



Year Ended
June 30, 2012

Financial
Statements &
Single Audit Act
Compliance

CHELSEA SCHOOL DISTRICT

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CHELSEA SCHOOL DISTRICT

Members of the Board of Education and Administration

For the Year Ended June 30, 2012

Members of the Board of Education

R. Stephen Olsen	President
Laurel Mc Devitt	Vice President
Anne E. Mann	Secretary
Jeff Crowder	Treasurer
Sally Devol	Trustee
Tammy Lehmann	Trustee
Jon Bentley	Trustee

Administration

Andrew D. Ingall	Superintendent
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INDEPENDENT AUDITORS' REPORT

October 3, 2012

To the Board of Education
Chelsea School District
Chelsea, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Chelsea School District* (the "District"), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Chelsea School District. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Chelsea School District as of June 30, 2012, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated October 3, 2012, on our consideration of Chelsea School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large, prominent 'L' and 'J'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHELSEA SCHOOL DISTRICT

Management's Discussion and Analysis

As management of Chelsea School District ("District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year beginning July 1, 2011 and ending June 30, 2012.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$24,323,009 (net assets). Of this amount, \$5,099,677 (*unrestricted net assets*) may be used to meet the government's ongoing obligations for district programs.
- The District's total net assets increased by \$136,851.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$15,156,254, an increase of \$3,140,758 during the year. Approximately 34%, or \$5,202,526, is available for spending at the government's discretion (unassigned fund balance).
- Investments for the future were made during the current fiscal year by recognizing expenditures of approximately \$2,531,000 on school improvements, vehicles and equipment. Through the 2004, 2009 and 2012 bond issues, debt proceeds were used to finance these projects.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the district wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, food service, athletics, debt service and capital outlay. The District has no business type activities as of and for the year ended June 30, 2012.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

CHELSEA SCHOOL DISTRICT

Management's Discussion and Analysis

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, 2012 bond and capital project, and sinking funds, each of which are considered to be a major fund. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided for the General Fund herein to demonstrate compliance with that budget.

Proprietary Funds. A Proprietary fund is used to account for the Internal Service Fund's financing of risk management services provided to other funds on a cost reimbursement basis. The proprietary fund is reported using the economic resources measurement focus and accrual basis of accounting.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental and private-purpose trust funds are presented immediately following the notes to the financial statements.

CHELSEA SCHOOL DISTRICT

Management's Discussion and Analysis

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$24,323,009 at the close of the most recent fiscal year.

By far the largest portion of the District's net assets (71 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	District's Net Assets	
	Governmental Activities	
	2011	2012
Current and other assets	\$15,993,127	\$19,198,098
Capital assets, net	62,811,071	62,344,629
Total assets	<u>78,804,198</u>	<u>81,542,727</u>
Long-term liabilities	46,710,212	53,382,472
Other liabilities	7,907,828	3,837,246
Total liabilities	<u>54,618,040</u>	<u>57,219,718</u>
Net assets:		
Invested in capital assets, net of related debt	14,685,213	17,252,035
Restricted	3,560,149	1,971,297
Unrestricted	5,940,796	5,099,677
Total net assets	<u>\$24,186,158</u>	<u>\$24,323,009</u>

An additional portion of the District's net assets (8 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance represents unrestricted net assets (21 percent or \$5,099,677) may be used to meet the government's ongoing obligations to its programs. The approximately \$5.0 million in unrestricted net assets of the 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.

At the end of the current fiscal year, the District was able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental type activities.

CHELSEA SCHOOL DISTRICT

Management's Discussion and Analysis

The results of this year's operation for the District as a whole are reported in the statement of activities, which shows the changes in net assets for the fiscal year 2012.

	District's Statement of Activities	
	Governmental Activities	
	2011	2012
Program revenues:		
Charges for services	\$ 1,804,697	\$ 1,484,862
Operating grants	5,905,582	6,432,474
Capital grants	18,223	-
General revenues:		
Property taxes	9,543,808	9,556,090
State school aid	15,088,516	13,683,166
Federal education jobs funds	-	530,716
Interest and investment earnings	50,606	149,769
Other	288,360	15,117
Total revenues	<u>32,699,792</u>	<u>31,852,194</u>
Expenses:		
Instruction	14,053,323	14,656,008
Support services	11,381,068	9,881,290
Food service	803,313	791,751
Community services	498,058	446,224
Athletics	-	639,719
Bond issuance costs	79,887	-
Interest on long-term debt	2,748,036	2,494,767
Depreciation - unallocated	2,313,236	2,805,584
Total expenses	<u>31,876,921</u>	<u>31,715,343</u>
Increase in net assets	822,871	136,851
Net assets:		
Beginning of year	23,363,287	24,186,158
End of year	<u>\$24,186,158</u>	<u>\$24,323,009</u>

Governmental Activities. Governmental activities increased the District's net assets by \$136,851. Key elements of this increase are as follows:

- The reduction of expenditures district-wide.
- The availability of one-time grant funding to cover General Fund expenditures.
- Community-approved bond issues in 2004 and 2009 has shifted allowable operational expenses and capital outlay purchases to the bond fund from the general fund.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

CHELSEA SCHOOL DISTRICT

Management's Discussion and Analysis

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$15,156,254, an increase of \$3,140,758 in comparison with the prior year. Approximately 34% of this total amount (approximately \$5.7 million) constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of fund balance is nonspendable or restricted to indicate that it is not available for new spending because the underlying assets are included in inventory or receivables and are not available for current expenditure, or the fund balances are constrained by externally imposed restrictions.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,202,526. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance to total fund expenditures. Unassigned fund balance represents approximately 21% of total general fund expenditures.

The fund balance of the District's general fund decreased by \$550,938 during the current fiscal year. This is primarily attributable to reductions in State funding for the foundation allowance and increases in retirement.

Proceeds of a new bond issue of \$5,785,000 were recorded in the 2012 bond capital projects fund. At June 30, 2012, the fund balance was approximately \$6,146,000. This fund balance is restricted for projects related to this bond issue.

The sinking fund has a total fund balance of \$1,809,201. This fund is maintained for the purpose of major repairs and renovations to District facilities.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted before the 2011-12 year end. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in a separate financial statement as part of the District's basic financial statements.

Differences between the original and final amended budgets relate to updates in state funding, grant funding allocations, changes in salaries and benefits costs and student count for the District. Once this additional information was known, subsequent budget amendments recognized the shifting of revenue sources/additional revenue along with adjusting expenditures in District program budgets that were impacted by the changes.

For the 2011-12 year, significant budget adjustments to the General Fund included:

- An additional loss of students above the projected loss
- Decrease in health care costs due to increased employee contributions
- Decrease in utilities costs due to mild winter and less use of fuel

Other adjustments to the General Fund were made that combined were immaterial in amount to the overall amendment of the fund.

CHELSEA SCHOOL DISTRICT

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2012, amounted to \$ 62,344,629 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment. The net decrease in the District's investment in capital assets for the current fiscal year was less than 1 percent (all in governmental activities).

The major capital asset events during the current fiscal year were the following:

- Approximately \$2.5 million in equipment, vehicles, building and land improvements primarily funded through the 2004 & 2009 Bond Funds.

	District's Capital Assets	
	(Net of Depreciation)	
	2011	2012
Land	\$ 1,243,761	\$ 1,243,761
Construction in progress	-	36,663
Land improvements	2,390,835	2,740,814
Buildings and improvements	55,426,570	54,880,263
Vehicles	711,177	795,265
Equipment	3,038,728	2,647,863
Total capital assets, net	<u>\$62,811,071</u>	<u>\$62,344,629</u>

Additional information on the District's capital assets can be found in Note 6 of this report.

Long-Term Debt. At the end of the current fiscal year, the District had bonded debt outstanding of \$51,032,393. This amount represents both general obligations of the District that constitute an indebtedness of the District within any constitutional or statutory limitations (2004, 2006, 2008, 2009 and 2012 debt issues), and those that are not general obligations of the District, and is payable solely from state aid payments from the State of Michigan (Durant bonds).

In addition, the District has additional bonded debt of \$765,655 through the Michigan School Bond Loan Fund. This debt is also a general obligation of the District.

The District issued \$5,785,000 in bonds during the year to provide funds for capital renovations of District facilities.

Additional information on the District's long term debt can be found in Note 9 of this report.

Economic Factors and Next Year's Budget and Rates

Our elected officials and administration considered many factors when setting the District's 2013 fiscal year budget (2012-2013). Two of the most important factors affecting the budget are student count and availability of State funding.

The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2012 fiscal year was 10 percent and 90 percent of the February 2011 and September 2011 student counts, respectively.

The 2013 fiscal year budget was adopted in June 2012, based on an estimate of students that will be funded for the 2012-13 year (a blended figure is used based on the percentages above). Based on projections from an outside third-party company and our internal analysis, we estimate that our student count will decline in 2012-13 by 40 FTE. Early enrollment data at the start of the 2012-13 school year show that the District is close to staying even with the 2011-12 student count.

CHELSEA SCHOOL DISTRICT

Management's Discussion and Analysis

For the 2012-13 year, the State has not proposed any further reductions to the foundation allowance; however, one time funding sources from the State have been reduced (i.e. performance based funding) along with federal sources periodically used to "fill" state funding gaps (EduJobs).

Approximately 80% of all revenues received by the District are directly related to the foundation allowance (66% from the state and 14% from non-homestead local property taxes). This is an overall decrease from prior years as federal revenues have subsidized state funding losses. In addition, there have been reclassifications of State revenues from a committed foundation allowance amount to categorical line items, which are not protected by current legislation.

Under State law, the only means that the District has to access additional property tax revenue for general operations is through a county-wide enhancement millage. Accordingly, District funding is heavily dependent on the State's ability to fund local school operations.

Once the final student count and related per pupil (State) funding is validated, State law requires the District to amend the budget if actual District to reflect updated revenues and expenditures.

The following factors were also considered in preparing the District's budget for the 2012-13 fiscal year:

- The amount received on a county-wide basis for the costs of the special education program is another major factor influencing the District revenues. The 2012-13 preliminary budget assumes a reimbursement rate of 66% a decrease of 10% from the 2011-12 funding level.
- The retirement cost for the District will be increased significantly in 2011-12 as the rate increased 12.0% over the 2011-12 year. This increased cost is reflected in the preliminary budget.
- Due to resolutions of lawsuits between the State of Michigan and the Federal Government approximately \$225,000 in one time Medicaid funds have been made available to the District and reflected in the 2012-13 preliminary budget.
- The District is continuing to provide additional classroom dollars by maintaining expenditures for buses, a major portion of technology and other furniture and equipment within the 2004, 2009 and 2012 bond funds. Accordingly, as in previous years these expenditures are not reflected in the 2012-13 general fund operating budget.
- Salary and benefit cost reduction in the amount of approximately \$1.1 million dollars was reflected in the 2012-13 preliminary budget. These reductions were the result retirements/resignations and increased contributions to health care costs by all staff members.
- For the 2012-13 fiscal year all labor contracts were still in negotiations at the time the preliminary budget was proposed and adopted by the Board of Education. Accordingly, salary/benefit changes as a result of these negotiations are not reflected in the 2012-13 preliminary budget.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Office, 500 Washington Street, Chelsea, Michigan 48118.

BASIC FINANCIAL STATEMENTS

CHELSEA SCHOOL DISTRICT

Statement of Net Assets

June 30, 2012

	Governmental Activities
Assets	
Cash	\$ 7,666,179
Investments	7,378,421
Accounts receivable	4,091,858
Other assets	61,640
Capital assets not being depreciated, net	1,280,424
Capital assets being depreciated	61,064,205
Total assets	81,542,727
Liabilities	
Accounts payable and accrued expenses	3,370,722
Claims payable	220,657
Unearned revenue	245,867
Noncurrent liabilities:	
Due within one year	4,867,393
Due in more than one year	48,515,079
Total liabilities	57,219,718
Net assets	
Invested in capital assets, net of related debt	17,252,035
Restricted for:	
Capital projects	1,809,210
Food service	162,087
Unrestricted	5,099,677
Total net assets	\$ 24,323,009

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

CHELSEA SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2012

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 14,656,008	\$ 307,353	\$ 6,015,203	\$ -	\$ (8,333,452)
Supporting services	9,881,290	298,226	12,487	-	(9,570,577)
Food services	791,751	627,618	226,620	-	62,487
Community services	446,224	251,665	178,164	-	(16,395)
Athletics	639,719	-	-	-	(639,719)
Interest on long-term debt	2,494,767	-	-	-	(2,494,767)
Depreciation - unallocated	2,805,584	-	-	-	(2,805,584)
Total governmental activities	<u>\$ 31,715,343</u>	<u>\$ 1,484,862</u>	<u>\$ 6,432,474</u>	<u>\$ -</u>	<u>(23,798,007)</u>
General revenues:					
Property taxes					9,556,090
State aid unrestricted					13,683,166
Federal education jobs funds					530,716
Unrestricted investment earnings					149,769
Other					<u>15,117</u>
Total general revenues					<u>23,934,858</u>
Change in net assets					136,851
Net assets, beginning of year					<u>24,186,158</u>
Net assets, end of year					<u>\$ 24,323,009</u>

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

CHELSEA SCHOOL DISTRICT

Balance Sheet

Governmental Funds
June 30, 2012

	General Fund	2012 Bond Capital Projects Fund	Sinking Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash	\$ 5,008,631	\$ 314,566	\$ 1,806,128	\$ 536,854	\$ 7,666,179
Investments	-	5,893,344	-	1,485,077	7,378,421
Taxes receivable	20,618	-	7,070	66,536	94,224
Accounts receivable	841,659	-	-	143,551	985,210
Due from other funds	117,880	-	-	15,929	133,809
Due from other governmental units	3,006,691	-	-	5,733	3,012,424
Inventory	-	-	-	24,263	24,263
Prepaid items	37,377	-	-	-	37,377
Total assets	\$ 9,032,856	\$ 6,207,910	\$ 1,813,198	\$ 2,277,943	\$ 19,331,907
Liabilities					
Accounts payable	\$ 221,862	\$ 61,904	\$ 1,836	\$ 133,562	\$ 419,164
Due to other funds	860,584	-	-	76,454	937,038
Accrued expenditures	911,929	-	-	1,490	913,419
Accrued salaries payable	1,602,620	-	-	4,642	1,607,262
Deferred revenue	195,958	-	2,152	100,660	298,770
Total liabilities	3,792,953	61,904	3,988	316,808	4,175,653
Fund balance					
Nonspendable:					
Inventory	-	-	-	24,263	24,263
Prepays	37,377	-	-	-	37,377
Restricted for:					
Debt service	-	-	-	420,831	420,831
Capital projects	-	6,146,006	1,809,210	1,378,217	9,333,433
Food service	-	-	-	137,824	137,824
Unassigned	5,202,526	-	-	-	5,202,526
Total fund balance	5,239,903	6,146,006	1,809,210	1,961,135	15,156,254
Total liabilities and fund balance	\$ 9,032,856	\$ 6,207,910	\$ 1,813,198	\$ 2,277,943	\$ 19,331,907

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

CHELSEA SCHOOL DISTRICT

Reconciliation

Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
June 30, 2012

Fund balances - total governmental funds	\$ 15,156,254
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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 therefore are not reported in the fund statement.

Capital assets not being depreciated	1,280,424
Capital assets being depreciated	98,993,833
Accumulated depreciation	(37,929,628)

The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenue in the governmental funds, and thus are not included in fund balance.

Deferred property taxes receivable	52,903
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities.

Net assets of governmental activities accounted for in internal service funds	582,572
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Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Bonds payable	(51,032,393)
School bond loan fund	(765,655)
Unamortized bond premium	(2,406,748)
Unamortized deferred loss on refundings	757,462
Unamortized bond issuance costs	64,862
Accrued interest	(430,877)

Net assets of governmental activities	<u><u>\$ 24,323,009</u></u>
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The accompanying notes are an integral part of these financial statements.

CHELSEA SCHOOL DISTRICT

Statement of Revenue, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2012

	General Fund	2012 Bond Capital Projects Fund	Sinking Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Local sources	\$ 4,062,490	\$ 450	\$ 404,297	\$ 6,516,039	\$ 10,983,276
State sources	16,733,862	-	-	205,604	16,939,466
Federal sources	1,260,026	-	-	192,403	1,452,429
Interdistrict sources and other	2,331,986	-	-	16,048	2,348,034
Total revenues	24,388,364	450	404,297	6,930,094	31,723,205
Expenditures					
Current -					
Education:					
Instruction	14,649,073	-	-	-	14,649,073
Supporting services	9,650,220	-	-	-	9,650,220
Food services	-	-	-	788,764	788,764
Community services	49,226	-	-	446,224	495,450
Athletics	639,719	-	-	-	639,719
Capital outlay	-	189,940	1,141,998	1,291,342	2,623,280
Debt service:					
Principal	-	-	-	4,106,603	4,106,603
Interest and other expenditures	-	-	-	2,371,480	2,371,480
Total expenditures	24,988,238	189,940	1,141,998	9,004,413	35,324,589
Revenues under expenditures	(599,874)	(189,490)	(737,701)	(2,074,319)	(3,601,384)
Other financing sources (uses)					
Issuance of long-term debt	-	5,785,000	-	406,646	6,191,646
Bond premium	-	550,496	-	-	550,496
Transfers in	139,677	-	-	90,741	230,418
Transfers out	(90,741)	-	-	(139,677)	(230,418)
Total other financing sources	48,936	6,335,496	-	357,710	6,742,142
Net change in fund balances	(550,938)	6,146,006	(737,701)	(1,716,609)	3,140,758
Fund balance, beginning of year	5,790,841	-	2,546,911	3,677,744	12,015,496
Fund balance, end of year	\$ 5,239,903	\$ 6,146,006	\$ 1,809,210	\$ 1,961,135	\$ 15,156,254

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

CHELSEA SCHOOL DISTRICT

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Assets of Governmental Activities
For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds	\$ 3,140,758
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	2,530,908
Depreciation expense	(2,990,415)
Loss on sale of capital assets	(6,935)
Revenues in the statement of activities that do not provide financial resources are not reported as revenue in the funds.	
Property taxes	37,789
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets.	
Issuance of long-term debt	(6,191,646)
Bond premium	(550,496)
Principal payments on long-term debt	4,106,603
Amortization of bond issuance costs	(21,621)
Amortization of premiums	149,769
Amortization of deferred loss	(58,266)
Internal service fund revenues and expenses are included in governmental activities in the statement of activities.	
	33,803
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in accrued interest payable on bonds	(43,400)
Change in net assets of governmental activities	<u>\$ 136,851</u>

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

CHELSEA SCHOOL DISTRICT

Statement of Revenue, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenue				
Local sources	\$ 4,187,704	\$ 4,083,731	\$ 4,062,490	\$ (21,241)
State sources	16,660,333	16,739,459	16,733,862	(5,597)
Federal sources	1,250,759	1,332,510	1,260,026	(72,484)
Interdistrict sources and other	2,095,222	2,384,557	2,331,986	(52,571)
Total revenue	24,194,018	24,540,257	24,388,364	(151,893)
Expenditures				
Instruction:				
Basic programs	12,257,980	12,339,730	12,263,185	(76,545)
Added needs	2,110,127	2,143,948	2,086,962	(56,986)
Adult and continuing education	224,216	301,198	298,926	(2,272)
Total instruction	14,592,323	14,784,876	14,649,073	(135,803)
Support services:				
Pupil	2,857,162	2,884,659	2,906,156	21,497
Instructional services	698,627	735,859	674,516	(61,343)
General administration	474,839	460,597	444,219	(16,378)
School administration	1,275,564	1,238,509	1,206,319	(32,190)
Business	443,609	349,338	340,265	(9,073)
Operations and maintenance	2,691,894	2,525,772	2,498,731	(27,041)
Pupil transportation services	1,191,903	1,104,689	1,082,638	(22,051)
Central	590,802	533,249	497,376	(35,873)
Total support services	10,224,400	9,832,672	9,650,220	(182,452)
Community services	57,231	50,574	49,226	(1,348)
Athletics	656,768	662,085	639,719	(22,366)
Total expenditures	25,530,722	25,330,207	24,988,238	(341,969)
Revenues over expenditures	(1,336,704)	(789,950)	(599,874)	190,076
Other financing sources (uses)				
Transfers in	555,420	106,779	139,677	32,898
Transfers out	(105,387)	(81,525)	(90,741)	(9,216)
Total other financing sources	450,033	25,254	48,936	23,682
Net change in fund balance	(886,671)	(764,696)	(550,938)	213,758
Fund balance, beginning of year	5,605,898	5,790,841	5,790,841	-
Fund balance, end of year	\$ 4,719,227	\$ 5,026,145	\$ 5,239,903	\$ 213,758

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

CHELSEA SCHOOL DISTRICT

Statement of Net Assets

Internal Service Fund

June 30, 2012

	Health and Welfare
Assets	
Due from other funds	\$ 803,229
Liabilities	
Claims payable	<u>220,657</u>
Net Assets	
Unrestricted	<u><u>\$ 582,572</u></u>

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

CHELSEA SCHOOL DISTRICT

Statement of Revenue, Expenditures and Changes in Fund Balances

Internal Service Fund

For the Year Ended June 30, 2012

	Health and Welfare
Operating revenue	
Charges to other funds	\$ 1,973,333
Employee contributions	388,277
Miscellaneous revenue	215,585
	<hr/>
Total operating revenue	2,577,195
	<hr/>
Operating expenses	
Claims	1,843,304
Administrative fees	700,088
	<hr/>
Total operating expenses	2,543,392
	<hr/>
Change in net assets	33,803
Net assets, beginning of year	548,769
	<hr/>
Net assets, end of year	\$ 582,572
	<hr/>

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

CHELSEA SCHOOL DISTRICT

Statement of Cash Flows

Internal Service Fund

For the Year Ended June 30, 2012

	Health and Welfare
Cash flows from operating activities	
Receipts from other funds	\$ 1,898,337
Employee contributions and other	592,197
Claims and administrative fees paid	<u>(2,490,534)</u>
Net cash used by operating activities	-
Cash and cash equivalents - beginning of year	<u>-</u>
Cash and cash equivalents - end of year	<u><u>\$ -</u></u>
Reconciliation of operating income to net cash from operating activities	
Operating income	\$ 33,803
Adjustments to reconcile operating income to net cash from operating activities - changes in assets and liabilities:	
Due from other funds	(74,996)
Deferred revenue	(11,665)
Claims payable	<u>52,858</u>
Net cash used by operating activities	<u><u>\$ -</u></u>

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

CHELSEA SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2012

	Private Purpose Trusts	Agency Fund
Assets		
Cash and cash equivalents	\$ 82,507	\$ 366,879
Investments	39,646	15,923
Total assets	122,153	<u>\$ 382,802</u>
Liabilities		
Due to student groups	-	<u>\$ 382,802</u>
Net Assets		
Reserved for scholarships and loans	<u>\$ 122,153</u>	

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

CHELSEA SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

For the Year Ended June 30, 2012

	Private Purpose Trusts
Additions	
Private donations	\$ 22,221
Interest revenue	60
Total additions	<u>22,281</u>
Deductions	
Scholarships	12,968
Mileage	1,891
Supplies	936
Total deductions	<u>15,795</u>
Change in net assets	6,486
Net assets, beginning of year	<u>115,667</u>
Net assets, end of year	<u><u>\$ 122,153</u></u>

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

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NOTES TO FINANCIAL STATEMENTS

CHELSEA SCHOOL DISTRICT

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Chelsea School District (the "District") has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no business type activities during the year ended 2012.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for the agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

CHELSEA SCHOOL DISTRICT

Notes to Financial Statements

The District reports the following major governmental funds:

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

The *2012 bond fund* accounts for the bond proceeds related to the sale of bonds and the corresponding expenditures related to the bond projects.

The *sinking fund* accounts for the acquisition of capital assets or construction of major capital projects, which are primarily funded by tax collections from a sinking fund millage.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

The *debt service funds* are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

The *capital projects funds* are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

The *internal service fund* accounts for risk management services to include employee health insurance claim obligations provided to other departments of the District on a cost reimbursement basis.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

The *private purpose trust funds* account for contributions earmarked for scholarships available to qualifying students of the District.

CHELSEA SCHOOL DISTRICT

Notes to Financial Statements

Amounts reported as *program revenues* 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 revenues rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the government-wide financial statements.

2. ASSETS, LIABILITIES AND EQUITY

Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

Receivables and payables

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

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Accounts payable and other payables reflected in the financial statements are based on when the liability is incurred.

Inventory and prepaid items

Inventory is valued at the lower of cost (first in, first out) or market. Inventory in the Food Service Fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

Capital assets

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

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

CHELSEA SCHOOL DISTRICT

Notes to Financial Statements

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

Assets	Years
Buildings	50
Building improvements	7-25
Vehicles	8
Equipment	5-20

Compensated absences

Long-term sick and vacation benefits do not accrue or vest and therefore are not recorded as a liability of the District.

Long-term obligations

In the government-wide financial statements, long term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types generally recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action if the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. The District reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

CHELSEA SCHOOL DISTRICT

Notes to Financial Statements

3. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general, debt and special revenue funds. All annual appropriations lapse at fiscal year end.

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis. In the General Fund, support services-pupil expenditures exceeded the final amended budget by \$21,497.

4. DEPOSITS AND INVESTMENTS

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

Statement of Net Assets

Cash	\$ 7,666,179
Investments	7,378,421

Statement of Fiduciary Net Assets

Private Purpose Trust Fund:

Cash and cash equivalents	82,507
Investments	39,646

Agency Funds:

Cash and cash equivalents	366,879
Investments	<u>15,923</u>

Total	<u><u>\$ 15,549,555</u></u>
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Deposits and investments

Bank deposits (checking accounts, savings accounts and CDs)	\$ 8,127,627
Investments in governmental liquid asset funds	7,418,067
Cash on hand	<u>3,861</u>

Total	<u><u>\$ 15,549,555</u></u>
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CHELSEA SCHOOL DISTRICT

Notes to Financial Statements

Statutory Authority

State statutes authorize the District to invest in:

Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

Investments

The District chooses to disclose its investments by specific identification. As of year end, the District had the following investments:

Investment	Maturity	Fair Value	Rating
Michigan Liquid Asset Fund	n/a	\$ 1,213,671	S&P AAAM
Fifth Third Money Market Fund	n/a	<u>6,204,396</u>	Not rated
Total		<u>\$ 7,418,067</u>	

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

CHELSEA SCHOOL DISTRICT

Notes to Financial Statements

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

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$7,921,071 of the District's bank balance of \$8,421,074 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

5. RECEIVABLES

Accounts receivable as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General Fund	Sinking Fund	Nonmajor Funds	Total
Taxes	\$ 20,618	\$ 7,070	\$ 66,536	\$ 94,224
Accounts	841,659	-	143,551	985,210
Intergovernmental	3,006,691	-	5,733	3,012,424
	<u>\$ 3,868,968</u>	<u>\$ 7,070</u>	<u>\$ 215,820</u>	<u>\$ 4,091,858</u>

Governmental funds report deferred revenue in connection with receivables that are not available to liquidate liabilities of the current period (unavailable) and/or for resources that have been received, but not earned or that are intended to finance a future period (unearned). At year-end, the components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unearned	Unavailable	Total
General fund	\$ 175,340	\$ 20,618	\$ 195,958
Sinking fund	-	2,152	2,152
Nonmajor governmental funds	70,527	30,133	100,660
	<u>\$ 245,867</u>	<u>\$ 52,903</u>	<u>\$ 298,770</u>

CHELSEA SCHOOL DISTRICT

Notes to Financial Statements

6. CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,243,761	\$ -	\$ -	\$ 1,243,761
Construction in progress	-	36,663	-	36,663
	<u>1,243,761</u>	<u>36,663</u>	<u>-</u>	<u>1,280,424</u>
Capital assets being depreciated:				
Land improvements	5,278,946	597,396	-	5,876,342
Buildings and improvements	77,729,596	1,364,751	-	79,094,347
Vehicles	2,393,586	281,638	69,351	2,605,873
Equipment	11,166,811	250,460	-	11,417,271
	<u>96,568,939</u>	<u>2,494,245</u>	<u>69,351</u>	<u>98,993,833</u>
Less accumulated depreciation for:				
Land improvements	2,888,111	247,417	-	3,135,528
Buildings and improvements	22,303,026	1,911,058	-	24,214,084
Vehicles	1,682,409	190,615	62,416	1,810,608
Equipment	8,128,083	641,325	-	8,769,408
	<u>35,001,629</u>	<u>2,990,415</u>	<u>62,416</u>	<u>37,929,628</u>
Total capital assets being depreciated, net	<u>61,567,310</u>	<u>(496,170)</u>	<u>6,935</u>	<u>61,064,205</u>
Governmental activities capital assets, net	<u>\$ 62,811,071</u>	<u>\$ (459,507)</u>	<u>\$ 6,935</u>	<u>\$ 62,344,629</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Depreciation of governmental activities by function

Supporting services	\$ 181,844
Food services	2,987
Depreciation - unallocated	<u>2,805,584</u>
	<u>\$ 2,990,415</u>

CHELSEA SCHOOL DISTRICT

Notes to Financial Statements

7. PAYABLES

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General Fund	2012 Bond Capital Projects Fund	Sinking Fund	Nonmajor Funds	Total
Fund Financial Statements					
Accounts payable	\$ 221,862	\$ 61,904	\$ 1,836	\$ 133,562	\$ 419,164
Accrued salaries payable	1,602,620	-	-	4,642	1,607,262
Accrued expenditures	911,929	-	-	1,490	913,419
	<u>\$ 2,736,411</u>	<u>\$ 61,904</u>	<u>\$ 1,836</u>	<u>\$ 139,694</u>	<u>2,939,845</u>
Government-Wide Financial Statements					
Accrued interest on long-term debt					<u>430,877</u>
					<u>\$ 3,370,722</u>

8. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

At June 30, 2012, interfund receivables and payables consisted of the following:

	Due from	Due to
General fund	\$ 117,880	\$ 860,584
Nonmajor governmental funds	15,929	76,454
Internal service fund	803,229	-
	<u>\$ 937,038</u>	<u>\$ 937,038</u>

The District reports interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for the governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

CHELSEA SCHOOL DISTRICT

Notes to Financial Statements

For the year ending June 30, 2012, interfund transfers consisted of the following:

	Transfers in	Transfers out
General fund	\$ 139,677	\$ 90,741
Nonmajor governmental funds	90,741	139,677
	<u>\$ 230,418</u>	<u>\$ 230,418</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2012, the District transferred funds to subsidize the community education program and received funds from its food service operation and community education program.

9. LONG-TERM DEBT

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

General obligation bonds payable at June 30, 2012, consists of the following:

\$20,640,000 2004 School Building and Site Bonds, due in annual installments of \$640,000 to \$1,650,000 through May 1, 2022; interest at 3.80% to 5.25%.	\$ 13,740,000
\$7,000,000 2006 Refunding Bonds, due in annual installments of \$50,000 to \$1,770,000 through May 1, 2025; interest at 4.00%.	6,700,000
\$28,590,000 2008 Refunding Bonds, due in annual installments of \$1,535,000 to \$1,765,000 through May 1, 2025; interest at 5.00%.	21,465,000
\$5,900,000 2009 School Building and Site Bonds, due in annual installments of \$1,050,000 to \$1,125,000 through May 1, 2015; interest at 2.00% to 3.25%.	3,325,000
\$5,785,000 2012 School Building and Site Bonds, Series B, due in annual installments of \$700,000 to \$1,560,000 through May 1, 2017; interest at 2.00% to 4.00%.	5,785,000
* \$259,498 1998 Durant School Improvement Bonds, due in one remaining installment of \$17,393 on May 15, 2013.	17,393
Total general obligation bonds	<u>\$ 51,032,393</u>

CHELSEA SCHOOL DISTRICT

Notes to Financial Statements

* The 1998 Durant debt is serviced from funds made available to the local Districts by an annual appropriation from the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable for the amount due.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended June 30,	Principal	Interest	Total
2013	\$ 4,867,393	\$ 2,371,731	\$ 7,239,124
2014	5,150,000	2,154,032	7,304,032
2015	5,375,000	1,943,257	7,318,257
2016	4,635,000	1,702,620	6,337,620
2017	4,750,000	1,482,670	6,232,670
2018-2022	16,360,000	4,638,350	20,998,350
2023-2025	9,895,000	890,560	10,785,560
Totals	\$ 51,032,393	\$ 15,183,220	\$ 66,215,613

Other long-term debt is related to amounts due to the School Bond Loan Fund. Debt service requirements are determined by the District based on the amount of taxes received in excess of amounts needed to retire the general obligation bonds. Changes to the School Bond Loan Fund for the year ended June 30, 2012, are as follows:

	Principal	Interest	Total
Beginning balance	\$ 359,009	\$ 43,913	\$ 402,922
Additions	406,646	27,901	434,547
Reductions	-	-	-
Ending balance	\$ 765,655	\$ 71,814	\$ 837,469

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 49,353,996	\$ 5,785,000	\$ (4,106,603)	\$ 51,032,393	\$ 4,867,393
Unamortized premiums	2,006,021	550,496	(149,769)	2,406,748	-
Deferred amounts	(902,211)	-	79,887	(822,324)	-
School Bond Loan Fund	359,009	406,646	-	765,655	-
	\$ 50,816,815	\$ 6,742,142	\$ (4,176,485)	\$ 53,382,472	\$ 4,867,393

CHELSEA SCHOOL DISTRICT

Notes to Financial Statements

Advance Refunding

In prior years, the District defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts for the purpose of generating resources for all future debt service payments on the refunded debt. As a result, the refunded bonds are considered to be defeased and the trust fund assets and related liabilities have been removed from the statement of net assets.

The balance of defeased bonds outstanding as of June 30, 2012 was \$29,040,000, which represents amounts placed in escrow as part of the 1998 and 2004 debt refundings.

10. RISK MANAGEMENT

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

The shared-risk pool program in which the 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.

The District is self-insured for dental and vision insurance. The District has contracted with an independent administrator to process the dental and vision claims and perform other administrative duties. According to the provisions of the dental program, the District pays 70% of claims, up to \$1,200 annually, to each covered employee and the remaining 30% is paid by the employee. The vision plan contains service-specific co-pays, with service limitations being provided on an annual basis. The District evaluates the liability related to the dental and vision claims at the end of the fiscal year. The liability is calculated based on claims already incurred and reported and an estimate of incurred by not reported claims, as provided by the administrator. For governmental activities, the liability for dental and vision benefits is primarily liquidated by the general fund.

The District is also self insured by health insurance. The District has contracted with an independent administrator to process the health claims and perform other administrative duties. According to the provisions of this program, three plan options are available, each with the same coverage but vary by the amount of deductibles and coinsurance paid for by the employee. The District pays for the base policy, while the employee pays for the entire cost of a higher option (if elected). The District evaluates the liability related to the health claims at the end of the fiscal year. The liability is calculated based on claims already incurred and reported and an estimate of incurred by not reported claims, as provided by the administrator.

CHELSEA SCHOOL DISTRICT

Notes to Financial Statements

Changes in the fund's claims liability amounts for the year ended June 30, 2012 were:

	2012	2011
Balance at the beginning of year	\$ 167,799	\$ -
Current year claims and changes in estimates	1,843,304	1,883,810
Claims paid	(1,790,446)	(1,716,011)
Balance at end of year	<u>\$ 220,657</u>	<u>\$ 167,799</u>

11. PROPERTY TAXES

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied on December 1 by the City of Chelsea, Dexter Township, Freedom Township, Lima Township, Lyndon Township, Sharon Township, Sylvan Township, Grass Lake Township and Waterloo Township, whose boundaries include property within the District and are due on February 14. Delinquent real taxes are advanced to the District by the Revolving Tax Fund of Washtenaw and Jackson Counties.

12. DEFINED BENEFIT PENSION PLAN

Plan Description

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

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report can be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

Funding Policy

Member contribution rates vary based on date of hire and certain voluntary elections. Member Investment Plan ("MIP") members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 through June 30, 2008 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Members first hired July 1, 2008 through June 30, 2010 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000. Basic Plan members make no contributions. Members first enrolled on or after July 1, 2010 are enrolled in the Pension Plus Plan which contains a defined contribution component. Member contributions are matched at a rate of 50 percent by the employer, up to a maximum of one percent. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

CHELSEA SCHOOL DISTRICT

Notes to Financial Statements

The MIP rate from July to September was 20.66 percent and from October through June was 24.46 percent of covered payroll. The Pension Plus rate from July to September was 19.16 percent and from October through June was 23.23 percent. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPERS under all retirement plans for the years ended June 30, 2012, 2011, and 2010 were \$3,636,187, \$2,985,545, and \$2,727,519, respectively, equal to the required contributions for each year.

13. OTHER POSTEMPLOYMENT BENEFITS

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

- Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
- Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

14. CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, management does not believe such disallowances, if any, will be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2012.

15. SINKING FUND COSTS

The Capital Projects Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

16. BONDED CONSTRUCTION COSTS

The Capital Projects Funds includes capital project activities funded with bonds issued after May 1, 1994. For the capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code, and the applicable sections of the revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

CHELSEA SCHOOL DISTRICT

Notes to Financial Statements

17. INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

As of June 30, 2012, net assets invested in capital assets, net of related debt were comprised of the following:

Capital assets net of depreciation	<u>\$ 62,344,629</u>
Capital related debt:	
Bonds and installment loans payable	(51,032,393)
Unamortized bond premium	(2,406,748)
Deferred amounts on bond refunding	822,324
2004, 2009 and 2012 capital projects funds' unexpended balances	<u>7,524,223</u>
Total capital related debt	<u>(45,092,594)</u>
Invested in capital assets, net of related debt	<u>\$ 17,252,035</u>

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COMBINING FUND STATEMENTS

CHELSEA SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2012

	Special Revenue		Debt		
	Food Service	Community Education	1998 Durant	2004	2006
Assets					
Cash	\$ 125,208	\$ 350	\$ -	\$ 120,751	\$ 15,606
Investments	-	-	-	-	-
Taxes receivable	-	-	-	20,489	2,419
Accounts receivable	7,451	118,707	17,393	-	-
Due from other funds	15,929	-	-	-	-
Due from other governmental units	5,733	-	-	-	-
Inventory	24,263	-	-	-	-
Total assets	\$ 178,584	\$ 119,057	\$ 17,393	\$ 141,240	\$ 18,025
Liabilities					
Accounts payable	\$ 233	\$ 202	\$ -	\$ 6,514	\$ 769
Due to other funds	-	75,853	-	-	-
Accrued expenditures	213	1,277	-	-	-
Accrued salaries payable	664	3,978	-	-	-
Deferred revenue	15,387	37,747	17,393	9,256	1,093
Total liabilities	16,497	119,057	17,393	15,770	1,862
Fund Balance					
Nonspendable					
Inventory	24,263	-	-	-	-
Restricted for:					
Debt service	-	-	-	125,470	16,163
Capital projects	-	-	-	-	-
Food service	137,824	-	-	-	-
Total fund balances	162,087	-	-	125,470	16,163
Total liabilities and fund balances	\$ 178,584	\$ 119,057	\$ 17,393	\$ 141,240	\$ 18,025

Debt			Capital Projects		Total Nonmajor
2008	2009	2012	2004	2009	Governmental Funds
\$ 179,539	\$ 89,643	\$ 1	\$ -	\$ 5,756	\$ 536,854
-	-	-	311,052	1,174,025	1,485,077
30,306	13,322	-	-	-	66,536
-	-	-	-	-	143,551
-	-	-	-	-	15,929
-	-	-	-	-	5,733
-	-	-	-	-	24,263
<u>\$ 209,845</u>	<u>\$ 102,965</u>	<u>\$ 1</u>	<u>\$ 311,052</u>	<u>\$ 1,179,781</u>	<u>\$ 2,277,943</u>
\$ 9,636	\$ 4,192	\$ -	\$ 2,508	\$ 109,508	\$ 133,562
-	-	1	-	600	76,454
-	-	-	-	-	1,490
-	-	-	-	-	4,642
13,691	6,093	-	-	-	100,660
<u>23,327</u>	<u>10,285</u>	<u>1</u>	<u>2,508</u>	<u>110,108</u>	<u>316,808</u>
-	-	-	-	-	24,263
186,518	92,680	-	-	-	420,831
-	-	-	308,544	1,069,673	1,378,217
-	-	-	-	-	137,824
<u>186,518</u>	<u>92,680</u>	<u>-</u>	<u>308,544</u>	<u>1,069,673</u>	<u>1,961,135</u>
<u>\$ 209,845</u>	<u>\$ 102,965</u>	<u>\$ 1</u>	<u>\$ 311,052</u>	<u>\$ 1,179,781</u>	<u>\$ 2,277,943</u>

CHELSEA SCHOOL DISTRICT

Combining Statement of Revenue, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds For the Year Ended June 30, 2012

	Special Revenue		Debt		
	Food Service	Community Education	1998 Durant	2004	2006
Revenues					
Local sources	\$ 627,618	\$ 260,616	\$ -	\$ 1,732,531	\$ 204,549
State sources	34,217	153,165	18,222	-	-
Federal sources	192,403	-	-	-	-
Intermediate Sources	-	16,048	-	-	-
Total revenues	854,238	429,829	18,222	1,732,531	204,549
Expenditures					
Current -					
Education:					
Food services	788,764	-	-	-	-
Community services	-	446,224	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	16,603	1,225,000	50,000
Interest and other expenditures	-	-	1,619	752,959	276,141
Total expenditures	788,764	446,224	18,222	1,977,959	326,141
Revenues over (under) expenditures	65,474	(16,395)	-	(245,428)	(121,592)
Other financing sources (uses)					
Bond proceeds	-	-	-	151,324	22,214
Transfers in	-	90,700	-	-	-
Transfers out	(65,372)	(74,305)	-	-	-
Total other financing sources (uses)	(65,372)	16,395	-	151,324	22,214
Net change in fund balances	102	-	-	(94,104)	(99,378)
Fund balance, beginning of year	161,985	-	-	219,574	115,541
Fund balance, end of year	\$ 162,087	\$ -	\$ -	\$ 125,470	\$ 16,163

Debt			Capital Projects		Total Nonmajor
2008	2009	2012	2004	2009	Governmental Funds
\$ 2,562,875	\$ 1,115,262	\$ -	\$ 39	\$ 12,549	\$ 6,516,039
-	-	-	-	-	205,604
-	-	-	-	-	192,403
-	-	-	-	-	16,048
2,562,875	1,115,262	-	39	12,549	6,930,094
-	-	-	-	-	788,764
-	-	-	-	-	446,224
-	-	-	126,341	1,165,001	1,291,342
1,765,000	1,050,000	-	-	-	4,106,603
1,205,110	135,610	41	-	-	2,371,480
2,970,110	1,185,610	41	126,341	1,165,001	9,004,413
(407,235)	(70,348)	(41)	(126,302)	(1,152,452)	(2,074,319)
233,108	-	-	-	-	406,646
-	-	41	-	-	90,741
-	-	-	-	-	(139,677)
233,108	-	41	-	-	357,710
(174,127)	(70,348)	-	(126,302)	(1,152,452)	(1,716,609)
360,645	163,028	-	434,846	2,222,125	3,677,744
\$ 186,518	\$ 92,680	\$ -	\$ 308,544	\$ 1,069,673	\$ 1,961,135

CHELSEA SCHOOL DISTRICT

Combining Statement of Fiduciary Net Assets

Private-Purpose Trust Funds

June 30, 2012

	Steven Lewis Scholarship	Memorial Fund	Peabody Scholarship	Special Olympics Scholarship	Total
Assets					
Cash and cash equivalents	\$ 34,104	\$ 2,458	\$ 38,574	\$ 7,371	\$ 82,507
Investments	-	39,646	-	-	39,646
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Assets					
Reserved for scholarships	<u>\$ 34,104</u>	<u>\$ 42,104</u>	<u>\$ 38,574</u>	<u>\$ 7,371</u>	<u>\$ 122,153</u>

CHELSEA SCHOOL DISTRICT

Combining Statement of Changes in Assets and Liabilities

Private-Purpose Trust Funds

For the Year Ended June 30, 2012

	Steven Lewis Scholarship	Memorial Fund	Peabody Scholarship	Special Olympics Scholarship	Total
Additions					
Private donations	\$ -	\$ -	\$ 19,121	\$ 3,100	\$ 22,221
Interest revenue	17	25	14	4	60
Total additions	17	25	19,135	3,104	22,281
Deductions					
Scholarships	350	2,250	9,248	1,120	12,968
Mileage	-	-	-	1,891	1,891
Supplies	-	-	-	936	936
Total deductions	350	2,250	9,248	3,947	15,795
Change in net assets	(333)	(2,225)	9,887	(843)	6,486
Net assets, beginning of year	34,437	44,329	28,687	8,214	115,667
Net assets, end of year	\$ 34,104	\$ 42,104	\$ 38,574	\$ 7,371	\$ 122,153

SINGLE AUDIT ACT COMPLIANCE

CHELSEA SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2011	Federal Funds / Payments In-Kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2012
U.S. Department of Agriculture									
Nutrition Cluster:									
Non-Cash Assistance									
Food Distribution Entitlement	10.555	MDE	-n/a-	\$ 36,891	\$ -	\$ -	\$ 36,891	\$ 36,891	\$ -
Cash Assistance									
National School Lunch Breakfast	10.553	MDE	111970	9,815	9,016	-	799	799	-
National School Lunch Breakfast	10.553	MDE	121970	10,682	-	-	10,682	10,682	-
				20,497	9,016	-	11,481	11,481	-
National School Lunch Sec. 11- Free & Reduced	10.555	MDE	111960	106,225	90,818	-	15,407	15,407	-
National School Lunch Sec. 11- Free & Reduced	10.555	MDE	121960	128,624	-	-	128,624	128,624	-
				234,849	90,818	-	144,031	144,031	-
Total U.S. Department of Agriculture				292,237	99,834	-	192,403	192,403	-
U.S. Department of Education									
Education Jobs Fund	84.410	MDE	112545-1011	530,716	-	-	530,716	530,716	-
ABE - Institutional	84.002A	MDE	111190101657	70,000	70,000	70,000	70,000	-	-
ABE - Institutional	84.002A	MDE	111130101657	20,000	4,375	4,375	4,375	-	-
ABE - Institutional	84.002A	MDE	121190121657	70,000	-	-	-	70,000	70,000
				160,000	74,375	74,375	74,375	70,000	70,000
Title I, Part A	81.040	MDE	111530-1011	101,373	90,748	90,748	97,152	6,404	-
Title I, Part A	81.040	MDE	121530-1112	90,477	-	-	-	87,534	87,534
				191,850	90,748	90,748	97,152	93,938	87,534
Title II A	84.367	MDE	110520-1011	115,658	52,849	52,849	54,626	1,777	-
Title II A	84.367	MDE	120520-1112	115,180	-	-	-	51,928	51,928
				230,838	52,849	52,849	54,626	53,705	51,928
ARRA Title II D	84.368A	MDE	114295-1011	912	483	483	483	-	-

CHELSEA SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2011	Federal Funds / Payments In-Kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2012
U.S. Department of Education (concluded)									
Special Education Cluster:									
Handicapped Programs IDEA Flow-through	84.027A	WISD	100450-0910	\$ 504,016	\$ 16,544	\$ 2,261	\$ 2,261	\$ -	\$ -
Handicapped Programs IDEA Flow-through	84.027A	WISD	110450-1011	505,031	500,304	143,948	148,677	4,729	-
Handicapped Programs IDEA Flow-through	84.027A	WISD	120450-1112	498,187	-	-	171,869	494,892	323,023
IDEA Pre-school Grant	84.173A	WISD	120460-1112	6,321	-	-	1,472	6,321	4,849
ARRA IDEA Flowthrough	84.391A	WISD	100455-0910	275,985	269,458	180,176	180,176	-	-
				<u>1,789,540</u>	<u>786,306</u>	<u>326,385</u>	<u>504,455</u>	<u>505,942</u>	<u>327,872</u>
Drug Free Schools	84.186A	LESA	CR42582	5,000	-	-	4,993	4,993	-
Limited English Proficient	84.365A	MPS	1205081112	5,496	-	-	-	732	732
Total U.S. Department of Education				<u>2,914,352</u>	<u>1,004,761</u>	<u>544,840</u>	<u>1,266,800</u>	<u>1,260,026</u>	<u>538,066</u>
Total Expenditures of Federal Awards				<u>\$ 3,206,589</u>	<u>\$ 1,104,595</u>	<u>\$ 544,840</u>	<u>\$ 1,459,203</u>	<u>\$ 1,452,429</u>	<u>\$ 538,066</u>

See notes to schedule of expenditures of federal awards.

CHELSEA SCHOOL DISTRICT

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Chelsea School District (the "District") under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been included and all grant requirements have been met.

The Schedule has been arranged to provide information on both the actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, deferred revenue and accounts payable items at both the beginning and the end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts on the Grant Auditor Reports reconcile with this Schedule.

3. PASS-THROUGH AGENCIES

The District receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
WISD	Washtenaw Intermediate School District
LESA	Livingston Education Service Agency
MPS	Monroe Public Schools

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INDEPENDENT AUDITORS' 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 3, 2012

To the Board of Education
Chelsea School District
Chelsea, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chelsea School District (the "District"), as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the District, and have issued our report thereon dated October 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

A handwritten signature in black ink, reading "Rehmann Johnson". The signature is written in a cursive style with a large, stylized 'R' and 'J'.

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

October 3, 2012

To the Board of Education
Chelsea School District
Chelsea, Michigan

Compliance

We have audited Chelsea School District's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Chelsea School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

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

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

A handwritten signature in black ink, reading "Lehmann Lohsen". The signature is written in a cursive style with a large, prominent 'L' and 'L'.

CHELSEA SCHOOL DISTRICT

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes

X no

Significant deficiency(ies) identified?

_____ yes

X none reported

Noncompliance material to financial statements
noted?

_____ yes

X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ yes

X no

Significant deficiency(ies) identified?

_____ yes

X none reported

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

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

_____ yes

X no

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

84.410

Education Jobs Fund

Dollar threshold used to distinguish
between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

X yes

_____ no

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

CHELSEA SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2012

None reported

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