

SCHOOL DISTRICT OF THE CITY OF EAST LANSING

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)

YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
School District of the City of East Lansing

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

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

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

As described in Notes 1 and 14 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2011, on our consideration of the School District of the City of East Lansing's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xvi and page 31, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District of the City of East Lansing's basic financial statements. The additional information on pages 33 through 49 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Manes Costeiran PC

September 7, 2011

School District of the City of East Lansing

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



East Lansing Public Schools

The School District of the City of East Lansing is a K-12 public school district located in Ingham and Clinton Counties, Michigan. The Management's Discussion and Analysis (MD&A), a requirement of Governmental Accounting Standards Board (GASB) Statement 34, is intended to be the School District of the City of East Lansing's management's review of financial performance for the year ended June 30, 2011. The MD&A is intended to be read in conjunction with the District's financial statements. Prior year information is provided for comparative analysis.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The government-wide financial statements are per GASB 34 and provide information about the *governmental activities* of the entire District, presenting both an aggregate view of the District's finances and a long-term view of those finances. The fund financial statements provide information about how *governmental funds* were financed in the short-term as well as what remains for future spending and looks at the District's operations by providing information about the District's most significant funds and with all other funds presented in one column as "non-major funds". The fiduciary funds statements present financial information about activities for which the District acts solely as an agent for the benefit of mostly student groups. The required supplemental information provide budget to actual comparisons of the general fund. The remaining statements are provided for additional analysis.

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

In the business arena a commonly asked question is, "is the entity as a whole better or worse off financially as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report financial information about the District as a whole and its activities in a way that helps the reader answer this question. These statements are prepared using the full accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. They report all of the District's assets and liabilities, both short and long-term, and all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the District's net assets (the difference between assets and liabilities), as reported in the Statement of Net Assets, as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. However, the District's goal is to provide educational services to students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the District.

The governmental-wide financial statements report the governmental activities of the District, which encompass all of the District's services. Local property taxes, state per pupil foundation allowance, and state and federal grants finance the majority of these activities.

School District of the City of East Lansing

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



East Lansing Public Schools

Fund Financial Statements - Reporting the School District's Most Significant Funds

The fund financial statements provide detailed information about the most significant funds of the District - not the District as a whole. Certain funds are required to be established by State law or by bond covenants. Others funds are created in order to help control and manage their activities. The fund level statements of the District use an accounting method called modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

All of the District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows in and out of funds and the balances remaining at year-end that are available for appropriation. Governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. The information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's educational programs. Differences between governmental activities, as reported in the government-wide statements, and governmental funds, as reported in the fund financial statements, are presented in a reconciliation statement.

Fiduciary Statements - Reporting the School District's Trustee Responsibility

The District is the trustee, or fiduciary for its student activity funds. All of the District's fiduciary activities are aggregated and reported in the Statement of Fiduciary Net Assets. These activities are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

School District of the City of East Lansing

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



East Lansing Public Schools

The School District as a Whole – Summary of Net Assets

The Statement of Net Assets provides the perspective of the District as a whole. The following schedule summarizes the net assets as of June 30, 2011 and June 30, 2010:

	2011	2010
ASSETS:		
Current assets	\$ 12,970,942	\$ 12,351,607
Noncurrent assets	76,327,534	78,854,408
Total assets	<u>\$ 89,298,476</u>	<u>\$ 91,206,015</u>
LIABILITIES:		
Current liabilities	\$ 9,510,294	\$ 10,456,424
Long-term liabilities	61,490,528	66,188,633
Total liabilities	<u>71,000,822</u>	<u>76,645,057</u>
NET ASSETS (DEFICIT):		
Invested in capital assets, net of related debt	13,775,355	11,954,776
Restricted for capital projects (sinking fund)	1,410,473	3,844,239
Unrestricted	3,111,826	(1,238,057)
Total net assets	<u>18,297,654</u>	<u>14,560,958</u>
Total liabilities and net assets	<u>\$ 89,298,476</u>	<u>\$ 91,206,015</u>

Analysis of Financial Position

For the fiscal year ended June 30, 2011, the District's net assets increased by \$3,736,696. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

As a result of GASB 34, the District is required to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net assets.

School District of the City of East Lansing

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



East Lansing Public Schools

The District records depreciation expense on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, when applicable. For the fiscal year ended June 30, 2011 and June 30, 2010, the following was recorded as depreciation expense:

	2011	2010
Land improvements	\$ 528,851	\$ 515,209
Building and additions	1,899,571	1,889,944
Furniture and equipment	449,715	502,893
Transportation and equipment	70,458	68,401
Total	<u>\$ 2,948,595</u>	<u>\$ 2,976,447</u>

One approach of interpreting depreciation expense is that in order to maintain net assets at a constant level the District would have to capitalize assets equal to the annual depreciation expense. However, when taking into consideration factors such as, inflation and repairs and maintenance, the actual investment in capital outlay would have to exceed the depreciation expense in order to maintain assets at the same level of value and functionality.

2. Capital Outlay Acquisition

For the fiscal year ended June 30, 2011, \$456,254 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets are depreciated over time as explained above.

The net effect of capital asset additions, deletions, and the current year's depreciation expense is a decrease to capital assets in the amount of \$2,492,341 for the fiscal year ended June 30, 2011.

3. Long-Term Debt

The District's total general long-term debt for the fiscal year ended June 30, 2011 decreased by \$4,751,379. The majority of the decrease is a result of the District making payments on its various debt obligations.

Results of Operations

The results of this year's operations for the School District as a whole are reported in the Statement of Activities, which shows the changes in net assets.

School District of the City of East Lansing

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



East Lansing Public Schools

For the fiscal year ended June 30, 2011 and June 30, 2010, the District-wide results of operation were:

	2011	% of total	2010	% of total
General revenues:				
Property taxes, levied for general operations	\$ 8,780,107	19.8	\$ 9,272,581	20.9
Property taxes, levied for debt service	7,538,569	17.0	7,934,305	17.9
Property taxes, levied for sinking fund	1,365,512	3.1	1,457,590	3.3
Investment earnings	20,157	0.0	43,152	0.1
State sources	18,926,071	42.7	18,953,923	42.8
Federal ARRA sources - unrestricted	786,181	1.8	955,951	2.2
County special education allocation	2,558,236	5.8	2,597,148	5.9
Other	304,102	0.7	328,011	0.7
Total general revenues	40,278,935	90.9	41,542,661	93.8
Program revenues:				
Charges for services	820,563	1.9	828,259	1.9
Operating grants	3,174,101	7.2	1,922,158	4.3
Total revenues	\$ 44,273,599	100.0	\$ 44,293,078	100.0
Function/program expenses:				
Instruction	\$ 20,645,259	50.9	\$ 20,608,762	50.6
Support services	12,701,969	31.3	12,695,573	31.2
Community services	12,569	0.0	20,353	0.0
Food services	984,672	2.4	979,918	2.4
Interest on long-term debt	3,243,839	8.1	3,443,763	8.5
Unallocated depreciation	2,948,595	7.3	2,976,447	7.3
Total expenses	\$ 40,536,903	100.0	\$ 40,724,816	100.0

School District of the City of East Lansing

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



East Lansing Public Schools

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies various millages on property taxes for general operations, debt service, and building and site repairs. Each millage, except those for debt service, is subject to mandatory reductions as required by the Headlee Amendment. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annual taxable valuation increases are capped at the rate of the prior year's Consumer Price Index or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is 50% of the property's market value.

The District receives settlements from Ingham and Clinton counties on all outstanding *real* property taxes at the end of each fiscal year. The amount of unpaid *personal* property taxes at June 30, 2011 was approximately \$22,000, or 0.24% of the total General Fund levy.

The following schedule summarizes the millages levied for the past five years (beginning with fiscal year 2008-2009 commercial personal property is subject to 6.0000 mills per changes to the State of Michigan property tax system).

Fiscal year	All property supplemental operating mills levied	Non-PRE (comm. personal) operating mills levied	All property debt service mills levied	All property building & site mills levied
2010 - 2011	0.7622	17.2378	7.0000	1.2860
2009 - 2010	0.7028	17.2972	7.0000	1.2860
2008 - 2009	0.7047	17.2953	7.0000	1.2860
2007 - 2008	0.7781	17.2219	7.0000	1.2860
2006 - 2007	0.7964	17.2036	7.0000	1.2860

The following schedule summarizes the property taxes generated for the past five years:

Fiscal year	All property supplemental operating mills levied	Non-PRE (comm personal) operating mills levied	All property debt service mills levied	All property building & site mills levied
2010 - 2011	\$ 815,603	\$ 8,144,395	\$ 7,536,245	\$ 1,376,110
2009 - 2010	790,693	8,611,315	7,921,156	1,446,828
2008 - 2009	777,623	8,322,536	7,770,101	1,419,077
2007 - 2008	837,649	8,527,797	7,588,636	1,384,420
2006 - 2007	821,525	8,099,406	7,266,569	1,326,571

School District of the City of East Lansing

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



East Lansing Public Schools

2. State Sources

Per the State School Aid Act the State of Michigan funds school districts on a per pupil allowance based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count (the fourth Wednesday of September) and 25% of the prior year's supplemental count (the second Wednesday of February). The District's per pupil allowance for fiscal year 2011 was \$8,137.

The following schedule summarizes the District's per pupil allowance over the past five years (figures through 2008-2009 include the 20j hold harmless amount, which was not included in the 2009-2010 allowance):

Fiscal year	Per pupil allowance	\$ increase/(decrease) from prior year
2010 - 2011	\$ 8,137	\$ (16)
2009 - 2010	8,153	(468)
2008 - 2009	8,621	56
2007 - 2008	8,565	48
2006 - 2007	8,517	210

Non-resident pupils that attend the District via School of Choice (SOC) program are funded at the per pupil allowance of their resident district. The majority of the District's SOC pupils are funded at a lower per pupil amount than the \$8,137 the District receives for its resident pupils.

In fiscal year 2010-11, the State of Michigan enacted a pro-ration to the State School Aid Fund in order to balance the State's budget. The pro-ration of the per pupil allowance equaled approximately \$400,000 of reduced revenue from the State to the District for fiscal year ended 2011. However, the reduction in the per pupil allowance was offset by a corresponding increase in federal funding via the American Recovery and Reinvestment Act of 2009.

3. Student Enrollment

The District's resident enrollment figures have declined over the past several years. The following schedule summarizes the blended enrollment for each of the past five fiscal years:

Fiscal year	Actual blended student FTE	FTE change from prior year
2010 - 2011	3,467	22
2009 - 2010	3,445	36
2008 - 2009	3,409	10
2007 - 2008	3,399	(11)
2006 - 2007	3,410	(55)

School District of the City of East Lansing

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



East Lansing Public Schools

4. County Special Education Allocation

The District receives an allocation, based on a funding system, from Ingham Intermediate School District to assist with the education of students with special needs. For the fiscal year ended June 30, 2011, the District received \$2,558,236. This amount represents a decrease of \$38,912 over the prior fiscal year. The majority of this decrease is due to a decrease in property tax revenue.

5. Expenditure Comparison By Function

The following schedule provides a comparison of fund expenditures for fiscal years 2010-2011 and 2009-2010:

Function	2010-2011 fiscal year	%	2009-2010 fiscal year	%
Basic programs	\$ 16,986,564	50.2	\$ 16,713,349	49.9
Special education	3,194,289	9.6	3,196,076	9.6
Compensatory education	969,615	2.9	1,114,541	3.3
Total instruction	21,150,468	62.7	21,023,966	62.8
Pupil support services	1,991,229	5.9	2,244,982	6.7
Instructional staff support services	2,317,832	6.9	2,289,247	6.8
School administration	2,279,930	6.7	2,228,862	6.7
Total instructional support	6,588,991	19.5	6,763,091	20.2
General administration	366,127	1.1	382,894	1.1
Business office	419,084	1.2	440,367	1.3
Operations and maintenance	3,354,943	9.8	3,208,594	9.6
Pupil transportation	762,231	2.3	629,914	1.9
Athletics	589,109	1.7		
Central	576,993	1.7	584,932	1.7
Community services	12,569	-	20,353	0.1
Outgoing transfers and loan payments	-	-	438,010	1.3
Total general fund	33,820,515	100.0	33,492,121	100.0
Food service fund	1,043,767		979,918	
Athletic fund			652,110	
Debt service fund	7,593,143		8,055,479	
Sinking fund	306,545		608,146	
2000 capital projects fund	28,156		46,504	
Total	\$ 42,792,126		\$ 43,834,278	

School District of the City of East Lansing

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



East Lansing Public Schools

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education adopt the original budget for the upcoming fiscal year prior to the start of the fiscal year on July 1. Amendments made to the original budgets must be adopted by the Board of Education prior to the close of the fiscal year on June 30.

The District budgets according to the Michigan School Accounting Manual bulletin 1022. It is standard practice to amend its budget semi-annually, usually December and May.

The following schedule shows a five-year comparison of the general fund revenue and other financing sources final budget versus actual results:

Fiscal year	Revenues and Other Financing Sources		
	Budget	Actual	Variance
2010 - 2011	\$ 34,364,370	\$ 34,282,078	-0.24%
2009 - 2010	33,589,721	33,534,520	-0.16%
2008 - 2009	33,748,130	33,672,271	-0.22%
2007 - 2008	33,192,901	33,105,021	-0.26%
2006 - 2007	33,086,443	33,072,911	-0.04%
Five year average actual over (under) budget			-0.18%

The following schedule shows a five-year comparison of the general fund expenditures and other financing uses final budget versus actual results:

Fiscal year	Expenditures and Other Financing Uses		
	Budget	Actual	Variance
2010 - 2011	\$ 34,277,405	\$ 33,820,515	-1.33%
2009 - 2010	33,830,292	33,492,121	-1.00%
2008 - 2009	34,516,077	34,129,952	-1.12%
2007 - 2008	34,187,268	33,691,745	-1.45%
2006 - 2007	33,524,245	33,177,149	-1.04%
Five year average actual over (under) budget			-1.19%

School District of the City of East Lansing

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



East Lansing Public Schools

Capital and Intangible Asset and Debt Administration

1. Capital and Intangible Assets

At June 30, 2011, the District had \$76,327,534 invested in a broad range of capital assets, including land, construction in progress, land improvements, buildings, various furniture and equipment, and school buses and other vehicles. This amount represents a net decrease of \$2,526,874 due to fiscal year depreciation expense exceeding capital asset additions.

The following schedule shows the net book value of the District's capital assets by class type:

	2011			2010
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 875,044	\$ -	\$ 875,044	\$ 875,044
Land improvements	11,813,226	3,797,465	8,015,761	8,463,506
Building and additions	88,137,707	24,075,175	64,062,532	65,842,632
Furniture and equipment	7,426,729	4,759,618	2,667,111	2,943,565
Transportation equipment	1,037,558	717,205	320,353	308,395
Total	<u>\$ 109,290,264</u>	<u>\$ 33,349,463</u>	75,940,801	78,433,142
Issuance cost for bonds, net of amortization			<u>386,733</u>	<u>421,266</u>
Grand Total			<u>\$ 76,327,534</u>	<u>\$ 78,854,408</u>

2. Long-term Debt

At June 30, 2011, the District had \$60,289,360 in general obligation bonded debt outstanding versus \$64,608,007 at June 30, 2010.

The District continues to participate in the School Bond Loan Fund (SBLF) program, borrowing for debt service repayment while maintaining the debt service millage at 7.0000 mills. For the year ended June 30, 2011 the District made a SBLF repayment of \$149,095 of which \$28,806 was for principal.

The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. The District's outstanding general obligation debt is significantly below this statutorily imposed limit.

School District of the City of East Lansing

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



East Lansing Public Schools

Factors Bearing on the District's Future

Our elected officials and administration consider many factors when developing the District's fiscal year budget. The following items could significantly impact the District's financial health in the future:

- **Enrollment:** State Aid Foundation revenue received is driven by the District's blended student enrollment. The District is anticipating a slight increase in enrollment for fiscal year 2012 but enrollment concerns remain as the District's resident enrollment has declined over the years.
- **Foundation Allowance:** The per pupil foundation allowance the District receives from the State is anticipated to be reduced for fiscal year 2011. The struggling Michigan economy and its impact on the School Aid Fund remains a concern.
- **Health Insurance:** Districts across the State continue to incur significant increases in the premiums they pay for employee benefits, in particular health insurance. The rising cost of health insurance remains a concern.
- **Retirement Rate:** The State increased the retirement rate to 24.46%, effective October 1, 2011, that is charged to districts to fund the retirement system. This represents an increase of 18.4 percent from the rate ending September 30, 2011. It is anticipated that the higher rates are on the horizon as the number of retirees increase.
- **County Special Education Allocation:** The revenue the District receives from the county special education funding system is largely driven by property values. The taxable values of property within the county are projected to decline over the next few years.
- **Employee Contracts:** Union contracts are settled through June 30, 2012 except for the Teamsters contract which is settled through December 31, 2011.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances. If you have questions about this report, or need additional financial information, please contact the Business Office, School District of the City of East Lansing, 841 Timberlane Street, Suite A, East Lansing, MI 48823.

BASIC FINANCIAL STATEMENTS

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS	<u>Governmental activities</u>
CURRENT ASSETS:	
Cash	\$ 7,096,969
Investments	1,253,565
Receivables:	
Accounts receivable	34,776
Interest receivable	1,247
Taxes receivable	47,925
Due from other governmental units	4,361,808
Inventories	49,475
Prepaid expenditures	<u>125,177</u>
TOTAL CURRENT ASSETS	<u>12,970,942</u>
NONCURRENT ASSETS:	
Issuance cost for bonds, net of amortization	386,733
Capital assets	109,290,264
Less accumulated depreciation	<u>(33,349,463)</u>
TOTAL NONCURRENT ASSETS	<u>76,327,534</u>
TOTAL ASSETS	<u><u>\$ 89,298,476</u></u>

	Governmental activities
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 495,918
Accrued salaries and related items	3,605,410
Accrued interest	495,887
Deferred revenue	67,877
Due to other governmental units	8,230
Current portion of long-term obligations	4,465,000
Current portion of compensated absences and termination benefits	371,972
TOTAL CURRENT LIABILITIES	9,510,294
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	55,824,360
School bond loan fund	2,264,059
Noncurrent portion of compensated absences and termination benefits	3,402,109
TOTAL NONCURRENT LIABILITIES	61,490,528
TOTAL LIABILITIES	71,000,822
NET ASSETS:	
Invested in capital assets, net of related debt	13,775,355
Restricted for capital projects (sinking fund)	1,410,473
Unrestricted	3,111,826
TOTAL NET ASSETS	18,297,654
TOTAL LIABILITIES AND NET ASSETS	\$ 89,298,476

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 20,645,259	\$ -	\$ 2,022,695	\$ (18,622,564)
Support services	12,701,969	333,156	562,875	(11,805,938)
Community services	12,569	-	12,569	-
Food services	984,672	487,407	575,962	78,697
Interest on long-term debt	3,243,839	-	-	(3,243,839)
Unallocated depreciation	2,948,595	-	-	(2,948,595)
Total governmental activities	<u>\$ 40,536,903</u>	<u>\$ 820,563</u>	<u>\$ 3,174,101</u>	<u>(36,542,239)</u>
General revenues:				
Property taxes, levied for general purposes				8,780,107
Property taxes, levied for debt service				7,538,569
Property taxes, levied for sinking fund				1,365,512
Investment earnings				20,157
State sources				18,926,071
Federal - unrestricted				786,181
Intermediate sources				2,558,236
Other				<u>304,102</u>
Total general revenues				<u>40,278,935</u>
CHANGE IN NET ASSETS				3,736,696
NET ASSETS, beginning of year				<u>14,560,958</u>
NET ASSETS, end of year				<u><u>\$ 18,297,654</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	<u>General fund</u>	<u>Capital projects sinking fund</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 3,055,264	\$ 3,809,577	\$ 232,128	\$ 7,096,969
Investments	128,996	1,124,569	-	1,253,565
Receivables:				
Property taxes receivable	6,129	6,487	35,309	47,925
Accounts receivable	32,336	-	2,440	34,776
Interest	-	1,247	-	1,247
Due from other governmental units	4,354,794	-	7,014	4,361,808
Due from other funds	-	-	3,840	3,840
Inventories	9,182	-	40,293	49,475
Prepaid expenditures	118,276	-	6,901	125,177
TOTAL ASSETS	<u>\$ 7,704,977</u>	<u>\$ 4,941,880</u>	<u>\$ 327,925</u>	<u>\$ 12,974,782</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 415,289	\$ 27,567	\$ 53,062	\$ 495,918
Accrued salaries and related items	3,599,347	-	6,063	3,605,410
Due to other funds	-	3,840	-	3,840
Due to other governmental units	8,230	-	-	8,230
Deferred revenue	146,713	-	20,005	166,718
TOTAL LIABILITIES	<u>4,169,579</u>	<u>31,407</u>	<u>79,130</u>	<u>4,280,116</u>
FUND BALANCES:				
Nonspendable:				
Inventories	9,182	-	40,293	49,475
Prepaid expenditures	118,276	-	6,901	125,177

See notes to financial statements

	<u>General fund</u>	<u>Capital projects sinking fund</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
FUND BALANCES (Concluded):				
Restricted for:				
Debt service	\$ -	\$ -	\$ 156,385	\$ 156,385
Capital outlay	-	1,410,473	88,668	1,499,141
Committed:				
Sinking fund	-	3,500,000	-	3,500,000
Assigned:				
Subsequent year expenditures	750,437	-	-	750,437
Unassigned	2,657,503	-	(43,452)	2,614,051
TOTAL FUND BALANCES	<u>3,535,398</u>	<u>4,910,473</u>	<u>248,795</u>	<u>8,694,666</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 7,704,977</u>	<u>\$ 4,941,880</u>	<u>\$ 327,925</u>	<u>\$ 12,974,782</u>
Total governmental fund balances				\$ 8,694,666
Amounts reported for governmental activities in the statement of net assets are different because:				
Value of amortized bond issuance costs				386,733
Capital assets used in governmental activities are not financial resources and are not reported in the funds				
The cost of the capital assets is			\$ 109,290,264	
Accumulated depreciation is			<u>(33,349,463)</u>	
				75,940,801
Revenue not recorded in the funds due to not being collected until after September 1st:				
Special education payment due from IISD				98,841
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Bonds payable				(60,289,360)
School bond loan payable including interest				(2,264,059)
Compensated absences and termination benefits				(3,774,081)
Accrued interest is not included as a liability in government funds, it is recorded when paid				<u>(495,887)</u>
Net assets of governmental activities				<u>\$ 18,297,654</u>

See notes to financial statements

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	<u>General Fund</u>	<u>Capital projects sinking fund</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
REVENUES:				
Local sources:				
Property taxes	\$ 8,836,229	\$ 1,365,512	\$ 7,538,569	\$ 17,740,310
Tuition	2,250	-	-	2,250
MSU reimbursement	-	-	105,448	105,448
Investment earnings	944	7,267	11,946	20,157
Food sales and athletics	227,708	-	487,407	715,115
Other	296,165	-	-	296,165
Total local sources	9,363,296	1,372,779	8,143,370	18,879,445
State sources	20,437,380	-	44,248	20,481,628
Federal sources	1,873,011	-	531,714	2,404,725
Incoming transfers and other	2,582,873	-	-	2,582,873
Total revenues	34,256,560	1,372,779	8,719,332	44,348,671
EXPENDITURES:				
Current:				
Instruction	21,150,468	-	-	21,150,468
Supporting services	12,657,478	-	-	12,657,478
Food service activities	-	-	1,032,210	1,032,210
Community service activities	12,569	-	-	12,569
Capital outlay	-	306,545	39,713	346,258

See notes to financial statements

	<u>General Fund</u>	<u>Capital projects sinking fund</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
EXPENDITURES (Concluded):				
Debt service:				
Principal repayment	\$ -	\$ -	\$ 4,318,806	\$ 4,318,806
Interest	-	-	3,273,889	3,273,889
Other costs	-	-	448	448
	<u>33,820,515</u>	<u>306,545</u>	<u>8,665,066</u>	<u>42,792,126</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>436,045</u>	<u>1,066,234</u>	<u>54,266</u>	<u>1,556,545</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital assets	1,005	-	-	1,005
Transfers from other funds	24,513	-	28,180	52,693
Transfers to other funds	-	-	(52,693)	(52,693)
	<u>25,518</u>	<u>-</u>	<u>(24,513)</u>	<u>1,005</u>
NET CHANGE IN FUND BALANCES	461,563	1,066,234	29,753	1,557,550
FUND BALANCES:				
Beginning of year	<u>3,073,835</u>	<u>3,844,239</u>	<u>219,042</u>	<u>7,137,116</u>
End of year	<u>\$ 3,535,398</u>	<u>\$ 4,910,473</u>	<u>\$ 248,795</u>	<u>\$ 8,694,666</u>

See notes to financial statements

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

Net change in fund balances total governmental funds **\$ 1,557,550**

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

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

Depreciation expense	(2,948,595)
Capital outlay	456,254

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	525,600
Accrued interest payable, end of the year	(495,887)

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

Payments on debt	4,318,806
Amortization of bond issuance costs	(34,533)
Amortization of deferred loss on refunding	(178,665)
Amortization of bond premium	207,312
Long-term interest on school bond loan fund, beginning of the year	2,025
Long-term interest on school bond loan fund, end of the year	(1,240)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue change, beginning of the year	(173,913)
Deferred revenue change, end of the year	98,841

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

Accrued compensated absences and termination benefits, beginning of the year	4,177,222
Accrued compensated absences and termination benefits, end of the year	(3,774,081)

Change in net assets of governmental activities	\$ 3,736,696
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**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2011**

	Agency Funds
	<hr/>
ASSETS:	
Cash	\$ 447,249
Accounts receivable	<hr/> 12,605
Total assets	<hr/> <hr/> \$ 459,854
LIABILITIES:	
Accounts payable	\$ 16,106
Accrued expenditures	1,925
Due to student and other groups	<hr/> 441,823
Total liabilities	<hr/> <hr/> \$ 459,854

SCHOOL DISTRICT OF THE CITY OF EAST LANSING NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services 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. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

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

The District first utilizes restricted resources to finance qualifying activities.

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

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

The District does not allocate indirect costs.

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

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

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

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Concluded)

The District reports the following major governmental funds:

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

The capital projects *sinking fund* records capital project activities funded with sinking fund millage and other sources. For the sinking fund, the District has complied with the applicable provision of §1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service activities in a special revenue fund.

The 2000, 2005 and 2005 Series B *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *2000 capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code. The certificate of substantial completion was dated March 1, 2006.

The following is a summary of the revenue and expenditures for the 2000 School Bonds activity:

Revenue and transfer in of \$1,600,000	<u>\$ 14,887,116</u>
Expenditures and transfers	<u>\$ 80,867,913</u>

The above revenue figure does not include original 2000 School Bond proceeds of \$ 66,069,465.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

Accrual Method

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. 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.

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

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal 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, state and federal aid 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 District.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2011, the foundation allowance was based on pupil membership counts taken in February and September of 2010.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes (formerly known as Non-Homestead) which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The State revenue is recognized during the foundation period and is funded through payments from October 2010 to August 2011. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.
(Concluded)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes

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

For the year ended June 30, 2011, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General fund:	
Non-Principal Residence Exemption (PRE)	18.0000
Commercial Personal Property	6.7622
Principal Residence and Industrial Personal Property	0.7622
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	7.0000
Sinking fund:	
PRE, Non-PRE, Commercial Personal Property	1.2860

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when received. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

4. 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 other outstanding balances between funds are reported as “due to/from other funds.”

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

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. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years

The District’s capitalization policy is to capitalize individual amounts exceeding \$5,000. Group purchases are evaluated on a case-by-case basis.

6. Compensated Absences

The District’s contracts generally provide for retirement incentive, vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

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

8. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

9. Net Asset Reporting

In the computation of invested in capital assets, net of related debt, school bond loan fund and school bond revolving fund principal proceeds of \$2,262,819 are considered capital-related debt. Accrued interest on the school bond loan fund and school bond revolving fund of \$1,240 has been included in the calculation of unrestricted net assets.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

10. Fund Balance

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

- Non-spendable fund balance - amounts that are in non-spendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District's Capital Projects and Debt Service fund balances are considered restricted.
- Committed fund balance - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- Assigned fund balance - amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.
- Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

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

The district has committed and adopted a minimum fund balance policy. In the general fund, the District strives to maintain an unassigned fund balance to be 8% of the actual GAAP basis expenditures and other financing sources and uses. Currently, the unassigned fund balance is slightly less than the 8% required by the minimum fund balance policy.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

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

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

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2011, the District had the following investments.

Investment type	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's rating</u>	<u>%</u>
MBIA External Investment pool - CLASS	<u>\$ 1,253,565</u>	0.0027	AAAm	<u>100%</u>

Portfolio weighted average maturity

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in pooled short term investment funds which included money market funds. One of the pooled investment funds utilized by the District is MBIA. MBIA is an external pooled investment fund of “qualified” investments for Michigan school districts. MBIA is not regulated nor is it registered with the SEC. MBIA reports as of June 30, 2011, the fair value of the District’s investments is the same as the value of the pool shares.

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

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

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

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2011, \$1,258,532 of the District’s bank balance of \$7,811,556 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. For an investment, this 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.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

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

At June 30, 2011, the carrying amounts are as follows:

Cash on hand	\$ 75
Deposits including fiduciary funds of \$447,249	7,544,143
Investments	<u>1,253,565</u>
	<u><u>\$ 8,797,783</u></u>

The above amounts are reported in the financial statements as follows:

Cash - agency fund	\$ 447,249
Cash - district-wide	7,096,969
Investments - district-wide	<u>1,253,565</u>
	<u><u>\$ 8,797,783</u></u>

NOTE 4 - RECEIVABLES

Receivables at June 30, 2011 consist of the following:

Other governmental units:

State aid	\$ 3,700,703
Federal revenue	481,266
Ingham Intermediate School District	<u>179,839</u>
	<u><u>\$ 4,361,808</u></u>

Amounts due from other governmental units include amounts due from federal, state and local sources for various projects and programs.

No allowance for doubtful accounts is considered necessary.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CAPITAL ASSETS

A summary of changes in the District's capital assets at June 30, 2011 is as follows:

	Balance July 1, 2010	Additions	Reclassifications/ deletions	Balance June 30, 2011
Assets not being depreciated:				
Land	\$ 875,044	\$ -	\$ -	\$ 875,044
Other capital assets:				
Land improvements	11,732,120	81,106	-	11,813,226
Buildings and additions	88,018,236	119,471	-	88,137,707
Furniture and equipment	7,253,468	173,261	-	7,426,729
Vehicles	955,142	82,416	-	1,037,558
Total other capital assets	107,958,966	456,254	-	108,415,220
Accumulated depreciation:				
Land improvements	3,268,614	528,851	-	3,797,465
Building and improvements	22,175,604	1,899,571	-	24,075,175
Furniture and equipment	4,309,903	449,715	-	4,759,618
Vehicles	646,747	70,458	-	717,205
Total accumulated depreciation	30,400,868	2,948,595	-	33,349,463
Net other capital assets	77,558,098	(2,492,341)	-	75,065,757
Net capital assets	\$ 78,433,142	\$ (2,492,341)	\$ -	\$ 75,940,801

Amounts included in capital assets include only items greater than \$5,000.

Depreciation for the fiscal year ended June 30, 2011 amounted to \$2,948,595. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation debts currently outstanding at June 30, 2011 are as follows:

2005 general obligation bonds due in annual installments of \$1,780,000 to \$2,795,000 through May 1, 2014, with interest at 3.00% to 5.00%.	\$ 7,160,000
2005 Series B general obligation bonds due in annual installments of \$1,880,000 to \$3,045,000 through May 1, 2030, with interest at 3.00% to 5.00%.	53,050,000
Less: Loss on bond refunding	(2,699,339)
Plus: Premium on 2005 issuance	<u>2,778,699</u>
Total general obligation	60,289,360
 Borrowing from the State of Michigan School Bond Loan Fund including interest due at the times determined by the State Treasurer, interest at 5.375% at June 30, 2010.	 2,264,059
Employee compensated absences and severance benefits	<u>3,774,081</u>
Total general long-term debt	<u><u>\$ 66,327,500</u></u>

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2011, \$59,775,000 of bonds outstanding are considered defeased.

The District entered into two 2010 voluntary termination benefit arrangements with certain employees. The agreements provide for a total payment to each individual of \$30,000. This amount is paid out over 3 equal payments. There are currently 22 employees entitled to future payments. The remaining liability is recorded at the face amount of \$440,000 for the year ended June 30, 2011, as the discounted present value approximates the face amount of the liability.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT (Continued)

The annual requirements to amortize the long-term obligations as of June 30, 2011, including interest of \$28,592,325 are as follows:

Year ending June 30,	Principal	Interest	Total
2012	\$ 4,465,000	\$ 2,975,325	\$ 7,440,325
2013	4,675,000	2,765,000	7,440,000
2014	4,050,000	2,531,250	6,581,250
2015	2,710,000	2,351,000	5,061,000
2016	2,750,000	2,215,500	4,965,500
2017 - 2021	14,395,000	8,971,000	23,366,000
2022 - 2026	15,135,000	5,281,500	20,416,500
2027 - 2030	12,030,000	1,501,750	13,531,750
	60,210,000	28,592,325	88,802,325
Loss on bond refunding	(2,699,339)	-	(2,699,339)
Unamortized premium on bond issuance	2,778,699	-	2,778,699
Accumulated compensated absences and severance benefits	3,774,081	-	3,774,081
Due to school bond loan fund	2,264,059	-	2,264,059
	<u>\$ 66,327,500</u>	<u>\$ 28,592,325</u>	<u>\$ 94,919,825</u>

Borrowing from the State of Michigan - The school bond loans payable represents notes payable to the State of Michigan for loans made to the school district, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the school district issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates ranging from 5% - 5.350% for the School Bond Loan Fund notes have been assessed for the year ended June 30, 2011. Repayment is required when the millage rate necessary to cover the annual bonded debt services falls below 7.00 mills. The school district is required to levy 7.00 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. Currently the District levies 7.00 mills. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the school district, no provision for repayment has been included in the above amortization schedule.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

An amount of \$156,385 is available in the debt service funds to service the general obligation debt.

The following is a summary of long-term obligations for the District for the year ended June 30, 2011:

	Compensated absences	School bond loan fund	Bonds and other debt	Total
Balance, July 1, 2010	\$ 4,177,222	\$ 2,293,650	\$ 64,608,007	\$ 71,078,879
Additions	450,459	119,504	-	569,963
Deletions	(853,600)	(149,095)	(4,318,647)	(5,321,342)
Balance, June 30, 2011	3,774,081	2,264,059	60,289,360	66,327,500
Less current portion	(371,972)	-	(4,465,000)	(4,836,972)
Total due after one year	<u>\$ 3,402,109</u>	<u>\$ 2,264,059</u>	<u>\$ 55,824,360</u>	<u>\$ 61,490,528</u>

NOTE 7 - OPERATING LEASES

The District leases copy machines under an operating lease agreement with the lease starting September 1, 2008 and ending June 30, 2013, with monthly payments of approximately \$3,400 a month. Expense for copy lease for the year ended June 30, 2011 was approximately \$40,560. Future operating lease commitments are as follows:

Year ending June 30,	Copier lease
2012	40,560
2013	40,560
	<u>\$ 81,120</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

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

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

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

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

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate through September 30, 2010 was 16.94% of payroll and increased to 19.41% for the base plan and 17.91% for pension plus members effective October 1, 2010 through October 31, 2010 at which time it increased again due to the number of retirees associated with the early retirement incentive to 20.66% for basic plan members and 19.16% for pension plus members for the period November 1, 2010 through June 30, 2011. In addition, the district is required to match 50% up to 1% of the employees contribution in the pension plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The health care portion is 5.5% before the 3% for the injunction. The District contributions to MPERS for the year ended June 30, 2011, 2010 and 2009 were \$3,936,297, \$3,218,984, and \$3,262,682, respectively,

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)

and were equal to the required contribution for those years.

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

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

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

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

Amounts due to and from other funds at June 30, 2011 are as follows:

<u>Receivable fund</u>	<u>Amount</u>	<u>Payable fund</u>	<u>Amount</u>
2000 Capital Projects Fund	<u>\$ 3,840</u>	Sinking Fund	<u>\$ 3,840</u>

The outstanding balances between funds result mainly 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 systems, and (3) payments between funds are made.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2011 or any of the prior three years.

NOTE 11 - TRANSFERS

The school lunch fund transferred \$24,513 to the general fund. The transfer from the school lunch fund to the general fund was made to cover indirect cost for the current year paid for by the general fund that relate to school lunch activities. These activities include utilities, phone, sewage, custodial, lunch room monitors, building repairs and maintenance of the food service area. The 2000 debt fund paid off the last of its obligations during the previous year and subsequently transferred the remaining fund balance of \$28,180 to the 2005 Series B debt fund during the year ended June 30, 2011.

NOTE 12 - SUBSEQUENT EVENT

Subsequent to year end, the Board of Education of the School District of the City of East Lansing authorized a new \$2,355,000 bond issuance, for which the proceeds will be used to refund outstanding debt.

NOTE 13 - FUND BALANCE RECLASSIFICATION

Beginning July 1, 2010, the District adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which redefined the definition of a special revenue fund. As a result, the athletic activities are now included in the general fund rather than a separate fund. This fund reclassification had no impact on the fund balance for the general fund at June 30, 2010 since the athletic fund had a fund balance of \$0 at June 30, 2010.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2011**

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	\$ 9,446,322	\$ 9,421,182	\$ 9,363,296	\$ (57,886)
State sources	19,913,431	20,335,864	20,437,380	101,516
Federal sources	1,562,304	2,057,629	1,873,011	(184,618)
Incoming transfers and other	2,498,680	2,473,695	2,582,873	109,178
Total revenues	<u>33,420,737</u>	<u>34,288,370</u>	<u>34,256,560</u>	<u>(31,810)</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	16,907,345	17,195,234	16,986,564	208,670
Added needs	<u>4,154,215</u>	<u>4,213,815</u>	<u>4,163,904</u>	<u>49,911</u>
Total instruction	<u>21,061,560</u>	<u>21,409,049</u>	<u>21,150,468</u>	<u>258,581</u>
Supporting services:				
Pupil	2,180,276	1,993,416	1,991,229	2,187
Instructional staff	2,191,814	2,432,028	2,317,832	114,196
General administration	371,002	367,801	366,127	1,674
School administration	2,162,387	2,285,765	2,279,930	5,835
Business	420,798	430,187	419,084	11,103
Operation/maintenance	3,230,970	3,343,279	3,354,943	(11,664)
Pupil transportation	734,550	766,732	762,231	4,501
Central	554,025	609,837	576,993	32,844
Athletics	<u>589,256</u>	<u>596,391</u>	<u>589,109</u>	<u>7,282</u>
Total supporting services	<u>12,435,078</u>	<u>12,825,436</u>	<u>12,657,478</u>	<u>167,958</u>
Community services	<u>36,444</u>	<u>42,920</u>	<u>12,569</u>	<u>30,351</u>
Total expenditures	<u>33,533,082</u>	<u>34,277,405</u>	<u>33,820,515</u>	<u>456,890</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(112,345)</u>	<u>10,965</u>	<u>436,045</u>	<u>425,080</u>
OTHER FINANCING SOURCES (USES):				
Sale of school property	500	1,000	1,005	5
Transfers from other funds	<u>90,000</u>	<u>75,000</u>	<u>24,513</u>	<u>(50,487)</u>
Total other financing sources (uses)	<u>90,500</u>	<u>76,000</u>	<u>25,518</u>	<u>(50,482)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (21,845)</u>	<u>\$ 86,965</u>	<u>461,563</u>	<u>\$ 374,598</u>
FUND BALANCE:				
Beginning of year			<u>3,073,835</u>	
End of year			<u>\$ 3,535,398</u>	

ADDITIONAL INFORMATION

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2011**

	Food Service Special revenue	Debt service	2000 capital projects	Total nonmajor governmental funds
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 26,224	\$ 121,076	\$ 84,828	\$ 232,128
Accounts receivable	2,440	-	-	2,440
Delinquent taxes receivable	-	35,309	-	35,309
Due from other governmental units	7,014	-	-	7,014
Due from other funds	-	-	3,840	3,840
Prepaid expenditures	6,901	-	-	6,901
Inventories	40,293	-	-	40,293
TOTAL ASSETS	\$ 82,872	\$ 156,385	\$ 88,668	\$ 327,925
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 53,062	\$ -	\$ -	\$ 53,062
Accrued salaries and related items	6,063	-	-	6,063
Deferred revenue	20,005	-	-	20,005
TOTAL LIABILITIES	79,130	-	-	79,130
FUND BALANCES:				
Nonspendable				
Prepaid expenditures	6,901	-	-	6,901
Inventories	40,293			40,293
Restricted for debt service	-	156,385	-	156,385
Restricted for capital outlay	-	-	88,668	88,668
Unassigned	(43,452)	-	-	(43,452)
TOTAL FUND BALANCES	3,742	156,385	88,668	248,795
TOTAL LIABILITIES AND FUND BALANCES	\$ 82,872	\$ 156,385	\$ 88,668	\$ 327,925

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2011**

	Food Service Special revenue	Debt service	2000 capital projects	Total nonmajor governmental funds
REVENUES:				
Local sources:				
Property taxes	\$ -	\$ 7,538,569	\$ -	\$ 7,538,569
M.S.U. reimbursement	-	105,448	-	105,448
Investment earnings	-	11,946	-	11,946
Food sales and admissions	487,407	-	-	487,407
Total local sources	487,407	7,655,963	-	8,143,370
State sources	44,248	-	-	44,248
Federal sources	531,714	-	-	531,714
Total revenues	1,063,369	7,655,963	-	8,719,332
EXPENDITURES:				
Current:				
Food service activities	1,032,210	-	-	1,032,210
Capital outlay	11,557	-	28,156	39,713
Debt service:				
Principal repayment	-	4,318,806	-	4,318,806
Interest expense	-	3,273,889	-	3,273,889
Other costs	-	448	-	448
Total expenditures	1,043,767	7,593,143	28,156	8,665,066
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	19,602	62,820	(28,156)	54,266
OTHER FINANCING SOURCES (USES):				
Transfers from other funds	-	28,180	-	28,180
Transfers to other funds	(24,513)	(28,180)	-	(52,693)
Total other financing uses	(24,513)	-	-	(24,513)
NET CHANGE IN FUND BALANCES	(4,911)	62,820	(28,156)	29,753
FUND BALANCES:				
Beginning of year	8,653	93,565	116,824	219,042
End of year	\$ 3,742	\$ 156,385	\$ 88,668	\$ 248,795

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
YEAR ENDED JUNE 30, 2011**

	Final budget	Actual	Variance with final budget
LOCAL SOURCES:			
Property taxes	\$ 8,907,838	\$ 8,836,229	\$ (71,609)
Tuition	2,100	2,250	150
Investment earnings	-	944	944
Other local revenue	286,914	296,165	9,251
Athletics	224,330	227,708	3,378
TOTAL LOCAL SOURCES	9,421,182	9,363,296	(57,886)
STATE SOURCES:			
Foundation grant	13,983,026	14,042,177	59,151
Special education	1,487,416	1,487,416	-
Other state revenue	4,865,422	4,907,787	42,365
TOTAL STATE SOURCES	20,335,864	20,437,380	101,516
FEDERAL SOURCES:			
Title I	599,331	543,622	(55,709)
Title II - improving teacher quality	282,735	188,783	(93,952)
State stabilization fund	400,104	400,104	-
Education jobs fund	386,077	386,077	-
Other federal revenue	389,382	354,425	(34,957)
TOTAL FEDERAL SOURCES	2,057,629	1,873,011	(184,618)
INCOMING TRANSFERS AND OTHER TRANSACTIONS:			
Special education	2,467,486	2,543,206	75,720
Other	6,209	39,667	33,458
TOTAL INCOMING TRANSFERS AND OTHER TRANSACTIONS	2,473,695	2,582,873	109,178
TOTAL REVENUES	34,288,370	34,256,560	(31,810)
OTHER FINANCING SOURCES:			
Sale of school property	1,000	1,005	5
Transfers from other funds	75,000	24,513	(50,487)
TOTAL OTHER FINANCING SOURCES	76,000	25,518	(50,482)
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 34,364,370	\$ 34,282,078	\$ (82,292)

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2011**

	Final budget	Actual	Variance with final budget
INSTRUCTION:			
Basic programs:			
Elementary:			
Salaries	\$ 5,922,143	\$ 5,916,769	\$ 5,374
Benefits	2,760,016	2,687,067	72,949
Purchased services	45,650	39,710	5,940
Supplies and materials	375,161	338,262	36,899
Capital outlay	49,661	29,844	19,817
Other expenses	72,091	82,570	(10,479)
Total elementary	<u>9,224,722</u>	<u>9,094,222</u>	<u>130,500</u>
Middle school:			
Salaries	1,616,677	1,614,196	2,481
Benefits	786,599	770,440	16,159
Purchased services	14,950	10,742	4,208
Supplies and materials	48,109	46,096	2,013
Capital outlay	50,894	45,284	5,610
Other expenses	20,133	23,792	(3,659)
Total middle school	<u>2,537,362</u>	<u>2,510,550</u>	<u>26,812</u>
High school:			
Salaries	3,449,317	3,443,294	6,023
Benefits	1,589,433	1,551,783	37,650
Purchased services	51,305	37,961	13,344
Supplies and materials	112,817	124,477	(11,660)
Capital outlay	80,000	71,610	8,390
Other expenses	149,000	152,560	(3,560)
Total high school	<u>5,431,872</u>	<u>5,381,685</u>	<u>50,187</u>
Summer school:			
Salaries	1,000	91	909
Benefits	278	16	262
Total summer school	<u>1,278</u>	<u>107</u>	<u>1,171</u>
Total basic programs	<u>17,195,234</u>	<u>16,986,564</u>	<u>208,670</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2011**

	Final budget	Actual	Variance with final budget
INSTRUCTION (Concluded):			
Added needs:			
Special education:			
Salaries	\$ 1,805,418	\$ 1,804,482	\$ 936
Benefits	1,132,051	1,146,978	(14,927)
Purchased services	182,500	162,096	20,404
Supplies and materials	10,000	2,402	7,598
Capital outlay	3,000	3,339	(339)
Other expenses	53,000	74,992	(21,992)
Total special education	<u>3,185,969</u>	<u>3,194,289</u>	<u>(8,320)</u>
Compensatory education:			
Salaries	655,172	636,044	19,128
Benefits	320,557	300,107	20,450
Purchased services	3,138	22	3,116
Supplies and materials	39,611	29,441	10,170
Capital outlay	4,068	-	4,068
Other expenses	5,300	4,001	1,299
Total compensatory education	<u>1,027,846</u>	<u>969,615</u>	<u>58,231</u>
Total added needs	<u>4,213,815</u>	<u>4,163,904</u>	<u>49,911</u>
TOTAL INSTRUCTION	<u>21,409,049</u>	<u>21,150,468</u>	<u>258,581</u>
SUPPORTING SERVICES:			
Pupil services:			
Salaries	1,332,677	1,327,300	5,377
Benefits	633,139	638,179	(5,040)
Purchased services	10,100	8,783	1,317
Supplies and materials	17,500	15,691	1,809
Capital outlay	-	1,276	(1,276)
Total pupil services	<u>1,993,416</u>	<u>1,991,229</u>	<u>2,187</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2011**

	Final budget	Actual	Variance with final budget
SUPPORTING SERVICES (Continued) :			
Instructional staff services:			
Salaries	\$ 1,362,797	\$ 1,318,638	\$ 44,159
Benefits	609,600	598,500	11,100
Purchased services	128,968	94,964	34,004
Supplies and materials	143,331	109,080	34,251
Capital outlay	3,681	676	3,005
Other expenses	183,651	195,974	(12,323)
Total instructional staff services	<u>2,432,028</u>	<u>2,317,832</u>	<u>114,196</u>
General administration:			
Salaries	162,504	162,505	(1)
Benefits	78,997	80,661	(1,664)
Purchased services	105,600	101,935	3,665
Supplies and materials	9,100	10,209	(1,109)
Capital outlay	500	453	47
Other expenses	11,100	10,364	736
Total general administration	<u>367,801</u>	<u>366,127</u>	<u>1,674</u>
School administration:			
Salaries	1,477,970	1,470,983	6,987
Benefits	657,171	661,435	(4,264)
Purchased services	99,080	101,312	(2,232)
Supplies and materials	23,999	19,556	4,443
Capital outlay	9,400	8,125	1,275
Other expenses	18,145	18,519	(374)
Total school administration	<u>2,285,765</u>	<u>2,279,930</u>	<u>5,835</u>
Business services:			
Salaries	217,305	216,377	928
Benefits	107,177	106,900	277
Purchased services	85,755	81,976	3,779
Supplies and materials	12,250	6,608	5,642
Capital outlay	700	478	222
Other expenses	7,000	6,745	255
Total business services	<u>430,187</u>	<u>419,084</u>	<u>11,103</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2011**

	Final budget	Actual	Variance with final budget
SUPPORTING SERVICES (Concluded):			
Operations and maintenance:			
Salaries	\$ 264,058	\$ 253,932	\$ 10,126
Benefits	158,550	149,782	8,768
Purchased services	1,795,653	1,759,888	35,765
Supplies and materials	1,078,192	1,146,349	(68,157)
Capital outlay	42,050	40,776	1,274
Other expenses	4,776	4,216	560
Total operations and maintenance	3,343,279	3,354,943	(11,664)
Transportation:			
Salaries	313,253	312,376	877
Benefits	200,229	197,635	2,594
Purchased services	96,550	91,060	5,490
Supplies and materials	67,500	73,339	(5,839)
Capital outlay	88,000	87,541	459
Other expenses	1,200	280	920
Total transportation	766,732	762,231	4,501
Central services:			
Salaries	198,019	195,964	2,055
Benefits	113,422	116,584	(3,162)
Purchased services	221,529	188,311	33,218
Supplies and materials	10,900	8,480	2,420
Capital outlay	47,275	50,736	(3,461)
Other expenses	18,692	16,918	1,774
Total central services	609,837	576,993	32,844
Athletics			
Salaries	367,365	367,238	127
Benefits	118,626	106,911	11,715
Supplies and materials	36,850	48,057	(11,207)
Other expenses	73,550	66,903	6,647
Total athletics	596,391	589,109	7,282
TOTAL SUPPORTING SERVICES	12,825,436	12,657,478	167,958

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2011**

	Final budget	Actual	Variance with final budget
COMMUNITY SERVICES:			
Purchased services	\$ 26,395	\$ 9,480	\$ 16,915
Supplies and materials	16,525	3,089	13,436
TOTAL COMMUNITY SERVICES	42,920	12,569	30,351
TOTAL EXPENDITURES	34,277,405	33,820,515	456,890

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NONMAJOR DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011**

	<u>2000 Debt</u>	<u>2005 Debt</u>	<u>Series B 2005 Debt</u>	<u>Total Nonmajor</u>
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ -	\$ 49,027	\$ 72,049	\$ 121,076
Delinquent taxes receivable	-	13,284	22,025	35,309
	<u>-</u>	<u>13,284</u>	<u>22,025</u>	<u>35,309</u>
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 62,311</u>	<u>\$ 94,074</u>	<u>\$ 156,385</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Due to other governmental funds	\$ -	\$ -	\$ -	\$ -
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES:				
Restricted for debt service	-	62,311	94,074	156,385
	<u>-</u>	<u>62,311</u>	<u>94,074</u>	<u>156,385</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 62,311</u>	<u>\$ 94,074</u>	<u>\$ 156,385</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NONMAJOR DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2011**

	<u>2000 Debt</u>	<u>2005 Debt</u>	<u>Series B 2005 Debt</u>	<u>Total Nonmajor</u>
REVENUES:				
Local sources:				
Property taxes	\$ -	\$ 2,841,859	\$ 4,696,710	\$ 7,538,569
M.S.U reimbursement	-	105,448	-	105,448
Interest	-	5,018	6,928	11,946
	<u>-</u>	<u>2,952,325</u>	<u>4,703,638</u>	<u>7,655,963</u>
EXPENDITURES:				
Redemption of bonds	-	2,428,268	1,890,538	4,318,806
Interest on bonded debt	-	494,082	2,779,807	3,273,889
Agent fees	-	223	225	448
	<u>-</u>	<u>2,922,573</u>	<u>4,670,570</u>	<u>7,593,143</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>29,752</u>	<u>33,068</u>	<u>62,820</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers to other funds	(28,180)	-	-	(28,180)
Operating transfers from other funds	-	-	28,180	28,180
	<u>(28,180)</u>	<u>-</u>	<u>28,180</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(28,180)</u>	<u>29,752</u>	<u>61,248</u>	<u>62,820</u>
FUND BALANCES:				
Beginning of year	<u>28,180</u>	<u>32,559</u>	<u>32,826</u>	<u>93,565</u>
End of year	<u>\$ -</u>	<u>\$ 62,311</u>	<u>\$ 94,074</u>	<u>\$ 156,385</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
CAPITAL PROJECTS FUND - SINKING FUND
DETAILS OF EXPENDITURES
YEAR ENDED JUNE 30, 2011**

EXPENDITURES:

Donley Elementary	\$ 17,607
Glencairn Elementary	5,297
Marble Elementary	7,571
Pinecrest Elementary	1,597
Red Cedar Elementary	7,737
Whitehills Elementary	3,568
MacDonald Middle School	54,828
East Lansing High School	189,711
Timberlane Facility	5,259
Service Center	661
Athletic Fields	<u>12,709</u>
Total expenditures	<u><u>\$ 306,545</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
2000 CAPITAL PROJECTS FUND
DETAILS OF EXPENDITURES
YEAR ENDED JUNE 30, 2011**

MacDonald Middle School:	
Technology	\$ 7,491
East Lansing High School:	
Technology	3,989
Pool:	
Furnishings, remodeling, and site development	<u>16,676</u>
Total expenditures	<u><u>\$ 28,156</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
FIDUCIARY FUND - AGENCY FUND
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY SCHOOL
YEAR ENDED JUNE 30, 2011**

	Balance 7/1/10	Additions	Deductions	Balance 6/30/11
East Lansing High School	\$ 293,020	\$ 371,901	\$ 386,170	\$ 278,751
MacDonald Middle School	24,367	30,823	29,228	25,962
Donley Elementary School	15,648	17,137	18,216	14,569
Glencairn Elementary School	11,252	21,153	21,039	11,366
Marble Elementary School	22,785	29,833	28,875	23,743
Pinecrest Elementary School	8,857	16,182	18,646	6,393
Red Cedar Elementary School	8,818	39,783	35,091	13,510
Whitehills Elementary School	14,294	23,939	21,926	16,307
Other	51,337	26,662	26,777	51,222
	<u>\$ 450,378</u>	<u>\$ 577,413</u>	<u>\$ 585,968</u>	<u>\$ 441,823</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
COMBINED DEBT SERVICE REQUIREMENTS
JUNE 30, 2011**

Year ending June 30,	2005 Debt	2005 Series B Debt	Combined
2012	2,907,825	4,532,500	\$ 7,440,325
2013	3,001,500	4,438,500	7,440,000
2014	1,846,750	4,734,500	6,581,250
2015		5,061,000	5,061,000
2016	-	4,965,500	4,965,500
2017	-	4,873,000	4,873,000
2018	-	4,778,250	4,778,250
2019	-	4,676,250	4,676,250
2020	-	4,572,250	4,572,250
2021	-	4,466,250	4,466,250
2022	-	4,353,250	4,353,250
2023	-	4,238,500	4,238,500
2024	-	4,097,000	4,097,000
2025	-	3,950,000	3,950,000
2026	-	3,777,750	3,777,750
2027	-	3,606,500	3,606,500
2028	-	3,481,250	3,481,250
2029	-	3,309,750	3,309,750
2030	-	3,134,250	3,134,250
	<u>\$ 7,756,075</u>	<u>\$ 81,046,250</u>	<u>\$ 88,802,325</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2005 DEBT (REFUNDING OF 1991 AND 1996 DEBT)
JUNE 30, 2011**

Bond issued to provide funds to advance refund all or a portion of the School District's outstanding 1991 School Building and Site Bonds and 1996 Refunding Bonds.

2005 Debt (refunding of 1991 and 1996 debt)

Calendar year	Principal due May 1,	Interest due		Total due annually
		November 1	May 1	
2012	2,585,000	161,412	161,413	2,907,825
2013	2,795,000	103,250	103,250	3,001,500
2014	1,780,000	33,375	33,375	1,846,750
Total 2000 bonded debt	<u>\$ 7,160,000</u>	<u>\$ 298,037</u>	<u>\$ 298,038</u>	<u>\$ 7,756,075</u>

The above bonds have interest rates from 3.00% to 5.00%. The amount of the original bond issue was \$18,815,000.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2005 DEBT SERIES B (REFUNDING OF 2000 DEBT)
JUNE 30, 2011**

Bond issued to provide funds to advance refund a portion of the School District's outstanding 2000 School Building and Site Bonds.

2005 Debt Series B (refunding of 2000 debt)

Calendar year	Principal due May 1,	Interest due		Total due annually
		November 1	May 1	
2012	1,880,000	1,326,250	1,326,250	4,532,500
2013	1,880,000	1,279,250	1,279,250	4,438,500
2014	2,270,000	1,232,250	1,232,250	4,734,500
2015	2,710,000	1,175,500	1,175,500	5,061,000
2016	2,750,000	1,107,750	1,107,750	4,965,500
2017	2,795,000	1,039,000	1,039,000	4,873,000
2018	2,840,000	969,125	969,125	4,778,250
2019	2,880,000	898,125	898,125	4,676,250
2020	2,920,000	826,125	826,125	4,572,250
2021	2,960,000	753,125	753,125	4,466,250
2022	2,995,000	679,125	679,125	4,353,250
2023	3,030,000	604,250	604,250	4,238,500
2024	3,040,000	528,500	528,500	4,097,000
2025	3,045,000	452,500	452,500	3,950,000
2026	3,025,000	376,375	376,375	3,777,750
2027	3,005,000	300,750	300,750	3,606,500
2028	3,030,000	225,625	225,625	3,481,250
2029	3,010,000	149,875	149,875	3,309,750
2030	2,985,000	74,625	74,625	3,134,250
Total 2000 bonded debt	<u>\$ 53,050,000</u>	<u>\$ 13,998,125</u>	<u>\$ 13,998,125</u>	<u>\$ 81,046,250</u>

The above bonds have interest rates from 3.00% to 5.00%. The amount of the original bond issue was \$55,475,000.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
INVESTMENT SCHEDULE
JUNE 30, 2011**

	<u>Interest rate</u>	<u>Amount</u>
General fund:		
Michigan Class Pool	0.22%	\$ 128,996
Sinking fund:		
Michigan Class Pool	0.22%	<u>1,124,569</u>
Total investments		<u><u>\$ 1,253,565</u></u>

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2011

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

To the Board of Education
School District of the City of East Lansing

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the School District of the City of East Lansing as of and for the year ended June 30, 2011, which collectively comprise the School District of the City of East Lansing's basic financial statements and issued our report thereon dated September 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District of the City of East Lansing'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 School District of the City of East Lansing's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of East Lansing's internal control over financial reporting.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the School District of the City of East Lansing in a separate letter dated September 7, 2011.

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

Maney Costeiran PC

September 7, 2011

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

INDEPENDENT AUDITORS' REPORT

To the Board of Education
School District of the City of East Lansing

Compliance

We have audited the School District of the City of East Lansing'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 School District of the City of East Lansing's major federal programs for the year ended June 30, 2011. The School District of the City of East Lansing'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 School District of the City of East Lansing's management. Our responsibility is to express an opinion on the School District of the City of East Lansing'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. 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 School District of the City of East Lansing'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 School District of the City of East Lansing's compliance with those requirements.

In our opinion, the School District of the City of East Lansing complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the School District of the City of East Lansing 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 School District of the City of East Lansing'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 School District of the City of East Lansing'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 a 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of East Lansing as of and for the year ended June 30, 2011, and have issued our report thereon dated September 7, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the School District of the City of East Lansing's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Manes Costeiran PC

September 7, 2011

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

Federal grantor/pass-through grantor/program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2010	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2011
<u>U.S. Department of Agriculture:</u>								
Passed through the Michigan Department of Education:								
Child Nutrition Cluster:								
Non-Cash Assistance (Donated Foods):								
National School Lunch Program	10.550							
Entitlement			\$ 63,638	\$ -	\$ -	\$ 61,481	\$ 61,481	\$ -
Bonus			2,717	-	-	2,717	2,717	-
Total Non-Cash Assistance			66,355	-	-	64,198	64,198	-
Cash Assistance:								
National School Lunch - Breakfast	10.553	101970	88,357	-	81,073	7,284	7,284	-
		111970	83,269	-	-	83,269	83,269	-
			171,626	-	81,073	90,553	90,553	-
National School Lunch	10.555	101950	62,159	-	55,519	6,640	6,640	-
		101960	305,008	-	273,709	31,299	31,299	-
		111950	59,203	-	-	59,203	59,203	-
		111960	279,821	-	-	279,821	279,821	-
			706,191	-	329,228	376,963	376,963	-
Total Cash Assistance			877,817	-	410,301	467,516	467,516	-
Total U.S. Department of Agriculture			944,172	-	410,301	531,714	531,714	-

The accompanying notes are an integral part of this schedule.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

Federal grantor/pass-through grantor/program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2009	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2010
<u>U.S. Department of Education:</u>								
Passed through the Michigan Department of Education:								
Title I Cluster:								
Title I Part A - Improving Basic Programs	84.010	101530 0910	\$ 679,122	\$ 111,897	\$ 635,246	\$ 114,879	\$ 2,982	\$ -
		111530 1011	596,349	-	-	454,413	540,640	86,227
			1,275,471	111,897	635,246	569,292	543,622	86,227
ARRA Title I Part A - Improving Basic Programs	84.389	101535 0910	217,872	13,272	217,872	13,272	-	-
Total Title I Cluster			1,493,343	125,169	853,118	582,564	543,622	86,227
ARRA Title II Part D - Enhancing Education through Technology	84.386	104295 0910	6,443	377	6,443	377	-	-
		114295 1011	4,873	-	-	3,624	4,781	1,157
			11,316	377	6,443	4,001	4,781	1,157
Title III - Limited English Proficient	84.365A	100580 0910	27,633	10,357	10,357	18,077	32,291	24,571
Title II Part A - Improving Teacher Quality	84.367	100520 0910	250,186	12,241	155,921	15,834	3,593	-
		110520 1011	274,270	-	-	155,063	180,409	25,346
			524,456	12,241	155,921	170,897	184,002	25,346

The accompanying notes are an integral part of this schedule.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

Federal grantor/pass-through grantor/program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2009	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2010
<u>U.S. Department of Education (Concluded):</u>								
Passed through the Michigan Department of Education (Concluded):								
ARRA State Fiscal Stabilization Fund	84.394	102525 0910	\$ 955,951	\$ 147,899	\$ 955,951	\$ 147,899	\$ -	\$ -
		112525 1011	400,104	-	-	308,802	400,104	91,302
			1,356,055	147,899	955,951	456,701	400,104	91,302
Education Jobs Fund	84.410	102525 0910	386,077	-	-	324,763	386,077	61,314
Total passed through Michigan Department of Education			3,798,880	296,043	1,981,790	1,557,003	1,550,877	289,917
Passed through Ingham Intermediate School District:								
Special Education Cluster:								
IDEA Preschool	84.173	100460 0910	20,364	18,598	18,598	18,598	-	-
		110460 1011	16,051	-	-	-	16,051	16,051
			36,415	18,598	18,598	18,598	16,051	16,051
ARRA IDEA Flowthrough	84.391	100455 0910	233,659	108,578	225,144	108,578	-	-
		100455 1011	313,592	-	-	120,234	283,144	162,910
			547,251	108,578	225,144	228,812	283,144	162,910
ARRA IDEA Preschool	84.392	100465 0910	11,653	10,614	10,614	10,614	-	-
		100465 1011	12,388	-	-	-	12,388	12,388
			24,041	10,614	10,614	10,614	12,388	12,388
Total Special Education Cluster			607,707	137,790	254,356	258,024	311,583	191,349
Total U.S. Department of Education			4,406,587	433,833	2,236,146	1,815,027	1,862,460	481,266
<u>U.S. Department of Health and Human Services:</u>								
Passed through Ingham Intermediate School District:								
Medicaid Administrative Outreach	93.778		59,211	2,833	48,660	13,384	10,551	-
Total Expenditures of Federal Awards			\$ 5,409,970	\$ 436,666	\$ 2,695,107	\$ 2,360,125	\$ 2,404,725	\$ 481,266

The accompanying notes are an integral part of this schedule.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of the School District of the City of East Lansing and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. State Fiscal Stabilization Fund (CFDA #84.394), Education Jobs Fund (CFDA #84.410), and the Special Education Cluster (CFDA #84.173, #84.391, and #84.392) were audited as major programs, representing 46% of expenditures. The District is a low risk auditee.
3. The threshold for distinguishing type A and type B programs was \$300,000.
4. Management has utilized the Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.
5. Reconciliation of federal revenues reported on financial statements with expenditures per schedule of expenditures of federal awards:

Federal revenue, per financial statements:

General fund:

Federal sources	\$ 1,873,011
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Other nonmajor governmental funds:

Federal sources	<u>531,714</u>
	<u><u>\$ 2,404,725</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unqualified*

➤ Material weakness(es) identified: _____ Yes X No

➤ Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ 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 that are not considered to be material weaknesses? _____ 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 with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.394	State Fiscal Stabilization Fund
84.410	Education Jobs Fund
84.173, 84.391, 84.392	Special Education Cluster

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

Section III - Federal Award Findings and Questioned Costs

None

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011**

There were no findings disclosed for the past two years.