

ST. LOUIS PUBLIC SCHOOL DISTRICT
St. Louis, Michigan

Financial Statements
With Supplemental Information
June 30, 2011



Saint Louis Public School District
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June 30, 2011

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Independent Auditor's Report

St. Louis Public School District
St. Louis, Michigan

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 the District as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 the District's financial statements as a whole. The combining fund financial statements and the debt payment schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining fund financial statements and the debt payment schedules 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants
October 12, 2011

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

ST. LOUIS PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
2010-2011

GENERAL INFORMATION

St. Louis Public Schools currently operates two elementary schools, one middle school, one high school, one alternative education school, and a Community Education Program. The school district's 2010-11 September enrollment was 1,164. St. Louis Public Schools employs a staff of 59 teachers, 9 administrators, and 50 support personnel.

The Board of Education consists of seven members who are elected at large for four-year overlapping terms. The Board annually elects a President, Vice-President, Treasurer and Secretary. The Board is responsible for the selection and appointment of the Superintendent of Schools. The Board meets as a single body to set or amend policy, develop long-range educational goals and act upon recommendations of the Superintendent of Schools. The Board is also responsible for adopting and periodically amending the operating budget and evaluating school programs in accordance with governing laws.

USING THIS ANNUAL REPORT

The discussion and analysis of St. Louis Public Schools' financial performance provides an overall review of the school district's financial activities for the fiscal year ended June 30, 2011. The intent of this report is to provide a look at the performance of the district as a whole, and includes financial statements, notes to the financial statements, and budgetary information. In addition, this analysis will show comparative data from the prior 2009-10 school year.

OVERVIEW OF THE FINANCIAL STATEMENTS

District-wide Financial Statements

The district-wide financial statements are full accrual basis statements and provide information about the district's overall financial status. They are used to help determine the condition of the district as the result of the year's activities. The *Statement of Net Assets* reports all of the district's assets and liabilities, both short-term and long-term, regardless of their availability. Capital assets and long-term obligations of the district are reported in this statement. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid. The two district-wide statements report the district's net assets and how they have changed. Net assets (the difference between the district's assets and liabilities) are one way to measure the district's financial condition. Over time, increases or decreases in the district's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. However, it is important to note that to assess the district's overall position, you need to consider additional non-financial factors such as changes in the district's property base, the quality of education provided, and the condition of the district's buildings.

ST. LOUIS PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
2010-2011

In the district-wide statements, the district's activities are classified as *governmental activities*. This includes most of the district's basic services such as regular and special education, food service, athletics, transportation, and administration. These activities are financed mostly by state aid, federal aid, and property taxes.

Fund Financial Statements

The district's fund financial statements provide detailed information about the most significant funds, and are comparable to prior year financial statements. The fund level statements are reported on a modified accrual basis, which means that only those assets that are measurable and currently available are reported. Liabilities are recognized to the extent that they are expected to be paid with current financial resources. The fund statements are formatted to meet the requirements of the Michigan Department of Education's "Accounting Manual". Major instructional and instructional support activities are reported in the General Fund. Other activities are reported in their relevant funds including; Special Revenue Funds for Food Service and Athletics, Debt Service, Capital Projects, and Fiduciary Funds.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The net assets of the district at June 30, 2011 were \$2,932,642 and are shown in the following *Statement of Net Assets*. The largest portion of the District's net assets (63.2%) reflects investment in capital assets (land, buildings and improvements, and furniture and equipment), less any related debt used to acquire those assets that are still outstanding. The district uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the district's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations.

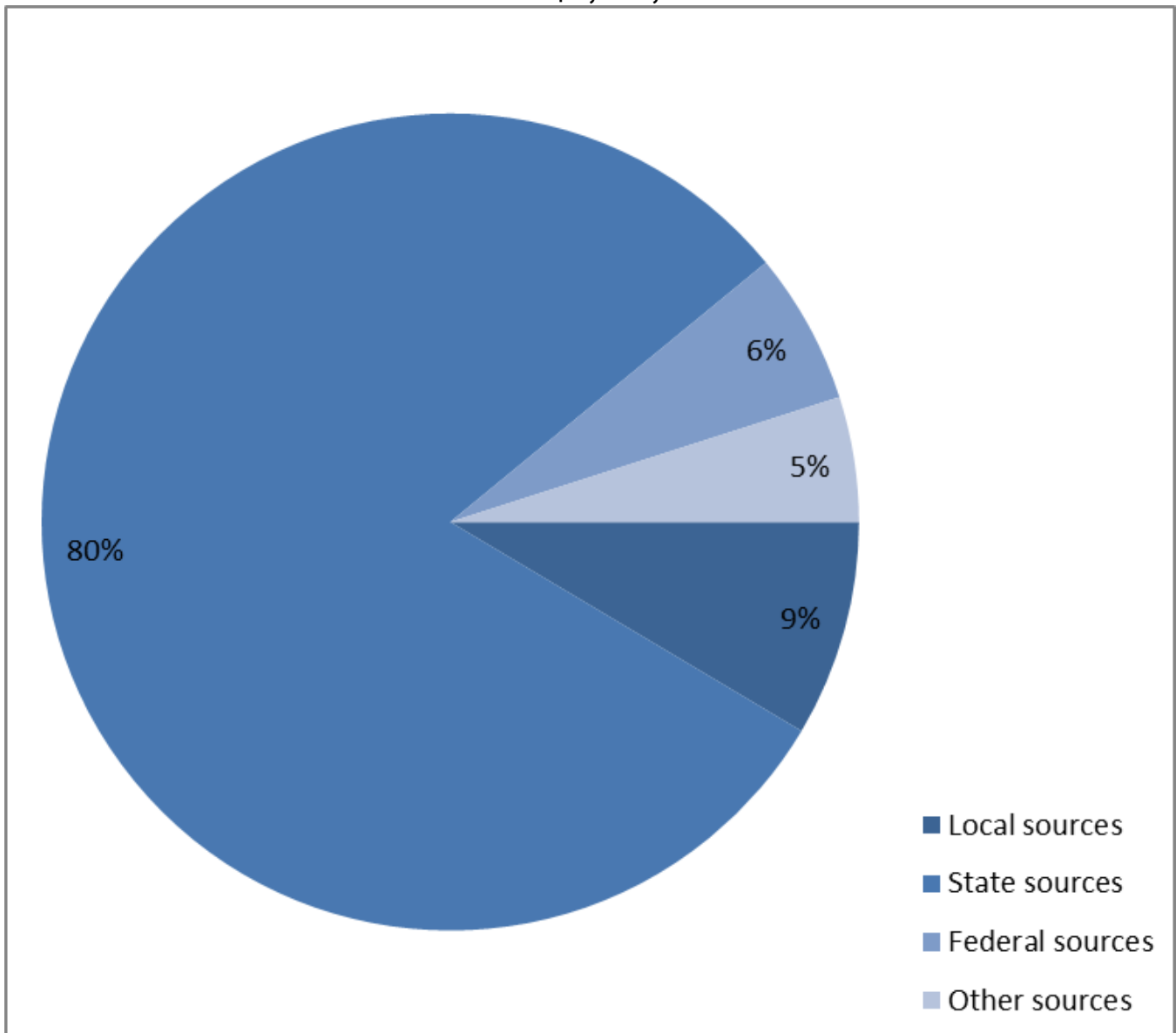
The results of this year's operations for the District as a whole are reported in the following *Statement of Activities*, which shows the changes in net assets for fiscal year 2011. The district experienced a decrease in net assets, due in part to a decrease in general revenues.

ST. LOUIS PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
2010-2011

A substantial portion of the district's revenues is received from State sources. This means that the financial stability of the district rests primarily with the economic health of the State of Michigan. In 2010-11 ARRA funds were provided to stabilize school funding in Michigan. This resulted in a larger than normal percentage of federal sources of revenue for this school year. Figure 1 depicts the breakdown of the sources of revenue for the district.

Figure 1

2010-11 General Fund Revenues
Total \$9,925,517

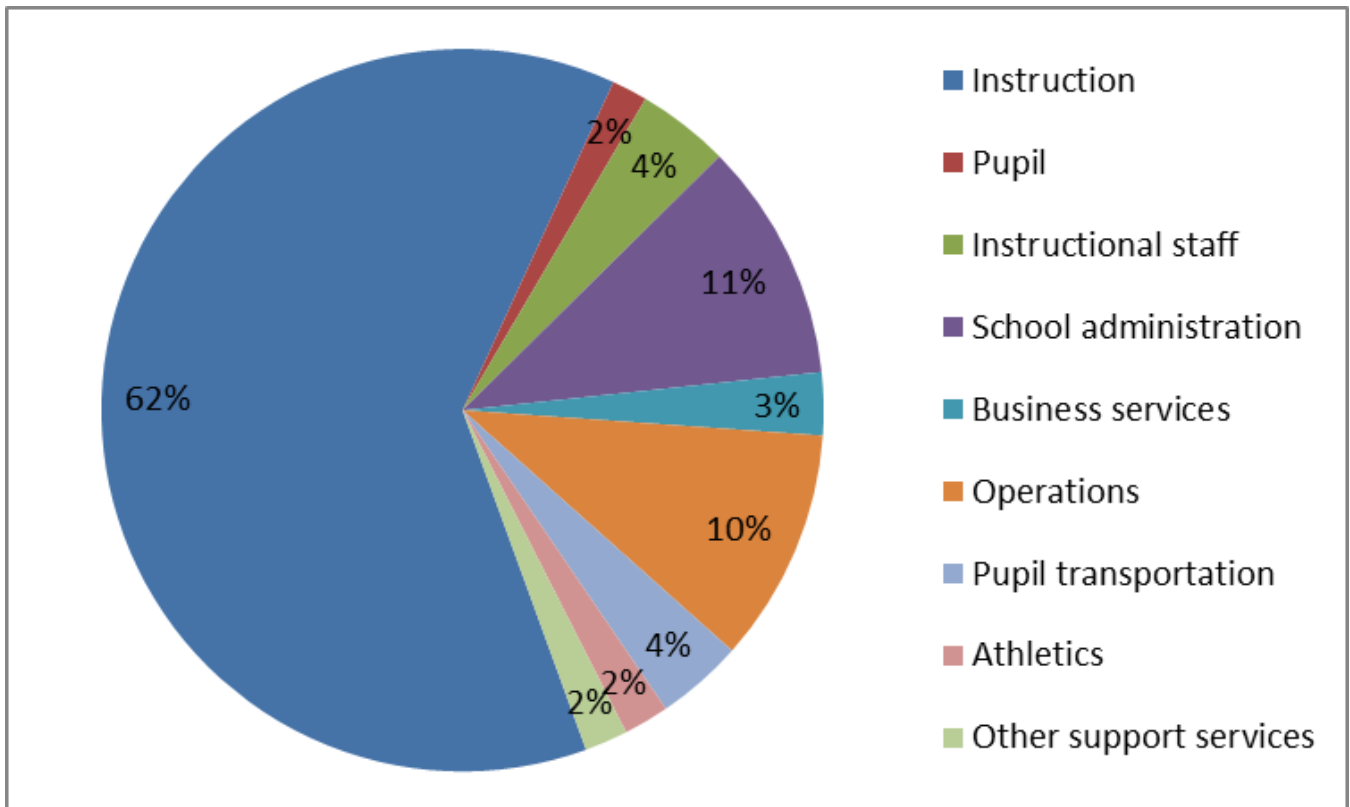


ST. LOUIS PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
2010-2011

Figure 2 depicts how the district's resources are spent. Instructional services comprised 62% of the district's expenditures, while 14% went to administrative and business services, 10% was spent for operation and maintenance, including utilities and custodial services. The final 14% was spent on other support services.

Figure 2

2010-11 General Fund Expenditures
Total \$9,514,976



ST. LOUIS PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
2010-2011

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the district as a whole is reflected in its governmental funds as well. The combined governmental funds equity increased by 39% during the 2010-11 school year. The primary reasons for this change are as follows:

General Fund

As a result of cost reductions, the district increased its fund equity by 86%.

Capital Projects

The district's Capital Projects Fund had an increase of 0.2% due to interest income on cash accounts.

Debt Service

The fund equity decreased by 27% due to the district making payments on the outstanding balance of the school bond loan fund.

Special Revenue

This year, the district used 53% of the school lunch fund equity due to decreased meal sales.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Uniform Budget Act of the State of Michigan requires that the local Board of Education adopt an original budget for the upcoming fiscal year by July 1st. As a matter of practice, the district amends its budget at least twice during the fiscal year. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the significant changes in the budget during the year.

Changes in Revenues

Local revenues were adjusted to reflect changes in non-homestead property tax values. State revenues were adjusted to reflect the decrease in state aide. Federal sources saw an increase due to the ARRA stimulus funding.

Changes in Expenditures

Expenditures were adjusted for an increase in teacher wages, health insurance premiums and substitute teacher costs. General and School Administration expenses were increased due to legal costs, and additional purchased services.

ST. LOUIS PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
2010-2011

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, St. Louis Public Schools had \$16,414,553 (net of depreciation) invested in a broad range of capital assets, including land, buildings and improvements, equipment, and vehicles.

Debt

At June 30, 2011, St. Louis Public Schools had \$14,675,134 in long-term debt. The debt consisted of the following:

Compensated Absences	\$ 115,407
2010 Bonds	\$ 6,940,000
2005 Refunding Bonds	\$ 4,950,000
School Bond Loan Fund	\$ 2,526,456
MMNET Property	\$ 55,791
Durant Bonds	<u>\$ 87,480</u>
Total	<u>\$14,675,134</u>

STATE ECONOMIC AND LOCAL FACTORS

One of the most significant factors facing St. Louis Public Schools is the economic condition of the State of Michigan. With state funding the primary source of revenue, the district monitors the state's periodic revenue-estimating conference in order to project revenue for the upcoming fiscal year's budget. In addition, local student enrollment is another revenue producing factor that the district monitors. The state foundation is based on a blended student count. This count is taken in September and February of each fiscal year. The blended count consists of 75% of September's count and 25% of the February count. In addition to the state required count days, the district conducts monthly enrollment updates in order to monitor this important revenue source. For budgeting purposes, an estimated student count is used, based on the district's enrollment history.

The budget prepared for the 2010-11 school year was based on a decrease in state funding, and a decline in student enrollment. Staff reductions were made in order to retain adequate fund equity.

REQUEST FOR INFORMATION

This financial report is designed to provide our stakeholders with a general overview of the district's finances and to show the district's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to St. Louis Public Schools, Central Office, 113 E. Saginaw St., St. Louis, MI 48880

**DISTRICT-WIDE
FINANCIAL STATEMENTS**

St. Louis Public School District
Statement of Net Assets - Governmental Activities
June 30, 2011

Assets	
Current assets	
Cash and investments	\$ 2,427,699
Accounts receivable, net	34,228
Due from other governmental units	1,516,387
Inventory	25,294
Prepays	<u>93,000</u>
Total current assets	<u>4,096,608</u>
Noncurrent assets	
Deferred Charges	
Bond issuance cost, net of amortization	135,749
Capital assets less accumulated depreciation	<u>16,414,553</u>
Total noncurrent assets	<u>16,550,302</u>
Total assets	20,646,910
Liabilities	
Current liabilities	
Accounts payable	234,561
Accrued expenses	233,221
Accrued interest on long-term debt	70,090
Accrued wages and other payroll liabilities	489,600
Deferred revenue	11,662
State aid note payable	2,000,000
Current portion of long-term obligations	<u>905,518</u>
Total current liabilities	<u>3,944,652</u>
Noncurrent liabilities	
Noncurrent portion of long-term obligations	11,127,753
Compensated absences	115,407
School bond loan fund payable	<u>2,526,456</u>
Total noncurrent liabilities	<u>13,769,616</u>
Net Assets	
Invested in capital assets, net of related debt	1,854,826
Restricted for:	
Debt service	224,030
Capital projects	9,698
Unrestricted	<u>844,088</u>
Total net assets	<u><u>\$ 2,932,642</u></u>

See accompanying notes to the financial statements.

St. Louis Public School District
Statement of Activities
For the Year Ended June 30, 2011

Functions / Programs	Expenses	Program Revenues		Total
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 5,924,649	\$ 19,521	\$ 1,618,188	\$ (4,286,940)
Support services	3,413,110	-	-	(3,413,110)
Food service	410,680	78,253	322,507	(9,920)
Community services	830	64,727	-	63,897
Interest and fees	810,054	-	14,787	(795,267)
Other	363	-	-	(363)
Depreciation - unallocated	731,875	-	-	(731,875)
Total governmental activities	<u>\$ 11,291,561</u>	<u>\$ 162,501</u>	<u>\$ 1,955,482</u>	<u>(9,173,578)</u>
General revenues:				
Property taxes				2,116,277
State aid not restricted to specific purposes				7,348,363
Unrestricted interest and investment earnings				2,103
Restricted interest and investment earnings				4,167
Miscellaneous				<u>121,346</u>
Total general revenues				<u>9,592,256</u>
Change in net assets				418,678
Net assets - beginning				<u>2,513,964</u>
Net assets - ending				<u>\$ 2,932,642</u>

FUND FINANCIAL STATEMENTS

St. Louis Public School District
Balance Sheet - Governmental Funds
June 30, 2011

	Major Funds				Total
	General	Food Service	Debt Service	Capital Projects	
Assets					
Cash and investments	\$ 2,040,490	\$ 148,516	\$ 228,958	\$ 9,735	\$ 2,427,699
Accounts receivable	34,228	-	-	-	34,228
Due from other funds	150,486	-	-	-	150,486
Due from other governmental units	1,513,507	2,880	-	-	1,516,387
Inventory	8,857	16,437	-	-	25,294
Prepays	93,000	-	-	-	93,000
Total assets	\$ 3,840,568	\$ 167,833	\$ 228,958	\$ 9,735	\$ 4,247,094
Liabilities					
Accounts payable	\$ 221,015	\$ 13,546	\$ -	\$ -	\$ 234,561
Accrued expenses	184,240	-	-	-	184,240
Accrued interest	48,981	-	-	-	48,981
Accrued wages	481,941	-	-	-	481,941
Payroll deductions and withholdings	7,659	-	-	-	7,659
Deferred revenue	11,662	-	-	-	11,662
Due to other funds	-	145,521	4,928	37	150,486
Short-term note payable	2,000,000	-	-	-	2,000,000
Total liabilities	2,955,498	159,067	4,928	37	3,119,530
Fund balance					
Nonspendable	101,857	16,437	-	-	118,294
Restricted	-	-	224,030	9,698	233,728
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Undesignated	783,213	(7,671)	-	-	775,542
Total fund balance	885,070	8,766	224,030	9,698	1,127,564
Total liabilities and fund balance	\$ 3,840,568	\$ 167,833	\$ 228,958	\$ 9,735	\$ 4,247,094

St. Louis Public School District
 Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
 To Net Assets of Governmental Activities on the Statement of Net Assets
 For the Year Ended June 30, 2011

Total fund balance - governmental funds	\$	1,127,564
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Add: Cost of capital assets	\$	32,055,162
Deduct: Accumulated depreciation		<u>(15,640,609)</u>
		16,414,553
<p>Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds. These liabilities consist of:</p>		
Long-term obligations		
Deduct: Bonds payable - Durant		(87,480)
Deduct: Bonds payable - 2005		(4,950,000)
Deduct: Bonds payable - 2010		(6,940,000)
Deduct: Loan payable - MMNET property		<u>(55,791)</u>
		(12,033,271)
Compensated absences		
Deduct: Compensated absences payable		(115,407)
School loan funds payable		
Deduct: School bond loan fund payable		(2,526,456)
<p>Long-term liabilities (and corresponding deferrals) are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:</p>		
Add: Bonds payable - 2005 issuance cost (net of amortization)		75,637
Add: Bonds payable - 2010 issuance cost (net of amortization)		60,112
Deduct: Accrued interest on long-term liabilities		<u>(70,090)</u>
		<u>65,659</u>
Total net assets - governmental activities	\$	<u><u>2,932,642</u></u>

St. Louis Public School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	Major Funds				Total
	General	Food Service	Debt Service	Capital Projects	
Revenues					
Local sources	\$ 848,571	\$ 78,253	\$ 1,369,156	\$ 24	\$ 2,296,004
State sources	7,989,954	19,737	14,787	-	8,024,478
Federal sources	596,099	298,331	-	-	894,430
Other sources	490,893	4,439	-	-	495,332
Total revenues	9,925,517	400,760	1,383,943	24	11,710,244
Expenditures					
Instruction					
Basic programs	4,673,214	-	-	-	4,673,214
Added needs	1,265,573	-	-	-	1,265,573
Total instruction	5,938,787	-	-	-	5,938,787
Support services					
Pupil	152,033	-	-	-	152,033
Instructional staff	393,857	-	-	-	393,857
General administration	299,065	-	-	-	299,065
School administration	720,294	-	-	-	720,294
Business services	267,209	-	-	-	267,209
Operation and maintenance	996,421	-	-	-	996,421
Pupil transportation	369,861	-	-	-	369,861
Central	20,190	-	-	-	20,190
Athletics	194,180	-	-	-	194,180
Total support services	3,413,110	-	-	-	3,413,110
Food service	-	410,680	-	-	410,680
Community services	830	-	-	-	830
Capital outlay	85,400	-	-	-	85,400
Debt service					
Principal payments - long-term debt	45,567	-	502,861	-	548,428
Principal payments - school bond loan	-	-	145,657	-	145,657
Interest, fees and other	31,282	-	817,282	-	848,564
Other	-	-	65,099	-	65,099
Total expenditures	9,514,976	410,680	1,530,899	-	11,456,555
Revenues over (under) expenditures	410,541	(9,920)	(146,956)	24	253,689
Other financing sources (uses)					
Payment to escrow agent	-	-	(6,875,264)	-	(6,875,264)
Proceeds from refunding bonds	-	-	6,940,000	-	6,940,000
Revenues and other sources over (under) expenditures and other uses	410,541	(9,920)	(82,220)	24	318,425
Fund balance - beginning	474,529	18,686	306,250	9,674	809,139
Fund balance - ending	\$ 885,070	\$ 8,766	\$ 224,030	\$ 9,698	\$ 1,127,564

St. Louis Public School District
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 In Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2011

Net change in fund balances - total governmental funds	\$	318,425
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Amounts reported for governmental activities in the statement of activities are different because:

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

Deduct:	Depreciation expense	(731,875)
Add:	Capital outlay	85,400

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

Add:	Decrease in accrued interest on long term debt	(16,068)
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Long term debt proceeds are reported as other financing sources in governmental funds, thereby increasing fund balances. In the statement of net assets, however, issuing long term debt increases liabilities and has no effect on net assets. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Add:	Payment of principal on long-term obligations	548,428
Add:	Decrease in accrual for compensated absences	14,138
Add:	Change in school bond loan fund and revolving fund payable	145,657
Add:	Payment of bond issuance costs	64,736

Other amounts reported in the statement of activities that do not require current financial resources consist of:

Deduct:	Amortization of 2005 debt issuance cost	(5,534)
Deduct:	Amortization of 2010 debt issuance cost	(4,624)

Change in net assets - governmental activities	\$	<u>418,678</u>
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St. Louis Public School District
Statement of Net Assets
Fiduciary Funds
For the Year Ended June 30, 2011

Agency Fund

Assets	
Cash and investments	\$ 234,049
Liabilities	
Due to student and other groups	<u>234,049</u>
Net Assets	
Restricted	<u><u>\$ -</u></u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the St. Louis Public School District (the District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the District.

Reporting Entity

The District is governed by a seven member Board of Education which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

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

District-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items, including taxes and intergovernmental payments, not properly included among program revenues, are reported instead as general revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide Financial Statements – The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as 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.

St. Louis Public School District
Notes to the Financial Statements
June 30, 2011

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

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

The District reports the following major governmental funds:

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

The debt service fund is used to record tax revenue, interest revenue, other revenue for payment of principal and other expenditures on the bond issues.

The capital projects fund accounts for financial resources used for the acquisition, construction, and improvement of major capital facilities other than those financed by proprietary funds. These resources are derived from contributions from the general fund.

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The school service funds are special revenue funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The District maintains full control of these funds. The school service funds maintained by the District are the athletic fund and food service fund.

Additionally, the District reports the following fund types:

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary fund net assets and results of operations are not included in the District-wide statements. Agency funds are custodial in nature (i.e. assets equal liabilities) and do not involve measurement of results of operations.

The District presently maintains a student activity fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

Budgets are adopted by the District for the general and special revenue funds. The budgets are adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level and control is exercised at the activity level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorizes the District to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; 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 obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies 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 investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The District's deposits are in accordance with statutory authority.

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the State of Michigan.

Property Tax Revenue

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

The taxable value for the District amounted to \$159,975,552 which includes homestead and non-homestead property. The District levied 17.7440 mills for school general operations which totaled \$751,264. The District also levied an additional 8.52 mills on all property in the District for the purpose of debt service, which totaled \$1,365,013.

State Aid Revenue

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

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

Inventory

Inventories are valued at cost, on a first in, first out (FIFO) basis. Fund balance is reserved for the amount of inventories on hand as of June 30.

USDA donated commodities are recorded as a deferred revenue and inventory when received based on their fair market value as determined by the U.S. Department of Agriculture. Revenues and expenditures are then recognized when the commodities are used.

Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The District does not have infrastructure-type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the District-wide financial statements.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land and Improvements	Not Depreciated
Buildings and Additions	20 – 50
Machinery and Equipment	5 – 20
Vehicles	5 – 10

Estimates

The preparation of 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 at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Compensated Absences

The school board's policy does not allow teachers to accumulate vacation days and carry the accumulation forward to future years. Support staff may carry ten days in a bank at any time with such benefits to be paid in full upon retirement, death, or permanent disability at their current rate of pay. The vacation pay liability as of June 30th is \$22,359.

Sick days can be accumulated up to thirty days (30) days for teachers and one hundred (120) days for other employees. Amounts accumulated are to be paid to employees and recognized as an expense when sick leave is taken.

After 15 years of continuous service to the District, a teacher, retirement, resignation, or termination, shall be paid for accumulated sick leave at a rate of \$60 per day to a maximum of \$1,500. Upon retirement, resignation, or death, sick leave is paid to support staff at a rate of \$26/day for the first 60 days and \$31/day for the next 60 days. The sick leave liability as of June 30th is \$93,048.

Deferred Revenue

Deferred revenues arise when resources are received by the District before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and District-wide financial statements, and revenue is recognized.

Long-Term Obligations

In the District-wide financial statements, long-term debt and other long-term liabilities are reported as liabilities in the statement of net assets.

Net Assets and Fund Balances

Restricted net assets shown in the District-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental funds financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the District-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

Fund Balances - Reserves and Designations

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

- Nonspendable fund balance—amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District's Capital Projects and Debt Service fund balances are considered restricted.

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

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

- Assigned fund balance—amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Net Assets – Restrictions

Net assets in the District-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

Unemployment Compensation

The District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method the District must reimburse the Employment Commission for all benefits charged against the District for the year. No provision has been made for possible future claims.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess Of Expenditures Over Appropriations

Budgets are adopted at the functional level and on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is not employed in governmental funds.

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

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

During the current year the District incurred expenditures in excess of the amounts budgeted as indicated in the budget comparison schedules as unfavorable variances.

NOTE 3 - CASH AND INVESTMENTS

At June 30th, the carrying amount of the District's cash, deposits and investments was as follows:

Cash and Investments	Amount
Petty Cash	\$ 1,094
Deposits With Financial Institutions: Interest Bearing Checking, Savings, Money Market Accounts	2,426,605
Total	\$ 2,427,699

At year-end, the bank balance was \$2,504,007. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining balance was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks.

The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank 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.

As of June 30th, the District had \$9,735 of cash in the capital projects fund, which is restricted for future capital improvement expenditures.

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

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

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

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. See above for amount of deposits held by the District that are exposed to custodial credit risk because it is uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, it is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

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

St. Louis Public School District
Notes to the Financial Statements
June 30, 2011

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

As of June 30th, due from other governmental units is comprised of the following amounts:

Due From	Amount
General Fund:	
State of Michigan – State Aid	\$ 1,449,831
Title I	21,233
Title II	42,443
Food Service Fund:	
Hot Lunch	2,880
Total	\$ 1,516,387

NOTE 5 - PREPAIDS

Prepaid expenses represent payments for the following expenses that will benefit future periods:

Prepaid	Amount
Insurance	\$ 50,000
Chartwells – Food Services	43,000
Total	\$ 93,000

NOTE 6 - CAPITAL ASSETS

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

Capital Assets	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 160,785	\$ -	\$ -	\$ 160,785
Buildings and Additions	29,372,321	-	-	29,372,321
Equipment	1,247,207	-	-	1,247,207
Vehicles	1,189,449	85,400	-	1,274,849
Total Capital Assets	31,969,762	85,400	-	32,055,162
Accumulated Depreciation				
Buildings and Additions	(12,881,635)	(666,123)	-	(13,547,758)
Equipment	(968,162)	(35,026)	-	(1,003,188)
Vehicles	(1,058,937)	(30,726)	-	(1,089,663)
Total Accumulated Depreciation	(14,908,734)	(731,875)	-	(15,640,609)
Net Capital Assets	\$ 17,061,028	\$ (646,475)	\$ -	\$ 16,414,553

Depreciation for the year ended June 30, 2011 totaled \$731,875. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 7 - DUE TO OTHER GOVERNMENTAL UNITS

As of June 30th, the District was not indebted to other governmental units.

NOTE 8 - ACCRUED EXPENSES

Accrued expenses as of June 30th are as follows:

Accrued Expenses	Amount
Retirement	\$ 99,569
FICA	36,868
Health Insurance	47,803
Total	\$ 184,240

NOTE 9 - ACCRUED WAGES AND OTHER PAYROLL LIABILITIES

Wages payable as of June 30th represents the remaining balance owed on teacher contracts to be paid during the summer months and wages earned for non-teacher employees but unpaid as of the end of the fiscal year. Also included are payroll taxes due for accrued wages as of June 30th.

NOTE 10 - SHORT-TERM NOTE PAYABLE

On July 6, 2010 the District borrowed \$2,000,000 in the form of a State Aid Note for the purpose of providing funds for school operations. The interest rate is stated at 2.49% and the maturity date is July 6, 2011.

On July 7, 2011 the District borrowed \$1,807,000 in the form of a State Aid Note for the purpose of providing funds for school operations. The interest rate is stated at 1.14% and the maturity date is July 6, 2012.

NOTE 11 - LONG-TERM DEBT

The District issues bonds, notes and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligations bonds and refunding bonds are direct obligations and pledge the full faith and credit of the District. Other long-term obligations include compensated absences.

2005 Bonds

During the fiscal year ended June 30, 2005, the District issued \$7,190,000 of general obligation bonds for the purpose of a current refunding of \$7,090,000 of the 1995 bonds outstanding.

As a result, the 1995 bonds have been refunded and the liability has been removed from the governmental activities column of the statement of net assets. This current refunding was undertaken to reduce total debt service payments over the next 20 years by \$735,074 and resulted in an economic gain of approximately \$642,000.

See bond payment schedule included in the report.

St. Louis Public School District
Notes to the Financial Statements
June 30, 2011

School Bond Loan Fund and School Loan Revolving Fund

The District has periodically approved the borrowing from the State Of Michigan's School Bond Loan Fund and the School Loan Revolving Fund for the purpose of paying debt service. The interest rates are variable. Repayment of the loan will begin when excess funds are available from the taxes collected for payment of the bond issue.

See bond payment schedules included in this report.

2010 Refunding Bonds

During the fiscal year ended June 30, 2011, the District issued \$6,940,000 of general obligation tax-exempt bonds for the purpose of an advance refunding of \$6,725,000 of the 2001 bonds outstanding.

As a result, the 2001 bonds have been advance refunded and the liability has been removed from the governmental activities column of the statement of net assets. This advance refunding was undertaken to reduce total debt service payments over the next 15 years by \$766,267 and resulted in an economic gain of approximately \$644,837.

See bond payment schedule included in the report.

MMNET

During the year ended June 30, 2001 the District elected to join the Middle Michigan Network for Educational Telecommunications (MMNET). See additional disclosures regarding MMNET in these notes. The total cost of participating in MMNET is \$450,000 and is financed as follows: 1) an agreement with MMNET in the amount of \$181,158, and 2) a loan with a local bank in the amount of \$268,842.

Purchase Agreement - MMNET Admission Fee

As a member of MMNET, the District was required to purchase an interest in various communication equipment and services. The agreement entered into with MMNET, dated October 30, 2000, calls for annual payments of \$15,000 plus interest payable over 10 years. The interest rate is stated at 5.68%.

Loan Payable – MMNET Property

On November 21, 2000, the District borrowed \$268,842 from a local bank to purchase telecommunications equipment, including engineering and installation, in order to participate in the MMNET Consortium. The terms of the loan call for semi-annual payments of \$14,898 due May 15th and November 15th of each year. The interest rate is stated at 5.380% and the maturity date is May 15, 2013.

Changes to Long-Term Debt

The changes in long-term debt during the year ended June 30, 2011 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Less: Current Portion	Total due after one year
Comp. Absences	\$ 129,545	\$ -	\$ (14,138)	\$ 115,407	\$ -	\$ 115,407
MMNET Loan Payable	81,541	-	(25,750)	55,791	27,154	28,637
MMNET Purchase Agmt	15,000	-	(15,000)	-	-	-
School Bond Loan Fund	2,574,584	131,933	(180,061)	2,526,456	-	2,526,456
School Bond Revolving	97,529	-	(97,529)	-	-	-
2010 Bonds	7,000,000	-	(60,000)	6,940,000	375,000	6,565,000
2005 Bonds	5,380,000	-	(430,000)	4,950,000	430,000	4,520,000
Durant Bonds	100,341	-	(12,861)	87,480	73,364	14,116
Musical Instruments	4,817	-	(4,817)	-	-	-
Total	\$ 15,383,357	\$ 131,933	\$ (840,156)	\$ 14,675,134	\$ 905,518	\$ 13,769,616

The annual requirements to pay principal and interest on the outstanding obligations on June 30, 2011 is shown in the *Schedule of Long-Term Debt* at the back of this report.

NOTE 12 - OPERATING LEASES

The School District is currently leasing seven copy machines from Xerox Corporation. Monthly payments range from \$82 to \$1,185, all payable over 60 months.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEM

Plan Description

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

Funding Policy

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

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

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

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate through September 30, 2010 was 16.94% of payroll and increased to 19.41% for the base plan and 17.91% for pension plus members effective October 1, 2010 through October 31, 2010 at which time it increased again due to the number of retirees associated with the early retirement incentive to 20.66% for basic plan members and 19.16% for pension plus members for the period November 1, 2010 through September 30, 2011. In addition, the district is required to match 50% up to 1% of the employees contribution in the pension plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The health care portion is 5.5% before the 3% for the injunction. The District contributions to MPERS for the year ended June 30, 2011, 2010, and 2009, were \$1,018,148, \$985,770, \$972,125, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits; it is the responsibility of the State of Michigan.

Other Post-Employment Benefits

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

Pension recipients are generally eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing coverage.

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

NOTE 14 - RISK MANAGEMENT

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District participates in the SET/SEG risk pool for employee injuries (worker's compensation) and has purchased commercial insurance for claims relating to property loss, torts, errors and omissions, and for medical claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 15 - JOINT VENTURE

During the year ended June 30, 2001 the District elected to join the Middle Michigan Network for Educational Telecommunications (MMNET). As a member of MMNET, the District was required to purchase an interest in various communication equipment and services as well as pay for annual administrative cost incurred by Gratiot-Isabella RESD, the administrative agent. Information regarding the purchase of equipment and services is shown in the above notes.

The MMNET Consortium was established by a previously approved inter local Consortium Agreement. The purpose of MMNET is to provide for interactive voice/video/data interconnections and services required for, or useful in, the instruction and training of students and other persons utilizing the participants services, the conducting of research, or the administrative operations of the participants; and to enable the participants to cooperatively share their resources for the ownership, financing, installation, administration and operation of MMNET.

Additional information on MMNET, including separate financial statements, is available by contacting the fiscal agent at Gratiot-Isabella Regional Education Service District, 1131 East Center Street, Ithaca, Michigan 48847
Phone: 989-875-5101

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULES

St. Louis Public School District
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Local sources	\$ 826,977	\$ 849,175	\$ 848,571	\$ (604)
State sources	7,828,588	7,953,364	7,989,954	36,590
Federal sources	421,389	525,812	596,099	70,287
Other sources	373,855	480,838	490,893	10,055
Total revenues	<u>9,450,809</u>	<u>9,809,189</u>	<u>9,925,517</u>	<u>116,328</u>
Expenditures				
Instruction				
Basic programs	4,176,834	4,494,951	4,673,214	(178,263)
Added needs	1,625,693	1,427,532	1,265,573	161,959
Total instruction	<u>5,802,527</u>	<u>5,922,483</u>	<u>5,938,787</u>	<u>(16,304)</u>
Support services				
Pupil	249,585	155,945	152,033	3,912
Instructional staff	465,719	493,875	393,857	100,018
General administration	291,515	294,566	299,065	(4,499)
School administration	721,960	732,336	720,294	12,042
Business services	239,413	289,280	267,209	22,071
Operation and maintenance	973,505	1,010,069	996,421	13,648
Pupil transportation	552,660	470,485	369,861	100,624
Central	21,335	29,931	20,190	9,741
Athletics	225,000	225,000	194,180	30,820
Total support services	<u>3,740,692</u>	<u>3,701,487</u>	<u>3,413,110</u>	<u>288,377</u>
Community services	24,875	4,338	830	3,508
Debt service	71,986	61,961	76,849	(14,888)
Other	1,325	-	-	-
Total expenditures	<u>9,641,405</u>	<u>9,690,269</u>	<u>9,429,576</u>	<u>260,693</u>
Revenues over (under) expenditures	(190,596)	118,920	495,941	377,021
Fund balance - beginning	<u>474,529</u>	<u>474,529</u>	<u>474,529</u>	<u>-</u>
Fund balance - ending	<u>\$ 283,933</u>	<u>\$ 593,449</u>	<u>\$ 970,470</u>	<u>\$ 377,021</u>

St. Louis Public School District
 Budgetary Comparison Schedule for the Food Service Fund
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Local sources	\$ -	\$ -	\$ 78,253	\$ 78,253
State sources	-	-	19,737	-
Federal sources	-	-	298,331	298,331
Other sources	-	-	4,439	4,439
Total revenues	-	-	400,760	381,023
Expenditures				
Food service	-	-	410,680	(410,680)
Revenues over (under) expenditures	-	-	(9,920)	(9,920)
Fund balance - beginning	-	-	18,686	18,686
Fund balance - ending	\$ -	\$ -	\$ 8,766	\$ 8,766

OTHER SUPPLEMENTAL INFORMATION

St. Louis Public School District
General Fund
Statement of Revenues
For the Years Ended June 30, 2011

Local sources	
Property taxes	\$ 751,264
Interest	2,103
Rental fees	64,727
Recreation fees	1,578
Drivers education fees	15,256
Other local revenues	<u>13,643</u>
 Total local sources	 <u>848,571</u>
State sources	
General state aid	7,348,363
Categorical:	
Special education	273,122
At risk	271,771
Center for Educational Performance and Information	5,153
152a Headlee Obligation	15,515
School readiness	54,400
Vocational education	<u>21,630</u>
 Total state sources	 <u>7,989,954</u>
Federal sources	
Title I	382,294
Education Stabilization Funds	139,571
Medicaid	12,775
Title II - Improving teacher quality	<u>61,459</u>
 Total federal sources	 <u>596,099</u>
Other sources	
Other governmental units	
County special education tax	380,498
Vocational education transportation	19,521
Other	<u>90,874</u>
 Total other sources	 <u>490,893</u>
 Total general fund revenues	 <u><u>\$ 9,925,517</u></u>

St. Louis Public School District
General Fund
Statement of Expenditures
For the Years Ended June 30, 2011

Instruction	
Basic programs	
Elementary	
Salaries	\$ 1,346,824
Employee benefits	678,530
Purchased services	25,919
Supplies, materials and other	11,659
	<hr/>
Total elementary	2,062,932
	<hr/>
Middle/junior high	
Salaries	686,948
Employee benefits	373,086
Purchased services	26,577
Supplies, materials and other	6,303
	<hr/>
Total middle school	1,092,914
	<hr/>
High school	
Salaries	926,698
Employee benefits	446,473
Purchased services	30,238
Supplies, materials and other	33,720
	<hr/>
Total high school	1,437,129
	<hr/>
Readiness program	
Salaries	1,169
Employee benefits	867
Outgoing transfers	59,029
	<hr/>
Total readiness program	61,065
	<hr/>
Summer school program	
Purchased services	15,014
Supplies, materials and other	4,160
	<hr/>
Total summer school program	19,174
	<hr/>
Total basic programs	4,673,214
	<hr/>
Added needs	
Special education	
Salaries	415,316
Employee benefits	192,916
Purchased services	11,442
Supplies, materials and other	2,881
	<hr/>
Total special education	622,555
	<hr/>

St. Louis Public School District
General Fund
Statement of Expenditures
For the Years Ended June 30, 2011

Instruction (continued)

Added needs (continued)

Compensatory education

Title I

Salaries	\$ 165,357
Employee benefits	52,832
Purchased services	6,965
Supplies, materials and other	21,252

Total title I	246,406
---------------	---------

At risk

Salaries	127,340
Employee benefits	61,113
Purchased services	2,715
Supplies, materials and other	4,728
Capital outlay	-

Total at risk	195,896
---------------	---------

American recovery and reinvestment act

Salaries	-
Employee benefits	-
Purchased services	-
Supplies, materials and other	-
Capital outlay	-

Total ARRA	-
------------	---

Bilingual

Purchased services	5,360
--------------------	-------

Total compensatory education	447,662
------------------------------	---------

Career and technical education

Salaries	116,015
Employee benefits	76,074
Purchased services	3,164
Supplies, materials and other	103

Total career and technical education	195,356
--------------------------------------	---------

Total added needs	1,265,573
-------------------	-----------

Total instruction	5,938,787
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St. Louis Public School District
 General Fund
 Statement of Expenditures
 For the Years Ended June 30, 2011

Supporting services

Pupil services

Guidance services

Salaries	\$ 18,358
Employee benefits	9,490
Purchased services	12,527
Supplies, materials and other	<u>564</u>

Total guidance services 40,939

Health Services

Salaries	1,180
Employee benefits	<u>328</u>

Total health services 1,508

Speech

Salaries	43,702
Employee benefits	28,986
Supplies, materials and other	<u>616</u>

Total speech 73,304

Other pupil services

Salaries	26,516
Employee benefits	7,207
Supplies, materials and other	<u>2,559</u>

Total other pupil services 36,282

Total pupil services 152,033

Instructional staff

Improvement of instruction

Purchased services	<u>32,424</u>
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Total improvement of instruction 32,424

Library

Salaries	36,803
Employee benefits	15,210
Purchased services	1,058
Supplies, materials and other	<u>7,089</u>

Total library 60,160

St. Louis Public School District
 General Fund
 Statement of Expenditures
 For the Years Ended June 30, 2011

Support services (continued)	
Instructional staff	
Technology assisted instruction	
Purchased services	\$ 96,848
Supplies, materials and other	68,201
Capital outlay	894
	<hr/>
Total Instructional staff	165,943
	<hr/>
Supervision and direction of instructional staff	
Salaries	83,927
Employee benefits	47,003
Purchased services	4,400
	<hr/>
Total supervision and direction of instructional staff	135,330
	<hr/>
Total instructional staff	393,857
	<hr/>
General administration	
Board of education	
Purchased services	23,042
Supplies, materials and other	34,743
	<hr/>
Total board of education	57,785
	<hr/>
Executive administration	
Salaries	152,529
Employee benefits	71,200
Purchased services	1,133
Supplies, materials and other	16,418
	<hr/>
Total executive administration	241,280
	<hr/>
Total general administration	299,065
	<hr/>
School administration	
Offices of the principals	
Salaries	\$ 452,810
Employee benefits	248,132
Purchased services	3,353
Supplies, materials and other	15,999
	<hr/>
Total offices of the principals	720,294
	<hr/>

St. Louis Public School District
 General Fund
 Statement of Expenditures
 For the Years Ended June 30, 2011

Support services (continued)	
Business services	
Fiscal services	
Salaries	64,675
Employee benefits	39,373
Purchased services	26,834
Supplies, materials and other	4,774
	<hr/>
Total fiscal services	135,656
	<hr/>
Internal services	
Supplies, materials and other	32,052
Other business services	
Insurances	27,506
Interest	49,699
Taxes refunded and abated	9,087
Dues and fees	7,324
Other	5,885
	<hr/>
Total other business services	99,501
	<hr/>
Total business services	267,209
	<hr/>
Operation and maintenance	
Salaries	379,852
Employee benefits	225,775
Purchased services	130,470
Supplies, materials and other	260,003
Capital outlay	321
	<hr/>
Total operation and maintenance	996,421
	<hr/>
Pupil transportation	
Salaries	\$ 154,939
Employee benefits	45,519
Purchased services	83,869
Supplies, materials and other	85,534
	<hr/>
Total pupil transportation	369,861
	<hr/>

St. Louis Public School District
 General Fund
 Statement of Expenditures
 For the Years Ended June 30, 2011

Support services (continued)	
Central	
Communication services	
Purchased services	5,623
Support services technology	
Purchased services	<u>14,567</u>
Total central	<u>20,190</u>
Athletics	
Salaries	106,024
Employee benefits	32,248
Purchased services	51,123
Supplies, materials and other	<u>4,785</u>
Total athletics	<u>194,180</u>
Total support services	<u>3,413,110</u>
Community services	
Recreation	
Purchased services	24
Supplies, materials and other	<u>806</u>
Total recreation	<u>830</u>
Other transactions	
Debt service - MMNET loan	
Principal	30,567
Membership fee	15,000
Interest	116
Xerox payment	31,166
Capital outlay	<u>85,400</u>
Total other transactions	<u>162,249</u>
Total general fund expenditures	<u><u>\$ 9,514,976</u></u>

St. Louis Public School District
Debt Service Funds
Combining Balance Sheet
June 30, 2011

	Durrant	2005 Debt	2010 Debt	Total
Assets				
Cash and investments	\$ -	\$ 121,116	\$ -	\$ 121,116
Total assets	<u>\$ -</u>	<u>\$ 121,116</u>	<u>\$ -</u>	<u>\$ 121,116</u>
Liabilities				
Due to other funds	\$ -	\$ 4,928		\$ 4,928
Fund Balance				
Reserved for debt service	-	116,188	-	116,188
Total fund balance	<u>\$ -</u>	<u>\$ 121,116</u>	<u>\$ -</u>	<u>\$ 121,116</u>

St. Louis Public School District
Debt Service Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Years Ended June 30, 2011

	Durant	2005 Debt	2010 Debt	Total
Revenues				
Local sources				
Property tax	\$ -	\$ 661,776	\$ 703,237	\$ 1,365,013
Interest on investments	-	4,143	-	4,143
State sources				
Durant	14,787	-	-	14,787
Total revenues	14,787	665,919	703,237	1,383,943
Expenditures				
Principal repayments	12,861	430,000	60,000	502,861
School Bond Loan Fund	-	-	145,657	145,657
Interest and other charges	1,926	225,249	590,107	817,282
Other	-	363	64,736	65,099
Total expenditures	14,787	655,612	860,500	1,530,899
Revenues over (under) expenditures	-	10,307	(157,263)	(146,956)
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers (out)	-	-	-	-
Payment to escrow agent	-	-	(6,875,264)	(6,875,264)
Proceeds from refunding bonds	-	-	6,940,000	6,940,000
Revenues and other sources over (under) expenditures and other uses	-	10,307	(92,527)	(82,220)
Fund balance - beginning	-	126,884	179,366	306,250
Fund balance - ending	\$ -	\$ 137,191	\$ 86,839	\$ 224,030

St. Louis Public School District
Schedule of Long-Term Debt
For the Year Ended June 30, 2011

Maturity Date	Interest Rate (%)	Annual Principal Due	Interest Due		Total
			July	May	
Durant Issue - \$210,571					
<u>Due May 15,</u>					
2012	4.76	\$ 73,364	\$ -	\$ 25,987	\$ 99,351
2013	4.76	14,116	-	672	14,788
Total		<u>\$ 87,480</u>	<u>\$ -</u>	<u>\$ 26,659</u>	<u>\$ 114,139</u>

The State School Aid Act, as amended by Public Act 142 of 1997 provided appropriations as part of a settlement to school districts involved in the Durant litigation as well as schools not involved in the litigation. The Michigan Municipal Bond Authority (MMBA) issued bonds for those districts that elected to receive a lump sum amount from the MMBA rather than receive part of the settlement in fifteen annual payments.

As part of the Executive Budget Recommendation for FY 2004, the bonds were "refunded". To accomplish that, the debt service payment schedules for applicable districts, including St. Louis Public School District, have changed. However, the refunding did not change the total payments for any of the districts.

The above schedule reflects these changes.

Loan Payable - MMNET Property - \$268,842

<u>Due November 15 and May 15,</u>					
2012	5.38	\$ 27,154	\$ 1,501	\$ 1,140	\$ 29,795
2013	5.38	28,637	770	391	29,798
Total		<u>\$ 55,791</u>	<u>\$ 2,271</u>	<u>\$ 1,531</u>	<u>\$ 59,593</u>

St. Louis Public School District
Schedule of Long-Term Debt
For the Year Ended June 30, 2011

Maturity Date	Interest Rate (%)	Annual Principal Due	Interest Due		Total
			November	May	
2010 Refunding Bonds - \$6,940,000					
<u>Due May 1,</u>					
2012	4.50	\$ 375,000	\$ 91,595	\$ 88,970	\$ 555,565
2013	4.50	415,000	88,970	85,443	589,413
2014	4.50	430,000	85,443	81,358	596,801
2015	4.50	470,000	81,358	76,658	628,016
2016	4.50	510,000	76,658	70,793	657,451
2017	4.50	550,000	70,793	63,918	684,711
2018	4.60	590,000	63,918	55,953	709,871
2019	4.60	605,000	55,953	47,180	708,133
2020	4.60	595,000	47,180	38,106	680,286
2021	4.60	590,000	38,106	28,961	657,067
2022	4.60	605,000	28,961	19,433	653,394
2023	4.70	595,000	19,433	9,913	624,346
2024	4.70	610,000	9,913	-	619,913
Total		<u>\$ 6,940,000</u>	<u>\$ 758,281</u>	<u>\$ 666,686</u>	<u>\$ 8,364,967</u>
2005 Bond Issue - \$7,190,000					
<u>Due May 1</u>					
2012	3.50	\$ 430,000	\$ 105,638	\$ 105,638	\$ 641,276
2013	3.75	410,000	98,113	98,113	606,226
2014	3.75	415,000	90,425	90,425	595,850
2015	4.00	400,000	82,644	82,644	565,288
2016	5.00	390,000	74,644	74,644	539,288
2017	5.00	380,000	64,894	64,894	509,788
2018	5.00	375,000	55,394	55,394	485,788
2019	4.10	370,000	46,019	46,019	462,038
2020	4.20	365,000	38,434	38,434	441,868
2021	4.20	365,000	30,769	30,769	426,538
2022	4.38	355,000	23,013	23,013	401,026
2023	4.38	345,000	15,247	15,247	375,494
2024	4.40	350,000	7,700	7,700	365,400
Total		<u>\$ 4,950,000</u>	<u>\$ 732,934</u>	<u>\$ 732,934</u>	<u>\$ 6,415,868</u>

St. Louis Public School District
Schedule of Long-Term Debt
For the Year Ended June 30, 2011

Year	Loan Proceeds	Accrued Interest	Balance Due
School Bond Loan Fund			
1996	\$ 628,964	\$ 25,889	\$ 654,853
1997	185,564	42,878	883,295
1998	-	48,004	931,299
1999	-	47,704	979,003
2000	-	49,979	1,028,982
2001	-	50,719	1,079,701
2002	-	45,453	1,125,154
2003	242,871	43,756	1,411,781
2004	282,182	45,345	1,739,308
2005	246,219	56,818	2,042,345
2006	-	83,377	2,125,722
2007	-	100,898	2,226,620
2008	-	100,070	2,326,690
2009	-	109,907	2,436,597
2010	-	137,987	2,574,584
2011	-	131,933	2,706,517
2011 Repayment		(180,061)	2,526,456
Total	\$ 1,585,800	\$ 940,656	

As of June 30, 2011, the interest rate was 5.00%.

St. Louis Public School District
Schedule of Long-Term Debt
For the Year Ended June 30, 2011

Year	Annual Principal Due	Annual Interest Due	Total
Summary by Year (excluding School Bond Loan Fund)			
2012	\$ 905,518	\$ 420,469	\$ 1,325,987
2013	867,753	372,472	1,240,225
2014	845,000	347,651	1,192,651
2015	870,000	323,304	1,193,304
2016	900,000	296,739	1,196,739
2017	930,000	264,499	1,194,499
2018	965,000	230,659	1,195,659
2019	975,000	195,171	1,170,171
2020	960,000	162,154	1,122,154
2021	955,000	128,605	1,083,605
2022	960,000	94,420	1,054,420
2023	940,000	59,840	999,840
2024	960,000	25,313	985,313
Totals	<u>\$ 12,033,271</u>	<u>\$ 2,921,296</u>	<u>\$ 14,954,567</u>



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

St. Louis Public Schools
St Louis, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Louis Public Schools (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated October 12, 2011. The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it. This report is intended solely for the information and use of management, its Board, others within the entity, 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.

Roslund, Prestage & Company, P.C.
Certified Public Accountants
October 12, 2011

Finding 2011-1

Finding considered a significant deficiency

Effective for the year ended June 30, 2011, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (Issued May 2006) requires us to communicate in writing when a client requires assistance to prepare the financial statements and related footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The annual financial statements for the year ended June 30, 2011 required numerous audit adjustments, most of which the staff was aware needed to be recorded. The staff of the District does understand all information included in the annual financial statements; however, we assist in preparing the financial statements and related footnotes.

We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We expect this situation to be ongoing in future years.