

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

FINANCIAL REPORT  
WITH SUPPLEMENTAL INFORMATION  
June 30, 2010

## TABLE OF CONTENTS

	<u>PAGE</u>
Report Letter	1 – 2
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	3 - 4
Management’s Discussion and Analysis	5 - 11
Basic Financial Statements	
District-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of Balance Sheet of Governmental Funds to Net Assets	15
Statement of Revenue, Expenditures, and Changes in Fund Balances	16
Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Fiduciary Fund - Statement of Fiduciary Net Assets	18
Notes to Financial Statements	19 - 28
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	29
Budgetary Comparison Schedule - Food Service Fund	30
Other Supplemental Information	
General Fund - Statement of Revenues, Expenditures and Changes in in Fund Balance	31 - 32
General Fund - Detail of Expenditures	33 – 34
Food Service Fund – Statement of Revenues, Expenditures and Changes in Fund Balance	35 - 36
2007 Debt Retirement Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance	37

## TABLE OF CONTENTS

	<u>PAGE</u>
2007 Capital Projects Fund - Statement of Revenues, Expenditures and Changes in Fund Balance	38
Combining Balance Sheet - Nonmajor Governmental Funds	39
Combining Statement of Revenues, Expenditures and Changes in in Fund Balances -Nonmajor Governmental Funds	40
Fiduciary Fund - Statement of Cash Receipts, Cash Disbursements and Changes in Due to School Organizations	41 - 42
Detail of Bonded Debt	43 - 45
Audit Findings and Schedule of Control Deficiencies	46 – 47
Independent Auditors' Report on Statement of Revenues and Expenditures	48 - 49
2007 School Building and State Bond Issue Capital Projects Fund – Balance Sheet	50
2007 School building and Site Bond Issue Capital Projects Fund – Statement of Revenues, Expenditures and Changes In Fund Balance	51



In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2010, on our consideration of the Pinconning Area School'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pinconning Area School's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section 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 Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Pinconning Area Schools. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on them.

QUAST, JANKE AND COMPANY



---

Certified Public Accountants, P.C

# *Quast, Janke and Company, P.C.*

*Certified Public Accountants*

---

1010 N. JOHNSON STREET  
BAY CITY, MICHIGAN 48708  
Phone: (989) 892-4549  
Fax: (989) 892-4030

*Timothy J. Quast, C.P.A.*  
*Mark G. Janke, C.P.A.*  
*David G. Gwizdala, C.P.A.*

*Members:*  
*American Institute of C.P.A.'s*  
*Michigan Association of C.P.A.'s*

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

October 6, 2010

To the Board of Education  
Pinconning Area Schools  
605 West Fifth Street  
Pinconning, Michigan 48650

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pinconning Area Schools, Pinconning, Michigan as of and for the years ended June 30, 2010 and 2009, which collectively comprise the Pinconning Area School's basic financial statements and have issued our report thereon dated October 6, 2010. We conducted our audit in accordance with the 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 Pinconning Area School'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 Pinconning Area School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pinconning Area School's internal control over financial reporting.

A *control deficiency* 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Pinconning Area School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Pinconning Area School's financial statements that is more than inconsequential will not be prevented or detected the Pinconning Area School's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Pinconning Area School's internal control.

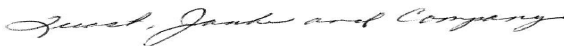
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We believe the deficiencies in the attached Schedule of Control Deficiencies consist of material weaknesses: 2010-1 and 2010-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pinconning Area School'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*.

This report is intended solely for the information and use of management, the Board of Education, 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.

QUAST, JANKE AND COMPANY



---

Certified Public Accountants,

## **Pinconning Area Schools Management's Discussion and Analysis**

This section of Pinconning Area Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the years ended June 30, 2010 and 2009. Please read it in conjunction with the School District's financial statements, which immediately follows this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Pinconning Area Schools financially as a whole. The District-wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds – the General Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD &A)  
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund

Other Supplemental Information

Reporting the School District as a Whole – District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar

## **Pinconning Area Schools Management's Discussion and Analysis**

to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

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

The statements of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

### **Reporting the School District's Most Significant Funds – Fund Financial Statements**

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service Fund is an example) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

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

**Pinconning Area Schools  
Management's Discussion and Analysis**

**The School District as Trustee – Reporting the School District's Fiduciary Responsibilities**

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**The School District as a Whole**

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2010 and 2009:

TABLE 1:

	<u>Governmental Activities</u>	
	<u>June 30, 2010</u>	<u>June 30, 2009</u>
<b>Assets:</b>		
Current and other assets	\$ 5,302,311	\$ 11,151,909
Capital assets – Net of accumulated depreciation	<u>19,914,142</u>	<u>16,583,632</u>
Total Assets	25,216,453	27,735,541
<b>Liabilities:</b>		
Current liabilities	4,727,962	6,648,738
Long-term liabilities	<u>15,507,911</u>	<u>15,811,805</u>
Total Liabilities	<u>20,235,873</u>	<u>22,460,543</u>
<b>Net Assets:</b>		
Invested in property and equipment – Net of related debt	4,516,142	903,632
Restricted	26,677	17,807
Unrestricted	<u>437,761</u>	<u>4,353,559</u>
Total Net Assets	<u>\$ 4,980,580</u>	<u>\$ 5,274,998</u>

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The

**Pinconning Area Schools  
Management's Discussion and Analysis**

School District's net assets were \$4,980,580 at June 30, 2010. Capital assets, net of related debt compares the original cost, less depreciation of the School District's capital assets to long-term debt. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$437,761, was unrestricted.

The \$437,761 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2010 and 2009.

TABLE 2:

	<u>Governmental Activities</u>	
	<u>Year Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
<b>Revenue:</b>		
Program revenue:		
Charges for services	\$ 252,015	\$ 344,442
Grants and categorical	2,696,900	2,742,027
General revenue:		
Property taxes	2,039,037	1,991,168
State foundation allowance	9,548,472	10,251,637
Other	<u>286,082</u>	<u>725,580</u>
Total Revenue	<u>14,822,506</u>	<u>16,054,854</u>
<b>Function/Program Expenses:</b>		
Instruction	8,272,993	8,698,065
Support services	4,684,279	4,866,995
Community services	107,653	110,172
Food services	583,957	582,865
Athletics	255,235	297,570
Interest on long-term debt	761,066	756,086
Depreciation (unallocated)	<u>451,741</u>	<u>154,654</u>
Total Expenses	<u>15,116,924</u>	<u>15,466,407</u>
<b>Increase (Decrease) in Net Assets</b>	<u>\$ (294,418)</u>	<u>\$ 588,447</u>

## **Pinconning Area Schools Management's Discussion and Analysis**

As reported in the statement of activities, the cost of all of our governmental activities this year was \$15,116,924. Certain activities were partially funded from those who benefited from the program or by other governments and organizations that subsidized certain programs with grants and categoricals. We paid for the remaining "public benefit" portion of our governmental activities with \$2,039,037 in taxes, \$9,548,472 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced a decrease in net assets of \$294,418. Key reasons for the change in net assets were tightened fiscal controls and reduction in state aid. The decrease in net assets differs from the change in fund balance and reconciliation appears on page 15.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

### **The School District's Funds**

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$958,712, which is a decrease of \$4,101,531 from last year. The primary reason for this decrease is expenditure of bond sale proceeds. Also, in the General Fund, our principal operating fund, the balance decreased \$611,642 to \$344,887. The 2007 Debt Retirement Fund balance decreased \$582. The 2007 Capital Projects Fund balance decreased \$3,496,944 due to expenditure of bond sale proceeds. The Food Service Fund balance increased \$7,637.

### **General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- C Budgeted revenues were increased by \$126,841 due to additional revenues from the federal government and local sources.

**Pinconning Area Schools  
Management's Discussion and Analysis**

- C Budgeted expenses were increased by \$276,352 to more closely reflect anticipated expenditures.

**Capital Asset and Debt Administration**

**Capital Assets**

At June 30, 2010, the School District had \$38,764,898 invested in a broad range of capital assets, including land, buildings, vehicles, and equipment. This amount represents a net increase (including additions and disposals) of \$3,888,261.

	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 675,784	\$ 649,769
Buildings and improvements	34,574,876	18,759,966
Buses and other vehicles	1,852,004	1,620,362
Construction in progress	0	12,366,307
Equipment	<u>1,662,234</u>	<u>1,480,233</u>
 Total Capital Assets	 38,764,898	 34,876,637
 Less accumulated depreciation	 <u>18,850,756</u>	 <u>18,293,005</u>
 Net Capital Assets	 <u>\$ 19,914,142</u>	 <u>\$ 16,583,632</u>

This year's additions of \$3,888,261 consisted mainly of the following:

Construction in progress on improvements to high school, middle school, and site improvements	\$ 3,448,602
New buses	210,000
New van	21,642
Food service equipment	76,800
Miscellaneous other items	<u>131,217</u>
	<u>\$ 3,888,261</u>

**Debt**

At the end of this year, the School District had \$15,398,000 in bonds outstanding versus \$15,680,000 in the previous year. These bonds consisted of the following:

	<u>2010</u>	<u>2009</u>
1997 Building and Site Bonds	\$ 455,000	\$ 665,000
Bus Notes	168,000	0
2007 School Building and Site Bonds	<u>14,775,000</u>	<u>15,015,000</u>
	<u>\$ 15,398,000</u>	<u>\$ 15,680,000</u>

## **Pinconning Area Schools Management's Discussion and Analysis**

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this limit. The School District's outstanding unqualified general obligation debt of \$15,398,000 is below the statutorily imposed limit.

Other obligations include employee-compensated absences. We present more detailed information about our long-term liabilities in the notes to the financial statements.

### **Economic Factors and Next Year's Budgets and Rates**

Our elected officials and administration consider many factors when setting the School District's 2011 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2010 fiscal year is 25 percent and 75 percent of the February 2010 and September 2010 student counts, respectively. The 2011 fiscal year budget was adopted in June 2010, based on an estimate of students that will be enrolled in September of 2010. Approximately 79 percent of total General Fund revenues is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operation. Based on early enrollment data at the start of the 2010-2011 school year, we anticipate that the fall student count will be slightly less than the estimates used in creating the 2011 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual District resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates minimal changes in the foundation allowance.

### **Contacting the School District's Financial Management**

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Department, 605 W. Fifth St., Pinconning, MI 48650.

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

STATEMENT OF NET ASSETS  
June 30, 2010 and 2009

	June 30,	
	2010	2009
<b>ASSETS:</b>		
Cash & equivalents	\$ 2,830,540	\$ 2,827,152
Investments	0	5,669,534
Property taxes receivable	22,532	199,838
Accounts receivable	152,847	37,458
Due from State of Michigan	2,108,828	2,252,041
Due from other governmental units	8,961	0
Prepays	53,345	45,824
Inventories	26,677	17,807
Deferred bond expenses	108,378	108,378
Accumulated amortization	(9,797)	(6,123)
Construction in progress	0	12,366,307
Capital assets	38,764,898	22,510,330
Accumulated depreciation	<u>(18,850,756)</u>	<u>(18,293,005)</u>
Total Assets	25,216,453	27,735,541
<b>LIABILITIES:</b>		
Accounts payable	67,543	2,323,416
Accrued payroll and other liabilities	1,157,061	1,357,035
Due to other governmental units	8,802	8,176
Deferred revenue	122,556	58,681
State aid note payable	3,050,000	2,400,000
Current portion of long term liabilities	322,000	450,000
Compensated absences	431,911	633,235
Non current portion of long term liabilities	<u>15,076,000</u>	<u>15,230,000</u>
Total Liabilities	20,235,873	22,460,543
<b>NET ASSETS:</b>		
Investment in capital assets - net of related debt	4,516,142	903,632
Restricted	26,677	17,807
Unrestricted	<u>437,761</u>	<u>4,353,559</u>
Total Net Assets	\$ <u>4,980,580</u>	\$ <u>5,274,998</u>

See Notes to Financial Statements

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2010 and 2009

GOVERNMENTAL ACTIVITIES:	Program Revenues				Governmental Activities	
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets	
					Year Ended June 30,	
					2010	2009
Instruction	\$ 8,272,993	\$ 2,475	\$ 1,980,084	\$ 0	\$ (6,290,434)	\$ (6,718,269)
Supporting Services	4,684,279	27,409	217,284	0	(4,439,586)	(4,460,009)
Community Services	107,653	0	32,776	0	(74,877)	(88,485)
Food Services	583,957	151,472	466,756	0	34,271	46,124
Athletics	255,235	70,659	0	0	(184,576)	(248,559)
Interest on long-term debt	761,066	0	0	0	(761,066)	(756,086)
Depreciation (Unallocated)	451,741	0	0	0	(451,741)	(154,654)
Total Governmental Activities	\$ <u>15,116,924</u>	\$ <u>252,015</u>	\$ <u>2,696,900</u>	\$ <u>0</u>	(12,168,009)	(12,379,938)
GENERAL PURPOSE REVENUES:						
Property taxes - Operating					1,102,347	1,080,328
Property taxes - Debt Retirement					936,690	910,840
State school aid - unrestricted					9,548,472	10,251,637
Investment earnings					105,318	543,712
Other					180,764	181,868
Total General Purpose revenues					<u>11,873,591</u>	<u>12,968,385</u>
Change in Net Assets					(294,418)	588,447
Net Assets - Beginning of Year					<u>5,274,998</u>	<u>4,686,551</u>
Net Assets - End of Year					\$ <u>4,980,580</u>	\$ <u>5,274,998</u>

See Notes to Financial Statements

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET  
June 30, 2010 and 2009

<u>ASSETS</u>	<u>GENERAL</u>	<u>FOOD SERVICE</u>	<u>2007 DEBT RETIREMENT</u>	<u>2007 CAPITAL PROJECTS</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL JUNE 30,</u>	
						<u>2010</u>	<u>2009</u>
Cash	\$ 2,259,584	\$ 128,406	\$ 335,976	\$ 106,574	\$ 14,182	\$ 2,844,722	\$ 2,827,152
Investments	0	0	0	0	0	0	5,669,534
Taxes receivable	14,937	0	7,594	0	0	22,531	199,838
Accounts receivable	152,847	0	0	0	0	152,847	37,457
Due from State of Michigan	2,105,263	3,565	0	0	0	2,108,828	2,252,041
Due from other funds	0	0	74,300	0	0	74,300	61,053
Due from other governmental units	0	0	8,961	0	0	8,961	0
Prepays	13,345	40,000	0	0	0	53,345	45,825
Inventory	0	26,677	0	0	0	26,677	17,807
	<u>\$ 4,545,976</u>	<u>\$ 198,648</u>	<u>\$ 426,831</u>	<u>\$ 106,574</u>	<u>\$ 14,182</u>	<u>\$ 5,292,211</u>	<u>\$ 11,110,707</u>
 <u>LIABILITIES AND FUND EQUITY</u>							
<b>LIABILITIES:</b>							
Accounts payable	\$ 31,350	\$ 8,810	\$ 0	\$ 8,750	\$ 0	\$ 48,910	\$ 1,487,615
Retainages payable	0	0	0	18,633	0	18,633	835,801
State aid loan	3,050,000	0	0	0	0	3,050,000	2,400,000
Salaries payable	707,414	0	0	0	0	707,414	761,881
Retirement	119,836	0	0	0	0	119,836	125,071
Payroll taxes	41,176	0	0	0	0	41,176	48,472
Employee benefits	127,692	0	0	0	0	127,692	263,716
Due to other funds	6,154	81,044	0	1,282	0	88,480	61,052
Due to other governmental units	8,802	0	0	0	0	8,802	8,176
Deferred revenue	108,665	13,891	0	0	0	122,556	58,681
Total Liabilities	4,201,089	103,745	0	28,665	0	4,333,499	6,050,465
 <b>FUND EQUITY:</b>							
Reserved	0	94,903	426,831	77,909	0	599,643	4,089,531
Unreserved - Undesignated	344,887	0	0	0	14,182	359,069	970,711
Total Fund Equity	344,887	94,903	426,831	77,909	14,182	958,712	5,060,242
	<u>\$ 4,545,976</u>	<u>\$ 198,648</u>	<u>\$ 426,831</u>	<u>\$ 106,574</u>	<u>\$ 14,182</u>	<u>\$ 5,292,211</u>	<u>\$ 11,110,707</u>

See Notes to Financial Statements

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

GOVERNMENTAL FUNDS  
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS  
June 30, 2010

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	958,712
Amounts reported for governmental activities in the statement of net assets are different because -		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Capital assets at cost		38,764,898
Construction in progress		0
Accumulated depreciation		(18,850,756)
Bond issuance costs include discounts reported as an expenditure in government funds are reported as a deferred expense and amortized over the life of the bond issue in the statement of activities		
Bond issuance costs		108,378
Accumulated amortization		(9,797)
Long term liabilities not due and payable in the current period and therefore not reported in the funds -		
Bonds payable		(15,398,000)
Compensated balances		(431,911)
Accrued interest payable not included as a liability in governmental activities		(160,942)
Rounding		<u>(2)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$	<u>4,980,580</u>

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

GOVERNMENTAL FUNDS  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCE  
Year Ended June 30, 2010 and 2009

	GENERAL		FOOD SERVICE		2007 DEBT RETIREMENT		2007 CAPITAL PROJECTS		OTHER NONMAJOR GOVERNMENTAL FUNDS		Totals Year Ended June 30,			
											2010	2009		
REVENUES:														
Local Sources	\$	1,365,677	\$	161,235	\$	939,222	\$	81,124	\$	70,660	\$	2,617,918	\$	3,103,153
State Sources -		10,307,942		61,762		0		0		15,361		10,385,065		11,211,425
Federal Sources		1,305,823		404,994		0		0		0		1,710,817		1,607,223
Interdistrict and other sources		124,067		0		0		0		0		124,067		148,415
<b>Total Revenues</b>		<b>13,103,509</b>		<b>627,991</b>		<b>939,222</b>		<b>81,124</b>		<b>86,021</b>		<b>14,837,867</b>		<b>16,070,216</b>
EXPENDITURES:														
Instruction		8,360,670		0		0		0		0		8,360,670		8,698,515
Supporting Services		4,979,581		28,593		0		0		0		5,008,174		4,970,745
Community Service		107,652		0		0		0		0		107,652		110,171
Food Service		0		591,761		0		0		0		591,761		591,202
Athletics		0		0		0		0		252,679		252,679		295,867
Facilities Acquisition		0		0		0		3,578,068		0		3,578,068		10,916,063
Debt Service -														
Principal repayment		0		0		240,000		0		232,753		472,753		249,759
Interest and fiscal charges		0		0		699,804		0		30,193		729,997		920,478
<b>Total Expenditures</b>		<b>13,447,903</b>		<b>620,354</b>		<b>939,804</b>		<b>3,578,068</b>		<b>515,625</b>		<b>19,101,754</b>		<b>26,752,800</b>
OTHER FINANCING SOURCES (USES):														
Bus note proceeds		210,000		0		0		0		0		210,000		0
Bus note payments		(47,644)		0		0		0		0		(47,644)		0
Operating transfers in		0		0		0		0		429,604		429,604		494,441
Operating transfers out		(429,604)		0		0		0		0		(429,604)		(495,441)
<b>Net Other Financing Sources (Uses)</b>		<b>(267,248)</b>		<b>0</b>		<b>0</b>		<b>0</b>		<b>429,604</b>		<b>162,356</b>		<b>(1,000)</b>
<b>NET CHANGE IN FUND BALANCES</b>		<b>(611,642)</b>		<b>7,637</b>		<b>(582)</b>		<b>(3,496,944)</b>		<b>0</b>		<b>(4,101,531)</b>		<b>(10,683,584)</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>		<b>956,529</b>		<b>87,266</b>		<b>427,413</b>		<b>3,574,853</b>		<b>14,182</b>		<b>5,060,243</b>		<b>15,743,826</b>
<b>FUND BALANCE - END OF YEAR</b>	\$	<b>344,887</b>	\$	<b>94,903</b>	\$	<b>426,831</b>	\$	<b>77,909</b>	\$	<b>14,182</b>	\$	<b>958,712</b>	\$	<b>5,060,242</b>

See Notes to Financial Statements



PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

FIDUCIARY FUND  
BALANCE SHEET  
June 30, 2010 and 2009

	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Cash in bank	\$ 158,236	\$ 148,215
Certificate of Deposit	0	7,936
Due from General Fund	<u>0</u>	<u>12,745</u>
	<u>\$ 158,236</u>	<u>\$ 168,896</u>
<u>LIABILITIES</u>		
Due to school organizations	<u>\$ 158,236</u>	<u>\$ 168,896</u>

See Notes to Financial Statements

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Pinconning Area Schools conform to United States generally accepted accounting principles as applicable to governmental units.

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Government Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no 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 nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

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

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

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.):

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

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

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

**Fund-based Statements** - Governmental funds 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 approximately 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Fiduciary Fund statements are also reported using the economic resources measurement focus and the modified accrual basis of accounting.

The School District reports the following major governmental fund:

**General Fund -**

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

**Food Service Fund -**

The Food Service Fund is used to account for the costs of furnishing breakfast and lunch to the pupils in the District.

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.):

**2007 Debt Retirement Fund -**

The 2007 Debt Retirement Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs of the bonds paid primarily by taxes levied on taxpayers residing within the School District. The Fund Balance of the 2007 Debt Retirement Fund is reserved to signify the amounts restricted exclusively for debt service requirements.

**2007 Capital Projects Fund -**

The 2007 Capital Projects Fund is used to account for the expenditure of the proceeds of the sale of the 2007 School Building and Site Bonds for improvements to the high school, middle school and site improvements. The Fund Balance of the 2007 Capital Projects Fund is restricted to signify the amounts restricted exclusively for expenditure of the bond proceeds.

**Assets, Liabilities, and Net Assets or Equity -**

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

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

Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1, of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls.

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

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the School District as assets with an individual cost of more than \$1,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have any infrastructure-type assets

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont):

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

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	3-10 years

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

**Long Term Obligations** - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. There were no significant amendments during the year.

**Excess of Expenditures over Appropriations in Budgeted Funds** - The School District did not have significant expenditure budget variances.

**Fund Deficits** - The School District had no accumulated fund balance deficits.

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS:

Deposits of the School District are carried at cost and maintained at Independent Bank, a federally insured bank.

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

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

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Investments	<u>\$ 2,830,540</u>	<u>\$ 158,236</u>	<u>\$ 2,988,776</u>

The Government Accounting Standards Board Statement No. 3 requires the amount of total bank balances to be classified in one of three categories of credit risk. These categories are:

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- (2) Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name.
- (3) Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent by not in the entity's name). Bank deposits including certificates of deposit:

Category 1	\$ 253,950
Category 2	0
Category 3	<u>2,734,826</u>
Total Bank Balances	<u>\$ 2,988,776</u>
Carrying Amount	<u>\$ 2,988,776</u>

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 4. CAPITAL ASSETS:

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

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2010</u>
Land and improvements	\$ 649,769	\$ 26,015	\$ 0	\$ 675,784
Buildings and improvements	18,759,966	15,814,910	0	34,574,876
Buses and other vehicles	1,620,362	231,642	0	1,852,004
Construction in progress	12,366,307	0	12,366,307	0
Furniture and equipment	<u>1,480,233</u>	<u>182,001</u>	<u>0</u>	<u>1,662,234</u>
 Total Capital Assets	 34,876,637	 16,254,568	 12,366,307	 38,764,898
 Accumulated Depreciation:				
Land and improvements	427,082	3,991	0	431,073
Buildings and improvements	15,090,795	433,921	0	15,524,716
Buses and other vehicles	1,582,822	48,109	0	1,630,931
Furniture and equipment	<u>1,192,306</u>	<u>71,730</u>	<u>0</u>	<u>1,264,036</u>
 Total Accumulated Depreciation	 <u>18,293,005</u>	 <u>557,751</u>	 <u>0</u>	 <u>18,850,756</u>
 Net Capital Assets	 <u>\$ 16,583,632</u>	 <u>\$ 15,696,817</u>	 <u>\$ 12,366,307</u>	 <u>\$ 19,914,142</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental Activities:	
Instruction	\$ 15,149
Support services	58,520
Food services	29,785
Athletics	2,556
Unallocated	<u>451,741</u>
Total Governmental Activities	<u>\$ 557,751</u>

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The amounts of interfund receivables and payables are as follows:

<u>FUND</u>	<u>INTERFUND RECEIVABLE</u>	<u>FUND</u>	<u>INTERFUND PAYABLE</u>
General	\$ 81,044	Food Service	\$ 81,044
2007 Debt Retirement	74,300	General	74,300
General	1,281	2007 Capital Projects	1,281
Capital Projects	<u>14,182</u>	General	<u>14,182</u>
	<u>\$ 170,807</u>		<u>\$ 170,807</u>

Operating transfers out from the General Fund are as follows:

Athletic Fund	\$ 182,019
Debt Retirement	<u>247,585</u>
	<u>\$ 429,604</u>

NOTE 6. LONG-TERM DEBT:

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2009:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Bonds Payable:				
1997 School Building and Site	\$ 665,000	\$ 0	\$ 210,000	\$ 455,000
Bus Notes	0	210,000	42,000	168,000
2007 School Building and Site	<u>15,015,000</u>	<u>0</u>	<u>240,000</u>	<u>14,775,000</u>
	15,680,000	210,000	492,000	15,398,000
Other Obligations:				
Compensated absences	581,805	0	189,568	392,237
Termination benefits	<u>51,430</u>	<u>0</u>	<u>11,756</u>	<u>39,674</u>
	<u>633,235</u>	<u>0</u>	<u>201,324</u>	<u>431,911</u>
	<u>\$ 16,313,235</u>	<u>\$ 210,000</u>	<u>\$ 693,324</u>	<u>\$ 15,829,911</u>

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 6. LONG-TERM DEBT (cont'd):

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 542,000	\$ 721,284	\$ 1,263,284
2012	577,000	696,137	1,273,137
2013	357,000	669,226	1,026,226
2014	372,000	655,110	1,027,110
2015	340,000	640,394	980,394
2016-2020	1,945,000	2,964,756	4,909,756
2021-2025	2,440,000	2,490,956	4,930,956
2026-2030	3,080,000	1,859,938	4,939,938
Balance	<u>5,745,000</u>	<u>1,153,962</u>	<u>6,898,962</u>
	<u>\$ 15,398,000</u>	<u>\$ 11,851,763</u>	<u>\$ 27,249,763</u>

Bonds payable consist of the following:

1997 Serial Bonds due in semi-annual installments of \$239,620 to \$244,544 through May 1, 2012; interest at 4.0% to 5.0%.	\$ 14,775,000
Bus Notes payable in annual installments of \$42,000 plus interest at 3.61%	168,000
2007 Serial and Term Bonds due in semi-annual installments through May 1, 2037; interest at 4.00% to 8.00%.	<u>455,000</u>
	<u>\$ 15,398,000</u>

**Other Obligations -**

Compensated Absences:

The District accrues a liability for compensated absences which meet the following criteria:

- (1) The District's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- (2) The obligation relates to rights that vest or accumulate.
- (3) Payment of the compensation is probable.
- (4) The amount can be reasonably estimated.

Compensated absences (unused sick and vacation pay) is calculated with the termination payoff rates of eligible employees times the number of unused days. The amount at June 30, 2010 was \$392,237.

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 6. LONG-TERM DEBT (cont'd):

**Termination Benefits:**

Termination benefits are earned by teachers annually at a rate of \$50 per year up to a maximum of 30 years. The teacher must have 17 ½ or more years of service with the District, or have attained the age of 55 and have 15 years of service with the District. Termination benefits are earned by administrators annually at a rate of \$55 per year up to a maximum of 30 years. The estimated liability for these benefits at June 30, 2010, is \$39,674 under the termination method prescribed in GASB 16.

NOTE 7. RISK MANAGEMENT:

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

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

NOTE 8. ECONOMIC DEPENDENCY:

Approximately 80% of the District's General Fund revenues are received from the State of Michigan through the Michigan Department of Education. This District is considered to be economically dependent on this revenue source.

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE 9. PENSION PLAN:

**Plan Description –**

The School 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 that covers substantially all employees of the School District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publically 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 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

**Funding Policy –**

Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 16.54 percent for the period from July 1, 2009 through September 30, 2009 and 16.94 percent for the period October 1, 2009 through June 30, 2010 of the covered payroll to the plan. The School District's contributions to the MPSERS plan for the year ended June 30, 2010 approximated \$1,158,000.

**Postemployment Benefits –**

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

REQUIRED SUPPLEMENTAL INFORMATION

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

BUDGET COMPARISON SCHEDULE - GENERAL FUND  
Year Ended June 30, 2010

	Original Budget	Final Amended Budget	Actual
REVENUES:			
Local Sources	\$ 1,330,000	\$ 1,526,348	\$ 1,365,677
State Sources	11,136,400	10,717,876	10,307,942
Federal Sources	580,000	836,906	1,305,823
Interdistrict and other sources	<u>195,000</u>	<u>287,111</u>	<u>124,067</u>
Total Revenues	13,241,400	13,368,241	13,103,509
EXPENDITURES:			
Instruction-			
Basic Programs	7,089,500	7,080,451	7,044,155
Added Needs	1,395,500	1,549,698	1,316,515
Supporting Services -			
Pupil	423,500	374,740	369,528
Instructional Staff	605,000	500,413	598,885
General Administration	368,500	367,950	336,469
School Administration	882,512	875,963	845,781
Business Services	333,988	334,756	315,344
Operation & Maintenance	1,315,000	1,446,781	1,371,342
Transportation	905,000	1,022,265	971,898
Other Support Services	202,500	176,264	170,334
Community Services	<u>37,500</u>	<u>105,571</u>	<u>107,652</u>
Total Expenditures	13,558,500	13,834,852	13,447,903
OTHER FINANCING SOURCES (USES)			
Bus note proceeds	0	0	210,000
Bus note payments	0	0	(47,644)
Operating Transfers Out	<u>(449,000)</u>	<u>(447,585)</u>	<u>(429,604)</u>
Net Other Financing Sources (Uses)	<u>(449,000)</u>	<u>(447,585)</u>	<u>(267,248)</u>
NET CHANGE IN FUND BALANCE	(766,100)	(914,196)	(611,642)
FUND BALANCE - BEGINNING OF YEAR	<u>822,000</u>	<u>956,529</u>	<u>956,529</u>
FUND BALANCE - END OF YEAR	\$ <u>55,900</u>	\$ <u>42,333</u>	\$ <u>344,887</u>

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

BUDGET COMPARISON SCHEDULE - FOOD SERVICE FUND  
Year Ended June 30, 2010

	Original Budget	Final Amended Budget	Actual
REVENUES:			
Local Sources	\$ 176,350	\$ 176,350	\$ 161,235
State Sources	54,479	54,479	61,762
Federal Sources	311,000	311,000	404,994
Total Revenues	541,829	541,829	627,991
EXPENDITURES:			
Supporting Services - Operation of Plant	28,973	28,973	28,593
Food Service	579,825	579,825	591,761
Total Expenditures	608,798	608,798	620,354
NET CHANGE IN FUND BALANCES	(66,969)	(66,969)	7,637
FUND BALANCE - BEGINNING OF YEAR	87,265	87,265	87,265
FUND BALANCE - END OF YEAR	\$ 20,296	\$ 20,296	\$ 94,902

OTHER SUPPLEMENTAL INFORMATION

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

GENERAL FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Year Ended June 30, 2010 and 2009

	Year Ended June 30,	
	2010	2009
REVENUES:		
Local Sources -		
Current tax levy	\$ 1,057,585	\$ 1,031,163
Other taxes	44,724	49,165
Interest on delinquent taxes	39	0
Transportation fees	27,409	51,543
Driver's education fees	2,475	975
Interest on investments	12,263	34,780
Rentals	8,750	0
Medicaid reimbursement	0	60,210
E-rate reimbursement	36,709	46,760
Insurance recoveries	14,764	15,003
Donations	16,200	6,557
Local grants	40,784	35,406
Other	103,975	113,683
Total Local Sources	1,365,677	1,445,245
State Sources -		
State Foundation Grant	9,548,472	10,251,637
Special Education	281,916	292,355
At Risk - Section 31a	305,726	340,041
Great Start Rediness	171,828	248,874
Total State Sources	10,307,942	11,132,907
Federal Sources -		
Title 1	280,744	310,207
ARRA Stabilization	463,316	614,411
ARRA Title 1	138,051	0
ARRA IDEA	146,760	0
Title II A	176,841	192,000
Title II D	0	4,309
I.D.E.A	74,176	76,188
Preprimary	25,935	26,978
Total Federal Sources	1,305,823	1,224,093

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

GENERAL FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (CONTINUED)  
Year Ended June 30, 2010 and 2009

	Year Ended June 30,	
	2010	2009
Interdistrict and Other Sources		
Transfers from other governmental units:		
Bay Arenac Intermediate School District	\$ 124,027	\$ 145,872
Other	40	2,543
Total Interdistrict and Other Sources	124,067	148,415
Total Revenues	13,103,509	13,950,660
EXPENDITURES:		
Instruction	8,360,670	8,698,515
Supporting Services	4,979,581	4,913,329
Community Services	107,652	110,171
Total Expenditures	13,447,903	13,722,015
OTHER FINANCING SOURCES (USES):		
Bus note proceeds	210,000	0
Bus note payments	(47,644)	0
Transfer to Athletic Fund	(182,019)	(246,856)
Transfers to Debt Retirement Funds	(247,585)	(248,585)
Net Other Financing Sources (Uses)	(267,248)	(495,441)
NET CHANGE IN FUND BALANCE	(611,642)	(266,796)
FUND BALANCE - BEGINNING OF YEAR	956,529	1,223,325
FUND BALANCE - END OF YEAR	\$ 344,887	\$ 956,529

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

GENERAL FUND  
 DETAIL OF EXPENDITURES  
Year Ended June 30, 2010 and 2009

INSTRUCTION:	Salaries	Empyoyee Benefits	Purchased Services	Supplies and Other Costs	Other Expenses	Capital Outlay	Totals Year Ended June 30,	
							2010	2009
Basic Programs -								
Elementary	\$ 2,271,071	\$ 1,052,468	\$ 70,524	\$ 23,365	\$ 0	\$ 0	\$ 3,417,428	\$ 3,660,627
Middle School	763,443	340,974	16,358	9,811	165	0	1,130,751	1,115,031
High School	1,519,522	707,720	60,840	73,264	625	0	2,361,971	2,476,049
Pre School	91,835	27,161	1,831	12,588	590	0	134,005	188,572
Alternative	0	0	0	0	0	0	0	31,986
Total Basic Programs	4,645,871	2,128,323	149,553	119,028	1,380	0	7,044,155	7,472,265
Added Needs -								
Special education	529,366	259,315	9,821	2,243	0	0	800,745	831,801
Compensatory education	319,114	174,744	0	21,912	0	0	515,770	394,449
Total Added Needs	848,480	434,059	9,821	24,155	0	0	1,316,515	1,226,250
Total Instruction	5,494,351	2,562,382	159,374	143,183	1,380	0	8,360,670	8,698,515
SUPPORTING SERVICES:								
Pupil -								
Guidance services	190,182	72,154	465	443	0	0	263,244	255,927
Social work services	67,390	38,894	0	0	0	0	106,284	143,386
Other pupil services	0	0	0	0	0	0	0	5,340
Total Pupil	257,572	111,048	465	443	0	0	369,528	404,653

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

GENERAL FUND  
DETAIL OF EXPENDITURES (CONTINUED)  
Year Ended June 30, 2010 and 2009

SUPPORTING SERVICE (CONTINUED):	Salaries	Employee Benefits	Purchased Services	Supplies and Other Costs	Other Expenses	Capital Outlay	Totals Year Ended June 30,	
							2010	2009
Instructional Staff Services -								
Improvement of instruction	\$ 71,239	\$ 28,880	\$ 26,309	\$ 147,026	\$ 100	\$ 0	\$ 273,554	\$ 169,245
Educational media services	83,107	32,177	143	4,020	0	0	119,447	138,572
Supervision and direction	119,056	51,395	27,185	4,433	0	0	202,069	254,163
Academic Student Assessment	0	0	3,815	0	0	0	3,815	0
Total Instructional Staff	273,402	112,452	57,452	155,479	100	0	598,885	561,980
General Administration Services -								
Board of Education	0	0	45,908	595	4,661	0	51,164	52,458
Executive administration	185,606	96,449	1,366	687	1,197	0	285,305	284,255
Total General Administrative Services	185,606	96,449	47,274	1,282	5,858	0	336,469	336,713
School Administrative Services -								
Office of the principal	571,021	266,481	1,081	1,702	5,496	0	845,781	869,513
Business Services -								
Fiscal services	93,900	50,513	16,544	0	2,965	0	163,922	188,403
Other business services	0	0	15,956	0	135,466	0	151,422	180,862
Total Business Services	93,900	50,513	32,500	0	138,431	0	315,344	369,265
Operation and Maintenance -								
Building Operations	475,474	295,026	177,853	362,086	700	50,203	1,361,342	1,382,361
Security Services	0	0	10,000	0	0	0	10,000	20,000
Total Operation and Maintenance	475,474	295,026	187,853	362,086	700	50,203	1,371,342	1,402,361
Pupil Transportation Services -								
Pupil Transportation services	367,007	164,655	24,785	179,246	0	236,205	971,898	797,801
Other Support -								
Communication Services	0	0	0	0	0	0	0	2,416
Staff/Personnel Services	0	0	1,596	0	0	0	1,596	1,212
Non-Instructional Technology	49,415	14,408	25,094	41,541	392	3,338	134,188	139,620
Pupil Accounting	26,240	8,310	0	0	0	0	34,550	27,795
Total Other Support	75,655	22,718	26,690	41,541	392	3,338	170,334	171,043
Total Supporting Services	2,299,637	1,119,342	378,100	741,779	150,977	289,746	4,979,581	4,913,329
COMMUNITY SERVICES:								
Community Services Direction	7,004	1,722	18	168	0	0	8,912	10,430
Non-Public School Pupils	54,024	20,853	17,167	6,696	0	0	98,740	99,741
Total Community Services	61,028	22,575	17,185	6,864	0	0	107,652	110,171
Total Expenditures	\$ 7,855,016	\$ 3,704,299	\$ 554,659	\$ 891,826	\$ 152,357	\$ 289,746	\$ 13,447,903	\$ 13,722,015

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

FOOD SERVICE FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Year Ended June 30, 2010 and 2009

	Year Ended June 30,	
	2010	2009
REVENUES:		
Local Sources -		
Food service - cafeteria sales	\$ 151,472	\$ 172,593
Earnings on investments	648	1,691
Vending sales	0	10,110
Other	9,115	6,422
Total Local Sources	161,235	190,816
State Sources -		
Section 31f School Breakfast	41,235	43,561
Section 31d School Lunch	20,527	19,595
Total State Sources	61,762	63,156
Federal Sources -		
National School Lunch Program	263,177	242,674
National School Breakfast Program	110,575	101,661
Donated commodities	31,242	38,795
Total Federal Sources	404,994	383,130
Total Revenues	627,991	637,102

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

FOOD SERVICE FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Year Ended June 30, 2010 and 2009

	Year Ended June 30,	
	2010	2009
EXPENDITURES:		
Supporting Services -		
Operation of Plant -		
Salaries and wages	\$ 12,516	\$ 4,787
Employee benefits	3,077	1,158
Purchased services	3,000	2,010
Supplies and other costs	10,000	7,525
Total Supporting Services	28,593	15,480
Food Service -		
Salaries and wages	145,829	134,630
Employee benefits	41,489	45,170
Purchased services	11,879	10,086
Contracted management	122,445	95,932
Food and milk	207,603	248,513
Sales tax	387	441
Supplies and other costs	41,682	27,736
Capital outlay	20,447	28,694
Total Food Service	591,761	591,202
Total Expenditures	620,354	606,682
NET CHANGE IN FUND BALANCES	7,637	30,420
FUND BALANCE - BEGINNING OF YEAR	87,265	56,845
FUND BALANCE - END OF YEAR	\$ 94,902	\$ 87,265

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

2007 DEBT RETIREMENT FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Year Ended June 30, 2010 and 2009

	Year Ended June 30	
	2010	2009
REVENUES:		
Local Sources -		
Current tax levy	\$ 936,690	\$ 910,840
Interest on investments	2,532	8,070
	939,222	918,910
Total Revenues		
EXPENDITURES:		
Debt Service -		
Bond principal	240,000	200,000
Bond interest	698,994	706,993
Other fees	35	0
Taxes abated	775	297
	939,804	907,290
Total Expenditures		
NET CHANGE IN FUND BALANCE	(582)	11,620
FUND BALANCE - BEGINNING OF YEAR	427,413	415,793
FUND BALANCE - END OF YEAR	\$ 426,831	\$ 427,413

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

2007 CAPITAL PROJECTS FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Year Ended June 30, 2010 and 2009

	Year Ended June 30,	
	2010	2009
REVENUES:		
Local Sources -		
Interest on investments	\$ 81,124	\$ 499,171
EXPENDITURES:		
Facilities Acquisition -		
Capital outlay - Equipment	155,974	135,465
Site improvement Services	442,058	937,219
Building construction & renovation	2,980,036	9,843,379
Total Expenditures	3,578,068	10,916,063
NET CHANGE IN FUND BALANCE	(3,496,944)	(10,416,892)
FUND BALANCE - BEGINNING OF YEAR	3,574,853	13,991,745
FUND BALANCE - END OF YEAR	\$ 77,909	\$ 3,574,853

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2010 and 2009

	Debt Retirement Funds				Total Nonmajor Governmental		
	Athletic Activities	1997 Building & Site	Durant	Total Debt Retirement	Capital Projects	2010	June 30, 2009
<u>ASSETS</u>							
Due from General Fund	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>14,182</u>	\$ <u>14,182</u>	\$ <u>14,182</u>
<u>FUND BALANCE</u>							
Fund balance	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>14,182</u>	\$ <u>14,182</u>	\$ <u>14,182</u>

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2010 and 2009

	Athletic Activities	Debt Retirement Funds			Capital Projects	Total Nonmajor Governmental	
		1997 Building & Site	Durant	Total Debt Retirement		Year Ended June 30, 2010	2009
<b>REVENUES:</b>							
Local Sources -							
Gate receipts	\$ 70,660	\$ 0	\$	\$ 0	\$ 0	\$ 70,660	\$ 49,011
State Sources -							
Nonplantiff Durant	0	0	15,361	15,361	0	15,361	15,362
Total Revenues	70,660	0	15,361	15,361	0	86,021	64,373
<b>EXPENDITURES:</b>							
Supporting Services -							
Operation of Plant -							
Purchased services	0	0	0	0	0	0	0
Capital outlay	0	0	0	0	0	0	41,936
Total Supporting Services	0			0	0	0	41,936
Athletics -							
Salaries and wages	120,266	0	0	0	0	120,266	107,993
Employee benefits	29,093	0	0	0	0	29,093	24,975
Purchased services	64,341	0	0	0	0	64,341	132,367
Supplies and other costs	33,399	0	0	0	0	33,399	23,232
Capital outlay	0	0	0	0	0	0	0
Other expenses	5,580	0	0	0	0	5,580	7,300
Total Athletics	252,679			0	0	252,679	295,867
Debt Service -							
Redemption of bonds	0	220,000	12,753	232,753	0	232,753	49,759
Interest on bonds	0	27,585	2,608	30,193	0	30,193	213,188
Total Debt Service	0	247,585	15,361	262,946	0	262,946	262,947
Total Expenditures	252,679	247,585	15,361	262,946	0	515,625	600,750
<b>OTHER FINANCING SOURCES (USES):</b>							
Operating Transfers In	182,019	247,585	0	247,585	0	429,604	494,441
<b>NET CHANGE IN FUND BALANCES</b>	0	0	0	0	0	0	(41,936)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	0	0	0	0	14,182	14,182	56,118
<b>FUND BALANCE - END OF YEAR</b>	\$ 0	\$ 0	\$ 0	\$ 0	\$ 14,182	\$ 14,182	\$ 14,182

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

FIDUCIARY FUND  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND  
 DUE TO SCHOOL ORGANIZATIONS  
Year Ended June 30, 2010 and 2009

<u>Activity Accounts</u>	<u>Due to School Organizations</u>	
	<u>June 30, 2010</u>	<u>June 30, 2009</u>
A. P. Exam	\$ 2,082.32	\$ 1,977.59
Advanced Placement	383.72	383.72
Advancement Academy	3,041.44	2,965.29
Art	1,647.19	1,812.54
Athletics	11,863.25	4,334.76
Athletic Officials/Workers	2,677.76	5,097.79
Athletic Trainer	3,867.00	0.00
Band Club	411.40	1,254.29
Baseball	827.37	913.56
Bookstore	439.26	347.16
Botzau's Bucks	55.63	44.14
Boys Basketball Camp	1,336.06	1,361.06
Boy's Track	200.35	0.35
Bowling	1,045.42	1,047.00
Building Improvement	12,923.84	20,641.00
Central Elementary	6,418.73	5,083.26
Central Pop Machine	511.97	0.00
Central Sixth Grade	2,938.82	0.00
Ceramics	544.80	333.83
Cheerleading	355.99	2,735.93
Choir	653.33	403.80
Class of 2009	0.00	1,208.51
Class of 2010	1,951.57	1,860.84
Class of 2011	493.75	665.14
Class of 2012	882.60	430.73
Class of 2013	703.00	0.00
Counseling	402.69	132.69
Cross Country	905.81	715.57
Drafting	1,182.24	2,061.29
Drama	10,546.35	9,813.07
Eighth Grade	4,054.54	6,205.36
Environmental Club	118.13	0.00
Equestrian Club	352.11	352.11
Faculty Club	105.04	0.00
Fall Bazaar	784.41	180.40
Food Service	181.47	161.59
Football	64.55	284.55
Foreign Language Club	431.50	431.50
Girls Basketball	93.38	449.98
Girl's Track	262.78	653.82
Golf	227.16	226.16
Graduated classes	5,581.53	4,373.02
Gum	2,642.38	3,167.53
High School Fundraising	512.15	(450.10)

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

FIDUCIARY FUND  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND  
 DUE TO SCHOOL ORGANIZATIONS (CONTINUED)  
Year Ended June 30, 2010 and 2009

<u>Activity Accounts (Continued)</u>	Due to School Organizations	
	June 30, 2010	June 30, 2009
In/Out	\$ 4,513.81	\$ 4,828.48
Industrial Technology Club	6,999.60	6,011.05
Interest	5,219.84	8,096.36
Library	1,658.12	1,098.22
Linwood Elementary	3,192.14	2,084.60
Linwood Sixth Grade	363.75	111.57
M/S Cheerleading	0.00	25.06
M/S Industrial Tech	897.38	1,130.06
M/S Journalism	89.56	89.56
M/S Pencils	153.50	165.50
M/S Renaissance	910.30	193.75
M/S Science Class	69.60	0.00
M/S Science Club	142.01	164.49
M/S Special Ed	925.84	925.84
M/S Student Council	431.27	623.29
M/S Tech Club	573.19	688.83
M/S Yearbook	2,598.34	2,638.66
Mt. Forest Elementary	270.55	2,108.02
Multi-Media	2,152.40	1,354.05
National Honor Society	926.88	955.70
PAL	1,140.61	1,103.50
Parking Permit	5,576.30	11,705.30
Pay to Participate	250.00	50.00
Pom Pon Club	266.62	51.81
Project Pass the Test	100.10	100.10
Renaissance	1,212.90	666.67
S.A.D.D.	77.43	81.67
S.A.E.	3,218.51	5,920.19
Science Club	7.54	7.54
Season Passes	592.00	0.00
Ski Club	321.80	321.80
Soccer - Boys	1,697.37	3,409.23
Soccer - Girls	48.75	606.65
Softball	2,523.83	987.83
Spartan Arena	2,864.33	1,158.73
Stratford	775.91	775.91
Student Council	2,412.30	2,786.05
Summer School	2,590.00	1,250.00
Textbooks	101.72	1,138.96
Track Project	2.92	0.00
Video Tech	89.89	552.61
Volleyball	2,395.66	3,500.68
Weight Room	200.00	0.00
Wrestling	67.27	542.11
Yearbook	10,909.07	11,395.60
	\$ 158,235.70	\$ 165,066.86

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

DETAIL OF BONDED DEBT  
 1997 SCHOOL BUILDING AND SITE BONDS  
June 30, 2010

Purpose of issue - Erect, furnish and equip an addition to and partially remodel the existing buildings and developing and improving the site

Interest rate - 3.95% to 5.70%

Date of bonds - April 29, 1997

<u>Date</u>	<u>May 1</u>		<u>November 1</u>	<u>Total</u>
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2010	\$ 0.00	\$ 0.00	\$ 12,912.50	\$ 12,912.50
2011	12,912.50	220,000.00	6,697.50	239,610.00
2012	6,697.50	235,000.00	0.00	241,697.50
	<u>\$ 19,610.00</u>	<u>\$ 455,000.00</u>	<u>\$ 19,610.00</u>	<u>\$ 494,220.00</u>

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

DETAIL OF BONDED DEBT  
 2007 SCHOOL BUILDING AND SITE BONDS  
June 30, 2010

Purpose of issue - Improvements and renovations to the  
 High School, Middle School and site improvements  
 Interest rate - 4.00% to 5.00%  
 Date of bonds - October 03, 2007

Date	May 1		November 1	Total
	Principal	Interest	Interest	
2010	\$ 0.00	\$ 0.00	\$ 344,696.88	\$ 344,696.88
2011	280,000.00	344,696.88	339,096.88	963,793.76
2012	300,000.00	339,096.88	333,096.88	972,193.76
2013	315,000.00	333,096.88	326,796.88	974,893.76
2014	330,000.00	326,796.88	320,196.88	976,993.76
2015	340,000.00	320,196.88	312,546.88	972,743.76
2016	355,000.00	312,546.88	305,446.88	972,993.76
2017	370,000.00	305,446.88	296,196.88	971,643.76
2018	390,000.00	296,196.88	288,396.88	974,593.76
2019	405,000.00	288,396.88	279,790.63	973,187.51
2020	425,000.00	279,790.63	270,228.13	975,018.76
2021	445,000.00	270,228.13	260,215.63	975,443.76
2022	465,000.00	260,215.63	249,753.13	974,968.76
2023	485,000.00	249,753.13	238,537.50	973,290.63
2024	510,000.00	238,537.50	226,743.75	975,281.25
2025	535,000.00	226,743.75	214,037.50	975,781.25
2026	560,000.00	214,037.50	200,737.50	974,775.00
2027	585,000.00	200,737.50	186,843.75	972,581.25
2028	615,000.00	186,843.75	172,237.50	974,081.25
2029	645,000.00	172,237.50	156,112.50	973,350.00
2030	675,000.00	156,112.50	139,237.50	970,350.00
2031	710,000.00	139,237.50	121,487.50	970,725.00
2032	745,000.00	121,487.50	102,862.50	969,350.00
2033	780,000.00	102,862.50	83,362.50	966,225.00
2034	815,000.00	83,362.50	64,006.25	962,368.75
2035	855,000.00	64,006.25	43,700.00	962,706.25
2036	900,000.00	43,700.00	22,325.00	966,025.00
2037	940,000.00	22,325.00	0.00	962,325.00
	<u>\$ 14,775,000.00</u>	<u>\$ 5,898,690.69</u>	<u>\$ 5,898,690.69</u>	<u>\$ 26,572,381.38</u>

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

DETAIL OF DEBT  
BUS NOTES PAYABLE  
June 30, 2010

	<u>Date</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
May 20,	2011	\$ 6,064.80	\$ 42,000.00	\$ 48,064.80
	2012	4,548.60	42,000.00	46,548.60
	2013	3,032.40	42,000.00	45,032.40
	2014	<u>1,516.20</u>	<u>42,000.00</u>	<u>43,516.20</u>
		\$ <u>15,162.00</u>	\$ <u>168,000.00</u>	\$ <u>183,162.00</u>

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

AUDIT FINDINGS  
SCHEDULE OF CONTROL DEFICIENCIES  
June 30, 2010

Significant deficiencies considered to be material weaknesses in internal control over financial reporting.

Finding 2010-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: The School is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the School's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including footnotes.

Condition: As is the case with many smaller and medium-sized entities, the School has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the School's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

Cause: This condition was caused by the School's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the School lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation: We do not recommend any changes to this situation at this time but, remind the Board to understand this circumstance when performing their oversight responsibilities.

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

AUDIT FINDINGS  
SCHEDULE OF CONTROL DEFICIENCIES  
June 30, 2010

Finding 2010-2 – Oversight by Business Office

Criteria: The Business Office, at the start of the fiscal year, had a full-time business manager, payroll clerk and accounts payable/employee benefits clerk. The accounts payable/employee benefits and payroll clerks have retired and the business manager has taken another job and is serving as business manager on a limited basis.

Condition: Many adjustments were necessary to complete the general ledger at year end.

Cause: As a result of the business manager's availability to oversee the accounting system becoming limited, and no full time replacement being hired contributed to the delay in making timely corrections to the accounting records.

Effect: Lack of onsite supervision over the accounting system could result in errors or have inconsistencies not being recognized, corrected, or resolved in a timely manner.

Recommendation: That the Board consider the need to have an onsite business manager. The Board will take this recommendation under consideration.

# *Quast, Janke and Company, P.C.*

*Certified Public Accountants*

---

1010 N. JOHNSON STREET  
BAY CITY, MICHIGAN 48708

Phone: (989) 892-4549

Fax: (989) 892-4030

*Timothy J. Quast, C.P.A.*  
*Mark G. Janke, C.P.A.*  
*David G. Gwizdala, C.P.A.*

*Members:*  
*American Institute of C.P.A.'s*

## INDEPENDENT AUDITORS' REPORT ON STATEMENT OF REVENUES AND EXPENDITURES

October 6, 2010

The Board of Education  
Pinconning Area Schools  
Bay and Gladwin Counties, Michigan  
Pinconning, Michigan 48650

We have audited the accompanying balance sheet, statement of revenues and expenditures and changes in fund balance of the 2007 School Building and Site Bond Issue Capital Project Fund of the Pinconning Area Schools, for the thirty-two month and twenty-eight day period ended June 30, 2010. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion 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 opinion.

The accompanying financial statements were prepared for the purpose of complying with the provisions of the Michigan Revised School Code, Public Act 451 of 1976, as amended, (MCL 380.1351). The presentation is not intended to be a presentation of the District's total revenues and expenditures.

In our opinion, the statements referred to above presents fairly, in all material respects, the financial position of the 2007 School Building and Site Bond Issue Capital Project Fund of the Pinconning Area Schools at June 30, 2010 and the results of its operations for the thirty-two month and twenty-eight day period then ended, in conformity with accounting principles generally accepted in the United States of America.

The Board of Education  
Pinconning Area Schools  
Page 2  
October 6, 2010

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2010 on our consideration of the School District's internal control over financial reporting and on our tests of our compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

QUAST, JANKE AND COMPANY

---

Certified Public Accountants

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

2007 SCHOOL BUILDING and SITE BOND ISSUE CAPITAL PROJECTS FUND  
BALANCE SHEET  
June 30, 2010

ASSETS:

Cash \$ 106,574

LIABILITIES:

Accounts payable 8,750  
Retainages payable 18,633  
Due to other funds 1,282

Total Liabilities 28,665

FUND EQUITY:

Reserved \$ 77,909

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

2007 SCHOOL BUILDING and SITE BOND ISSUE CAPITAL PROJECTS FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
For the Thirty Two Month and Twenty Eight Day Period Ended June 30, 2010

REVENUES:

Local Sources -		
Interest on investments	\$	858,744

EXPENDITURES:

Facilities Acquisition -		
Capital outlay - Equipment		291,439
Site improvement Services		1,876,865
Building construction & renovation		12,823,415
Other		<u>1,088,122</u>

Total Expenditures		<u>16,079,841</u>
--------------------	--	-------------------

DEFICIENCY OF REVENUES UNDER EXPENDITURES		(15,221,097)
---	--	--------------

Other Financing Sources - Proceeds from Bonds		<u>15,299,006</u>
---	--	-------------------

Excess of Revenues and Other Financing Sources over Expenditures		77,909
---	--	--------

FUND BALANCE - BEGINNING OF PERIOD		<u>0</u>
------------------------------------	--	----------

FUND BALANCE - END OF PERIOD	\$	<u><u>77,909</u></u>
------------------------------	----	----------------------

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties

COMPLIANCE REPORT ON FEDERAL PROGRAMS  
June 30, 2010

## TABLE OF CONTENTS

	<u>PAGE</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	1 - 2
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	3 - 4
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	5 - 6
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	7 - 8
NOTES TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE	9

# **Quast, Janke and Company, P.C.**

*Certified Public Accountants*

---

1010 N. JOHNSON STREET  
BAY CITY, MICHIGAN 48708  
Phone: (989) 892-4549  
Fax: (989) 892-4030

*Timothy J. Quast, C.P.A.  
Mark G. Janke, C.P.A.  
David G. Gwizdala, C.P.A.*

*Members:  
American Institute of C.P.A.'s  
Michigan Association of C.P.A.'s*

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

October 6, 2010

Board of Education  
Pinconning Area Schools  
Bay and Gladwin Counties  
Pinconning, Michigan

Ladies and Gentlemen:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pinconning Area Schools as of and for the year ended June 30, 2010, which collectively comprise Pinconning Area School's basic financial statements and have issued our report thereon October 6, 2010. 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 Pinconning Area School's internal control over financial reporting as a basis for designing our audit 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 Pinconning Area School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pinconning Area School's internal control over financial reporting.

A control deficiency 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 any misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Pinconning Area School's financial statements that is more than inconsequential will not be prevented or detected by Pinconning Area School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Pinconning Area School's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (2010-01 and 2010-02) to be material weaknesses.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we considered to be material weaknesses.

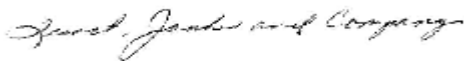
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Pinconning Area School'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 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Pinconning Area Schools in a separate letter dated October 6, 2010.

This report is intended solely for the information and use of management, the Board of Education, others within the District 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.

Sincerely,



QUAST, JANKE & CO.  
Certified Public Accountants, P.C.

# **Quast, Janke and Company, P.C.**

*Certified Public Accountants*

---

1010 N. JOHNSON STREET  
BAY CITY, MICHIGAN 48708

Phone: (989) 892-4549

Fax: (989) 892-4030

Timothy J. Quast, C.P.A.  
Mark G. Janke, C.P.A.  
David G. Gwizdala, C.P.A.

Members:  
American Institute of C.P.A.'s  
Michigan Association of C.P.A.'s

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 6, 2010

Board of Education  
Pinconning Area Schools  
Bay and Gladwin Counties  
Pinconning, Michigan

### **Compliance**

We have audited the compliance of Pinconning Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to its major federal program for the year ended June 30, 2010. Pinconning Area School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questions costs. Compliance with the requirements of laws regulations, contracts and grants applicable to its major federal program is the responsibility of Pinconning Area School's management. Our responsibility is to express an opinion on Pinconning Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with United States generally accepted auditing standards; 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 Pinconning Area School's compliance with those requirements and performing other such 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 Pinconning Area School's compliance with those requirements.

In our opinion, Pinconning Area Schools complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

### **Internal Control Over Compliance**

The management of Pinconning Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Pinconning Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and

report on internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the expenditures of Pinconning Area Schools' internal control over compliance.

A control deficiency exists when the design 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

**Schedule of Expenditures of Federal Awards**

We have audited the general purpose financial statements of Pinconning Area Schools as of and for the year ended June 30, 2010, and have issued our report thereon dated October 6, 2010. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the Board of Trustees, management and Federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

QUAST, JANKE & CO.



---

Certified Public Accountants, P.C

PINCONNING AREA SCHOOLS  
 Bay and Gladwin Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 June 30, 2010

	CFDA#	Pass Through Grantor's #	Approved Award	Inventory/ Accrued (Deferred) Revenue July 1, 2009	Prior Year Expenditure	Adjustments Prior Years	Current Year Expenditures	Current Year's Receipts/ Payments In Kind	Inventory/ Accrued (Deferred) Revenue June 30, 2010
U.S. DEPARTMENT OF EDUCATION:									
Passed Through M.D.E. -									
Title 1 Cluster -									
Title 1 Part A									
	* 84.010								
2008/2009 Regular		101530-0910	\$ 315,389	\$ 0	\$ 0	\$ 0	\$ 280,744	\$ 243,097	\$ 37,647
2007/2008 Regular		091530-0809	310,901	55,386	310,207	0	0	55,386	0
Total Title 1 Part A			626,290	55,386	310,207	0	280,744	298,483	37,647
ARRA - Title 1 Part A									
	* 84.389								
		101535-0910	173,849	0	0	0	138,051	101,751	36,300
Total Title 1 Part A			800,139	55,386	310,207	0	418,795	400,234	73,947
ARRA Educational Stabilization									
	* 84.394								
		102525-0910	463,316	0	0	0	463,316	381,818	81,498
		092525-0809	614,411	614,411	614,411	0	0	614,411	0
Total ARRA Educational Stabilization			1,077,727	614,411	614,411	0	463,316	996,229	81,498
Title II Part D									
2008/2009 Regular	84.318	094290-0809	4,421	222	4,292	0	0	240	0
Title II Part A									
2009/2010 Regular	84.367	100520-0910	180,396	0	0	0	176,841	131,689	45,152
2008/2009 Regular		090520-0809	237,673	70,526	192,000	0	0	70,526	0
Total Title II Part D			418,069	70,526	192,000	0	176,841	202,215	45,152
Total Passed Through M.D.E.			2,300,356	740,545	1,120,910	0	1,058,952	1,598,918	200,597
Passed Through Bay Arenac I. S. D.									
Handicapped Preschool and School (IDEA)	84.027	081500708	74,176	0	0	0	74,176	74,176	0
ARRA Flowthrough (IDEA)	84.391A		146,760	0	0	0	146,760	0	146,760
Preschool Grant	84.173	0804600708	25,935	0	0	0	25,935	25,935	0
Total Passed Through Bay Arenac I.S.D.			246,871	0	0	0	246,871	100,111	146,760
Total U.S. Department of Education			2,547,227	740,545	1,120,910	0	1,305,823	1,699,029	347,357

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 20010

	CFDA#	Pass Through Grantor's #	Approved Award	Inventory/ Accrued (Deferred) Revenue July 1,2009	Prior Year Expenditure	Adjustments Prior Years	Current Year Expenditures	Current Year's Receipts/ Payments In Kind	Inventory/ Accrued (Deferred) Revenue June 30,2010
U.S. DEPARTMENT OF AGRICULTURE:									
Passed Through M.D.E. -									
Child Nutrition Cluster: *									
Non-Cash Assistance (Commodities):									
National School Lunch - Entitlement	10.555		\$ 30,042	\$ 0	\$ 0	\$ 0	\$ 25,899	\$ 25,899	\$ 0
National School Lunch - Bonus			5,343	0	0	0	5,343	5,343	0
Total Non-Cash Assistance			35,385	0	0	0	31,242	31,242	0
National School Lunch Program:									
Section 4 - All Lunches									
		101950	35,753	0	0	0	35,753	35,753	0
		091950	38,761	0	35,170	0	3,051	3,051	0
Total Section 4 - All Lunches			74,514	0	35,170	0	38,804	38,804	0
Section 11 - Free & Reduced									
		101960	208,400	0	0	0	208,400	208,400	0
		091960	194,389	0	178,500	0	15,973	15,973	0
Total Section 11 - Free & Reduced			402,789	0	178,500	0	224,373	224,373	0
Total Cash Assistance			477,303	0	213,670	0	263,177	263,177	0
Total National School Lunch Program			512,688	0	213,670	0	294,419	294,419	0
National School Breakfast Program:									
	10.553								
		101970	103,786	0	0	0	103,786	103,786	0
		091970	95,949	0	89,160	0	6,789	6,789	0
Total National School Breakfast Program			199,735	0	89,160	0	110,575	110,575	0
Total U.S. Department of Agriculture			712,423	0	302,830	0	404,994	404,994	0
Total Federal Assistance			\$ 3,259,650	\$ 740,545	\$ 1,423,740	\$ 0	\$ 1,710,817	\$ 2,104,023	\$ 347,357

\* Major Federal Program

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2010

SECTION I - SUMMARY OF AUDITORS' RESULTS:

Financial Statements:

Type of auditors report issued: unqualified

Internal control over financial reporting:

C Material weaknesses identified?  yes  no

C Significant deficiencies identified that are not considered to be material weaknesses?  yes  no

Noncompliance material to financial statements noted?  yes  no

Federal Awards:

Internal control over major programs:

C Material weaknesses identified?  yes  no

C Significant deficiencies identified that are not considered to be material weaknesses?  yes  no

Type of auditor's report issued on compliance for major programs: unqualified

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

Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>
84.010	Title I Part A
84.389	ARRA Title 1 Part A
84.394	ARRA Educational Stabilization

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

Auditee qualified as low-risk auditee?  yes  no

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant deficiencies considered to be material weaknesses in internal control over financial reporting.

Finding 2010-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: The School is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the School's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including footnotes.

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2010

Condition: As is the case with many smaller and medium-sized entities, the School has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the School's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

Cause: This condition was caused by the School's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the School lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation: We do not recommend any changes to this situation at this time but, remind the Board to understand this circumstance when performing their oversight responsibilities.

Finding 2010-2 – Oversight by Business Office

Criteria: The Business Office, at the start of the fiscal year, had a full-time business manager, payroll clerk and accounts payable/employee benefits clerk. The accounts payable/employee benefits and payroll clerks have retired and the business manager has taken another job and is serving as business manager on a limited basis.

Condition: Many adjustments were necessary to complete the general ledger at year end.

Cause: As a result of the business manager's availability to oversee the accounting system becoming limited, and no full time replacement being hired contributed to the delay in making timely corrections to the accounting records.

Effect: Lack of onsite supervision over the accounting system could result in errors or have inconsistencies not being recognized, corrected, or resolved in a timely manner.

Recommendation: That the Board consider the need to have an onsite business manager. The Board will take this recommendation under consideration.

SECTION III -

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

None

PINCONNING AREA SCHOOLS  
Bay and Gladwin Counties, Michigan

NOTES TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
June 30, 2010

1. The expenditures in this Schedule of Expenditures of Federal Awards are in agreement with the amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
2. The amounts reported on the Form R-7120 agree with the Schedule of Expenditures of Federal Awards for Federal programs. Except that the District received \$ 84 more of National School Lunch funds than is shown on the R7120. A deduction was made in the October, 2009 "Claim Status Report" but the payment was not reduced.
3. The amounts reported on the Recipient Entitlement Balance Report agree with the Schedule of Expenditures of Federal Awards for USDA donated food commodities.
4. The accounting policies used in the preparation of this schedule are identical to those used in preparation of the audited financial statements as set forth in Note 1 to the audited financial statements.

# Quast, Janke and Company, P.C.

Certified Public Accountants

1010 N. JOHNSON STREET  
BAY CITY, MICHIGAN 48708  
Phone: (989) 892-4549  
Fax: (989) 892-4030

Timothy J. Quast, C.P.A.  
Mark G. Janke, C.P.A.  
David G. Gwizdala, C.P.A.

Members:  
American Institute of C.P.A.'s  
Michigan Association of C.P.A.'s

October 6, 2010

Pinconning Area Schools  
Bay and Gladwin Counties, Michigan  
Pinconning, MI 48650

Gentlemen:

As a regular part of our audit of the financial statements of the Pinconning Area Schools for the year ended June 30, 2010, we have reviewed the District's accounting procedures and internal controls surrounding the recording of accounting transactions. This letter presents comments and recommendations to strengthen these controls and increase administrative efficiency. These recommendations do not, of course, include all possible recommendations, but only those areas of potential improvement which came to our attention during our audit of the financial statements.

Nothing came to our attention that would indicate any improper or illegal actions have been committed by District personnel.

## RECOMMENDATIONS

1. In reviewing your budgets for the year ended June 30, 2009, we noticed some areas of your budgets and budgeting processes that are not in compliance with Public Act 621 of 1978 (the Uniform Budgeting and Accounting Act).
  - A. Section 18(3) of Public Act 621 prohibits the District from incurring expenditures against an account in excess of the amount appropriated. The following variances were noted:

<u>Fund</u>	<u>Total Budgeted</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
General Fund-			
Educational Merit Services	\$ 214,900	\$ 119,447	\$ 95,453
Academic Student Assessment	-	3,815	3,815
Non Public School Pupils	96,600	98,740	2,140
Bus Note Payments	-	47,644	47,644
Food Service -			
Food Services	579,825	591,761	11,936

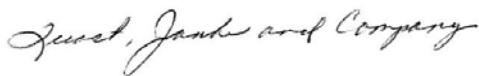
**NOTE 2. STUDENT ACTIVITY FUND EXPENDITURES:**

In our testing of the expenditures of the Student Activity Fund we noted several instances in which expenditures were not supported by adequate documentation.

Since the School District is the fiduciary for these student funds it is incumbent upon the District to insure that these funds are only disbursed when adequate documentation is presented to support the expenditure.

We wish to express our appreciation for the assistance extended to our staff by the officials and employees of the School District. If we can be of further assistance in these or any other matters, please call upon us.

Sincerely,

A handwritten signature in cursive script that reads "Quast, Janke and Company".

QUAST, JANKE AND COMPANY  
Certified Public Accountants, P.C.