$72,071. Both leases were paid in full during fiscal year ended June 30, 2011 with payments totaling \$42,467, which included \$6,636 of interest expense. In May 2011 the Skidster was sold.

NOTE 10 OPERATING LEASES

The District has entered into an agreement to lease copier/printer/fax/scanner equipment for all of the schools through October, 2012. The lease is being treated as an operating lease. During fiscal year ended June 30, 2011, the District paid \$23,400 of rents.

Governmental Activities	minimum rent
<u>Year-end June 30</u>	<u>payments</u>
2012	\$7,794

During fiscal year ended June 30, 2010, the District entered into an agreement to lease a Blue Bird eighty-four passenger bus. The lease is being treated as an operating lease. Terms of lease included the trade-in of 2 buses valued at \$7,000. At the end of the third year, the District may: 1) buy the unit for \$44,500; 2) refinance the balance; or 3) turn the unit back in with no further financial commitment. The first rent payment of \$15,068 was due in fiscal year 2010/11.

Governmental Activities	minimum rent
<u>Year-end June 30</u>	<u>payments</u>
2012	15,068
2013	<u>15,069</u>
Total	<u>\$30,137</u>

CONSTANTINE PUBLIC SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 10 OPERATING LEASES (CONTINUED)

During fiscal year ended June 30, 2011, the District entered into an agreement to lease 6 band instruments with a fair market value of \$15,385. The manufacturer, Conn-Selmer, Inc. gave the District an in-kind grant valued at \$7,937 toward the equipment. The lease is being treated as an operating lease. During fiscal year ended June 30, 2011, the District paid \$2,756 in rents,

Governmental Activities <u>Year-end June 30</u>	minimum rents <u>payments</u>
2012	\$2,756
2013	<u>2,756</u>
TOTAL	<u>\$5,512</u>

NOTE 11 RISK MANAGEMENT

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

NOTE 12 EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Plan description - The District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan, Department of Management & Budget, Office of Retirement Services (ORS) that covers substantially all employees of the District. The system provides retirement, survivor, disability and post-employment health, dental and vision benefits to plan members and their beneficiaries. These benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. The State Legislature has been assigned authority to establish and amend benefit provisions under Public Act 300 of 1980, as amended. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at MPSERS, P. O. Box 30171, Lansing, MI 48909-7671, or on the State of Michigan website at www.michigan.gov/orsschools, or by calling (800) 381-5111.

Funding policy - Employees hired after January 1, 1987 are eligible to participate in the Member Investment Plan (MIP) which provides enhanced benefits compared to Basic Plan members. Basic Plan members make no contributions, but MIP plan members are required to contribute at a graduated rate of 3% to 4.3% of their annual eligible compensation or up to 6.4% for members entering the MIP plan on or after July 1, 2008.

Public Act 75 of 2010 requires new members to MPSERS after July 1, 2010 participate in the Pension Plus Plan which includes both a defined benefit and a defined contribution component requiring employee contributions. Participants are required to contribute a minimum of 2% of eligible compensation with the District matching 50% of the first 2% deferred.

CONSTANTINE PUBLIC SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 12 EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (CONTINUED)

The District is required to contribute at an actuarially determined rate to fund pension benefits, plus an additional amount to fund retiree health benefits on a cash disbursement basis. The rate through September 30, 2010 was 16.94% of covered payroll and increased to 19.41% for the basic plan and 17.91% for pension plus members for the month of October, 2010. Effective, November 1, 2010 through June 30, 2011, the rate for basic plan members was 20.66% and 19.16% for pension plus members. The MPSERS Board of Trustees establishes and may amend the contribution requirements of plan members. The District's contributions to MPSERS for the years ended June 30, 2011, 2010 and 2009 were \$1,138,712, \$982,796, and \$849,637, respectively, and were equal to the required contribution for each year.

Other Post Employment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage. MPSERS has contracted to provide the comprehensive group medical, dental and vision coverage for retirees and beneficiaries. Depending upon the years of service, a significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension of each retiree health care recipient. . Required contributions for post employment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above. Effective July 1, 2010, Public Act 75 of 2010 required each actively employed member of MPSERS to contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees. MPSERS members earning less than \$18,000 were required to contribute 1.5% of their compensation. Effective April 1, 2011, a court order eliminated this requirement. The court order is being appealed by the State of Michigan.

Note 13 COMMITMENTS AND CONTINGENT LIABILITIES

Food Service Management Contract – The District has a contract for the management of its food service operations effective for the 2010/11 fiscal year, renewable annually. The total contract cost for the year ended June 30, 2011 was \$650,370. The contract includes a general administrative fee based of \$45,000 and a management fee based on \$.061 per meal served.

Janitorial Service Contract – The District operated under a three year contract through June 30, 2011 for the management of maintenance and cleaning services for the District's facilities. For fiscal year ended June 30, 2011 terms required monthly payments of \$24,762. Subsequent to June 30, the contract has been extended through August 24, 2012 under the same cost and specification structure.

Grant programs - The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for or including the year ended June 30, 2011 have not yet been completed. Accordingly, the District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

CONSTANTINE PUBLIC SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 14 FUND BALANCE RECLASSIFICATION

Effective July 1, 2010, the District adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which redefined the definition of a special revenue fund. As a result, the athletic activities are now included in the general fund rather than as a separate fund. The reclassification of the beginning fund balance is shown below:

	<u>General Fund</u>
Beginning fund balance as previously reported	\$1,712,130
Adoption of GASB 54 (athletic fund balance)	<u>4,299</u>
Beginning fund balance as restated	<u>\$1,716,429</u>

Note 15 SUBSEQUENT EVENTS

Management has evaluated events subsequent to year end through November 4, 2011, the date on which the financial statements were available to be issued and have determined there were no events that require disclosure other than the subsequent short-term borrowings in August 2011 which is disclosed in Note 7.

REQUIRED SUPPLEMENTARY INFORMATION

CONSTANTINE PUBLIC SCHOOLS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended budget
Resources (inflows)				
Local sources	\$ 1,417,154	\$ 1,556,109	\$ 1,556,181	\$ 72
State sources	9,260,043	9,381,416	9,379,477	(1,939)
Federal sources	324,963	878,996	878,996	-
Interdistrict sources	68,305	140,354	140,353	(1)
Transfers in	25,000	-	-	-
Amounts available for appropriations	11,095,465	11,956,875	11,955,007	(1,868)
Charges to appropriations (outflows)				
Current:				
Instruction:				
Basic programs	5,587,447	6,096,687	6,096,394	293
Special education	765,919	771,418	771,516	(98)
Compensatory/enrichment	393,616	317,959	318,315	(356)
Vocational education	137,866	137,866	137,866	-
Total instructional	6,884,848	7,323,930	7,324,091	(161)
Supporting:				
Instructional staff services	564,111	689,625	689,597	28
Athletics	320,972	338,357	338,414	(57)
School administration	799,401	794,568	794,560	8
General administration	610,534	601,221	601,553	(332)
Operation & maintenance	1,207,677	1,419,641	1,419,665	(24)
Public transportation	867,518	834,263	834,214	49
Total support expenditures	4,370,213	4,677,675	4,678,003	(328)
Total expenditures	11,255,061	12,001,605	12,002,094	(489)
Other Financing Sources (Uses)				
Operating transfers	(267,722)	-	-	-
Excess (deficiency) of resources over charges to appropriations	(427,318)	(44,730)	(47,087)	(2,357)
Fund balance - Beginning of Year	1,716,429	1,716,429	1,716,429	
Fund balance - End of Year	\$ 1,289,111	\$ 1,671,699	\$ 1,669,342	\$ (2,357)

OTHER SUPPLEMENTARY INFORMATION

CONSTANTINE PUBLIC SCHOOLS

**COMBINING BALANCE SHEET OF NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011**

	2001 Debt service Fund	Food Service Fund	Fitness Center Fund	Durant Debt service Fund
ASSETS				
Cash and cash equivalents	\$ -	\$ 15,265	\$ -	\$ -
Investments	-	25,349	2,561	-
Due from other funds	-	41,299	10,611	-
Due from other governments	1,133	-	-	-
Inventories	-	6,742	-	-
Restricted cash and cash equivalents	243,155	-	-	-
Total Assets	\$ 244,288	\$ 88,655	\$ 13,172	\$ -
LIABILITIES				
Accounts Payable	\$ -	\$ 22,282	\$ -	\$ -
Accrued payroll and liabilities	-	-	-	-
Due to other funds	-	-	10,801	-
Lunch fund deposits	-	6,925	-	-
Total Liabilities	\$ -	\$ 29,207	\$ 10,801	\$ -
FUND BALANCE				
Nonspendable Inventories	\$ -	\$ 6,742	\$ -	\$ -
Restricted				
Debt Service	244,288	-	-	-
Food Service	-	52,706	-	-
Fitness Center	-	-	2,371	-
	244,288	52,706	2,371	-
Total fund equity	\$ 244,288	\$ 59,448	\$ 2,371	\$ -
Total liabilities and fund equity	\$ 244,288	\$ 88,655	\$ 13,172	\$ -

See accompanying notes to financial statements

Total
Nonmajor
Governmental
Funds

\$ 15,265
27,910
51,910
1,133
6,742

243,155

\$ 346,115

\$ 22,282
-
10,801

6,925

\$ 40,008

\$ 6,742

\$ 244,288
52,706

2,371
299,365

\$ 306,107

\$ 346,115

CONSTANTINE PUBLIC SCHOOLS

**COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	2001 Debt service Fund	Food Service Fund	Fitness Center Fund	Durant Debt service Fund
Revenues				
Local sources	\$ 1,125,869	\$ 233,476	\$ 14,091	\$ -
State sources	-	34,596	-	10,359
Federal sources	-	504,667	-	-
Total Revenues	1,125,869	772,739	14,091	10,359
Expenditures				
Current	11,865	778,960	16,499	-
Debt service	1,066,233	-	-	10,359
Total Expenditures	1,078,098	778,960	16,499	10,359
Net Change in Fund Balance	47,771	(6,221)	(2,408)	-
Fund Balance - Beginning of Year	196,517	65,669	4,779	-
Fund Balance - End of Year	\$ 244,288	\$ 59,448	\$ 2,371	\$ -

See accompanying notes to financial statements

Total
Nonmajor
Governmental
Funds

\$ 1,373,436
44,955

504,667

1,923,058

807,324

1,076,592

1,883,916

39,142

266,965

\$ 306,107

CONSTANTINE PUBLIC SCHOOLS

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Approved Award Amount	Accrued (or Deferred) Revenue at July 1, 2010
U.S. DEPARTMENT OF EDUCATION			
Passed through the Michigan Department of Education			
Title I Cluster:			
Title I, Part A - Improving Basic Programs	84.010*		
Project number 101530 0910		\$ 284,095	\$ 17,880
Project number 111530 1011		285,751	-
ARRA Title I Part A			
Project number 101535 0910	84.389*	<u>136,522</u>	<u>33,356</u>
Total Title I Cluster		706,368	51,236
State Fiscal Stabilization Fund Cluster			
ARRA Education Stabilization Fund	84.394 *		
Project number 112525 1011		174,679	-
Other Federal Awards			
Title II Part A: Teacher/Principal Training	84.367		
Project number 100520 0910		83,337	33,827
Project number 110520 1011		<u>83,436</u>	<u>-</u>
Total Title II, Part A: Teacher/Principal Training		166,773	33,827
Education Jobs Fund	84.410A *	<u>335,130</u>	<u>-</u>
Total Passed through Michigan Department of Education		<u>1,382,950</u>	<u>85,063</u>
Passed Through from Calhoun Intermediate School District#13000			
Safe and Drug Free Schools	84.186		
Project number 102860 0910		<u>3,648</u>	<u>3,648</u>
Total Passed Through Intermediate School District		<u>3,648</u>	<u>3,648</u>
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>1,386,598</u>	<u>88,711</u>

- 1 * Designates a major program
- 2 Generally accepted accounting principles were used to prepare this report.
- 3 \$300,000 was used as a threshold for Type A programs.
- 4 Expenditures in this schedule are in agreement with amounts reported in the Financial Statements.
- 5 The amounts reported on the Grant Auditors Report reconcile with this schedule.

<u>(Memo only) Prior Year Expenditures</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts Cash Basis</u>	<u>Accrued (or Deferred) Revenue at June 30, 2010</u>	<u>Adjustments (monies returned)</u>
\$ 284,095	\$ -	\$ 17,880	\$ -	-
-	285,751	165,232	120,519	-
136,522	-	33,356	-	-
420,617	285,751	216,468	120,519	-
-	174,679	174,679	-	-
83,337	-	33,827	-	-
-	83,436	25,746	57,690	-
83,337	83,436	59,573	57,690	-
-	335,130	335,130	-	-
503,954	878,996	785,850	178,209	-
3,648	-	3,648	-	-
3,648	-	3,648	-	-
507,602	878,996	789,498	178,209	-

CONSTANTINE PUBLIC SCHOOLS

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE (CONTINUED)
 YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Approved Award Amount	Accrued (or Deferred) Revenue at July 1, 2010
CHILD NUTRITION CLUSTER			
Passed through the Michigan Department of Education			
Noncash Assistance (Commodities) -			
National School Lunch Program	10.555		
Entitlement commodities		\$ 51,441	\$ -
Bonus commodities		1,324	-
Total Noncash Assistance		52,765	-
Cash Assistance:			
National School Breakfast Program	10.553		
Project number 101970		8,887	-
Project number 111970		97,659	-
Total National School Breakfast Cash Assistance		106,546	-
National School Lunch Program	10.555		
Project number 101950 Section 4		4,531	-
Project number 111950 Section 4		41,736	-
Project number 101960 Section 11		27,589	-
Project number 111960 Section 11		260,202	-
Total National School Lunch Cash Assistance		334,058	-
Summer Food Service Program	10.559		
Project number 100900		2,747	-
Project number 100900		5,783	5,783
Project number 101900		286	-
Project number 101900		495	495
Project number 110900		7,485	-
Project number 111900		780	-
Total Summer Food Service Cash Assistance		17,576	6,278
CASH ASSISTANCE SUBTOTAL		458,180	6,278
Total U.S. Department of Agriculture-Child Nutrition Cluster		510,945	6,278
Total Federal Financial Assistance		\$ 1,897,543	\$ 94,989

<u>(Memo only)</u> <u>Prior Year</u> <u>Expenditures</u>	<u>Current</u> <u>Year</u> <u>Expenditures</u>	<u>Current</u> <u>Year</u> <u>Receipts</u> <u>Cash Basis/</u> <u>In-kind payments</u> <u>Received</u>	<u>Accrued</u> <u>(or Deferred)</u> <u>Revenue at</u> <u>June 30, 2011</u>	<u>Adjustments</u> <u>(monies</u> <u>returned)</u>
\$ -	\$ 51,441	\$ 51,441	\$ -	\$ -
-	1,324	1,324	-	-
-	52,765	52,765	-	-
-	8,887	8,887	-	-
-	97,659	97,659	-	-
-	106,546	106,546	-	-
-	4,531	4,531	-	-
-	41,736	41,736	-	-
-	27,589	27,589	-	-
-	260,202	260,202	-	-
-	334,058	334,058	-	-
-	2,747	2,747	-	-
5,783	-	5,783	-	-
-	286	286	-	-
495	-	495	-	-
-	7,485	-	7,485	-
-	780	-	780	-
6,278	11,298	9,311	8,265	-
6,278	451,902	449,915	8,265	-
6,278	504,667	502,680	8,265	-
\$ 513,880	\$ 1,383,663	\$ 1,292,178	\$ 186,474	\$ -



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

To the Board of Education
Constantine Public School

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Constantine Public Schools, as of and for the year ended June 30, 2011, which collectively comprise the Constantine Public Schools' basic financial statements and have issued our report thereon dated November 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Constantine Public Schools is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Constantine Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Constantine Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Constantine Public 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 misstatements on a timely basis. A **material weakness** is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

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

Norman & Paulsen

Norman & Paulsen, P.C.

Three Rivers, Michigan
November 4, 2011



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

To the Board of Education
Constantine Public Schools

Norman & Paulsen, P.C.

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Compliance

We have audited the compliance of the Constantine Public Schools 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 Constantine Public Schools' major federal programs for the year ended June 30, 2011. The Constantine Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Constantine Public Schools' management. Our responsibility is to express an opinion on the Constantine Public Schools' compliance based on our audit.

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

In our opinion, the Constantine Public Schools, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Constantine Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Constantine Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Constantine Public Schools' internal control over compliance.

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Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

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 the 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 management, others within the organization, Board of Education, 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.

Norman & Paulsen

Norman & Paulsen, P.C.

November 4, 2011
Three Rivers, Michigan

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

Financial Statements:

An unqualified report was issued on the basic financial statements of the Constantine Public Schools.

No material weaknesses were identified.

No significant deficiencies were identified.

No instances of noncompliance material to the financial statements of the Constantine Public Schools were disclosed by the audit of the basic financial statements.

Federal Awards:

No material weaknesses in internal control over major programs were identified.

No significant deficiencies in internal control over major federal award programs were disclosed during the audit as reported in the *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133*.

The auditor's report on compliance for the major federal award programs for the Constantine Public Schools expresses an unqualified opinion.

There are no audit findings required to be reported under Section 510(a) of OMB Circular A-133.

The programs tested as major programs included:

Title I Part A	84.010
ARRA Title I Part A	84.389
ARRA Education Stabilization Funds	84.394
Education Jobs Fund	84.410A

\$300,000 was used as the dollar threshold to distinguish between Type A and Type B programs.

The Constantine Public Schools was considered to be a low risk auditee.



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November 4, 2011

To the Board of Education and the management
of Constantine Public Schools

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Constantine Public Schools for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We communicated such information in our engagement letter to you dated July 15, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Accounting Policies
Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Constantine Public Schools are described in Note 1 to the financial statements. The District adopted Statement of Governmental Accounting Standards (GASB Statement) No. 54, ***Fund Balance Reporting and Governmental Fund Type Definitions***, effective for fiscal year ended June 30, 2011. The application of existing policies was not changed during the fiscal year ended June 30, 2011. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the amount and collectability of federal grant and state aid revenue and receivables:

Management's estimate of the collectability of federal grant monies is based on remaining monies available from grant agreements. Management's estimate of the collectability of state aid revenue and receivables is based on the actual amounts collected in July and August. We evaluated the key factors and assumptions used to develop the collectable amount and in determining that it is reasonable in relation to the financial statements taken as a whole.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

Board of Education and management
of Constantine Public Schools

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were Notes 3, 7, 8 and 12 for cash deposits, debt liabilities and retirement fund obligations, respectively.

Note 3 outlines to the reader where cash is deposited and the various risks associated with those deposits.

Note 7 outlines to the reader the note in anticipation of State Aid. From fiscal year ended June 30, 2003 through June 30, 2009, the District borrowed incrementally increasing sums of monies in August in anticipation of State Aid. In August 2009, for the first time since 2003, the District was able to borrow less in August (\$100,000) than it had in the previous year. On August 20, 2010 the District paid off the prior year \$2,000,000 note and was able to reduce the borrowings for 2010/11 to \$1,000,000. Due to anticipated loss of funding and the uncertainty of monies being paid out by the State of Michigan the District had to borrow \$300,000 additional monies in August 2011.

Note 8 outlines the bond debt requirements and voluntary severance agreements which will impact cash flow in October 2011. In the next three years, the District's Debt Service obligation increases by approximately \$50,000 each year. Future income for the Debt Service funds will be impacted by the anticipated loss of property tax revenues from the closing of Rexam. We recommend the District review their options for investing available monies to insure they are earning the highest rates within statutory and local investment policy guidelines. The General Fund would become liable if there are not enough debt service monies to meet their interest and principal obligations.

Note 12 outlines to the reader the liability to the Michigan Public School Retirement System (MPERS). Total fiscal year MPERS obligations were 9.49%, 8.63%, and 7.36% of all general fund expenditures for fiscal years ended June 30, 2011, 2010, and 2009, respectfully.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements identified. There were no adjustments made during our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 4, 2011.

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Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the District, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the District's auditors.

As required by OMB Circular A-133, we have also completed an audit of the federal programs administered by the District. The results of that audit are provided to the Board of Education in our 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 dated November 4, 2011.

Other information in Documents Containing Audited Financial Statements

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

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

Very truly yours,

Norman & Paulsen

Norman & Paulsen, P.C.

