



BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

BAY CITY, MICHIGAN

FINANCIAL STATEMENTS AND SINGLE AUDIT REPORT

For the Year Ended June 30, 2009

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

October 1, 2009

Board of Education
Bay Arenac Intermediate School District
Bay City, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Bay Arenac Intermediate School District** (the "District") as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 Bay Arenac Intermediate School District, as of June 30, 2008, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2009 on our consideration of the District's internal control over financial reporting and 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 on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 Bay Arenac Intermediate School District's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, and is also not a required part of the basic financial statements of the District. The combining and individual fund financial statements, and accompanying schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

As described in Note IV.F. to the financial statements, beginning net assets of governmental activities were increased by \$756,216, to properly recognize revenue attributable to the long-term Durant settlement receivable that had not been recognized in prior years.

A handwritten signature in cursive script that reads "Lehmann Johnson".

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of Bay Arenac Intermediate School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$21,191,722 (*net assets*). Of this amount, \$2,785,351 (*unrestricted net assets*) may be used to meet the District's ongoing obligations for general district programs.
- The District's total net assets decreased by \$24,483.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$10,828,894, a decrease of \$555,263 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,932,330, or 66 percent of total general fund expenditures and transfers out.
- Investments for the future were made by the spending approximately \$1,000,000 on school improvements, and equipment.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The activities of the District include instruction, supporting services, community services and transfers to locals.

The government-wide financial statements can be found on pages 11 and 12 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District fall within the governmental and fiduciary fund type categories.

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

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

The District maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, special education special revenue fund, regional vocational education special revenue fund and debt service fund, each of which are considered to be a major fund. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 13-21 of this report.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-35 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining fund statements can be found on pages 36-38 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$21,191,722 at the close of the most recent fiscal year.

By far the largest portion of the District's net assets (49.9%) reflect net assets invested in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. Additional portions reflect net assets available for special education purposes (23.8%), net assets available for regional vocational education purposes (11.7%) and net assets available for Medicaid Outreach services (1.5%). The District uses these capital assets to provide services to the students and local school districts it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

District's Net Assets

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Current and other assets	\$14,963,088	\$15,598,635
Capital assets, net	<u>13,806,771</u>	<u>13,389,806</u>
Total assets	<u>28,800,122</u>	<u>28,988,441</u>
Long-term liabilities outstanding	4,093,398	4,339,266
Other liabilities	<u>3,515,002</u>	<u>3,432,970</u>
Total liabilities	<u>7,608,400</u>	<u>7,772,236</u>
Net assets:		
Invested in capital assets, net of related debt	10,567,831	9,210,582
Restricted	7,838,540	8,474,873
Unrestricted	<u>2,785,351</u>	<u>3,530,750</u>
Total net assets	<u>\$21,191,722</u>	<u>\$21,216,205</u>

The remaining balance of *unrestricted net assets* (13.1%) may be used to meet the District's ongoing obligations to its general programs.

At the end of the current fiscal year, the District was able to report positive balances in all three categories of net assets. The same situation held true for the prior fiscal year.

The District's net assets decreased by \$24,483 during the current fiscal year. The decrease was due to the continued transfer of cash assets into physical assets and labor. This trend will increase in the next two years as the ISD weathers the extremely difficult financial situation confronting school districts in Michigan. Efforts are underway to minimize this but a 3-5% reduction in net assets is expected during both the 2009-10 and 2010-11 fiscal years.

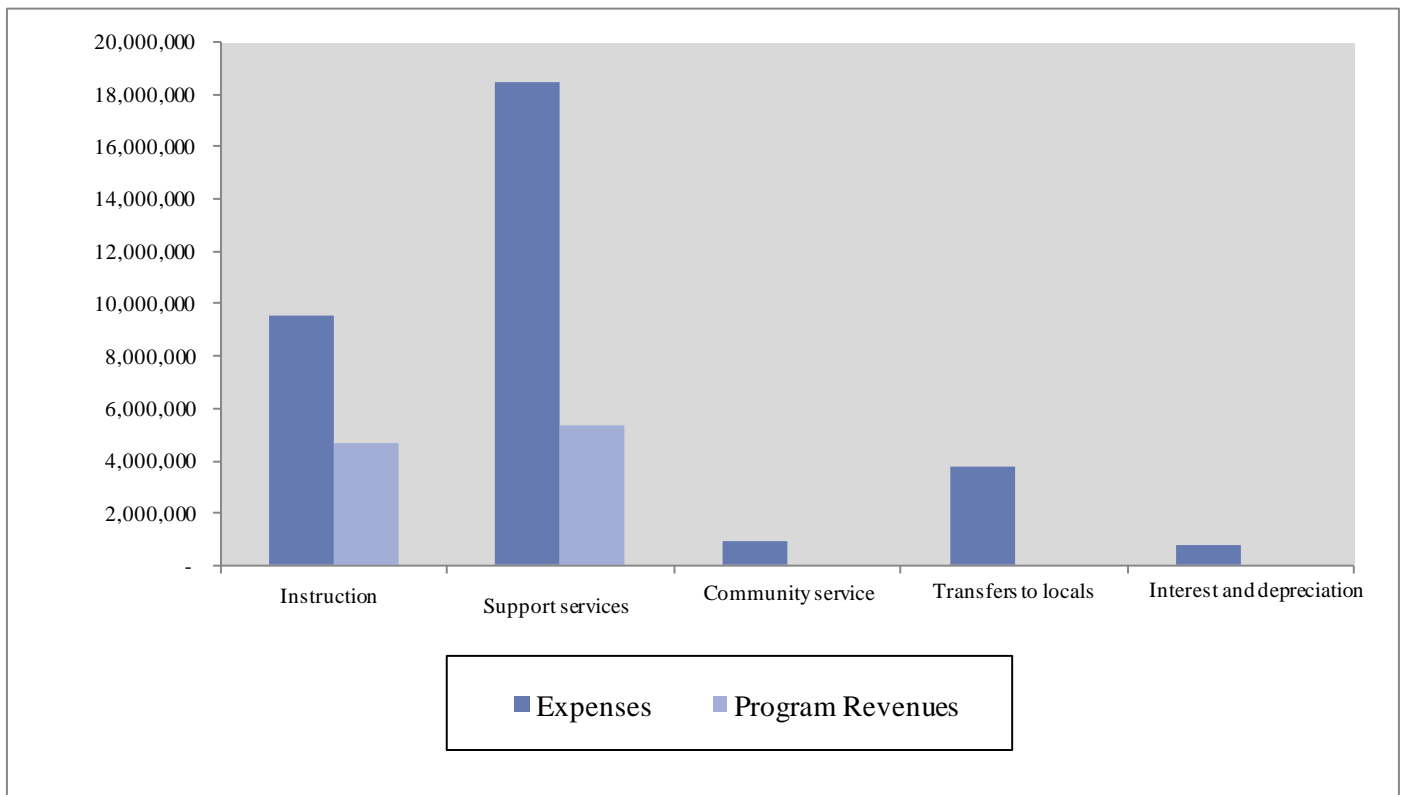
District's Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Revenue:		
Program revenue:		
Charges for services	\$ 2,045,176	\$ 1,990,704
Operating grants and contributions	7,918,586	7,998,445
General revenue:		
Property taxes	17,670,291	17,681,692
State school aid	4,954,992	5,811,182
Grants and contributions not restricted to specific programs	757,121	488,942
Interest and investment earnings	<u>131,795</u>	<u>571,178</u>
Total revenue	<u>33,477,961</u>	<u>34,542,143</u>
Expenses:		
Instruction	9,575,586	9,165,725
Supporting services	18,502,341	18,373,887
Community services	880,544	413,333
Transfers to locals and other services	3,759,258	3,848,597
Unallocated depreciation	615,791	586,522
Interest on long-term debt	<u>168,924</u>	<u>146,317</u>
Total expenses	<u>33,502,444</u>	<u>32,534,381</u>
(Decrease) increase in net assets	(24,483)	2,007,762
Net assets, beginning of year	<u>21,216,205</u>	<u>19,208,443</u>
Net assets, end of year	<u>\$ 21,191,722</u>	<u>\$ 21,216,205</u>

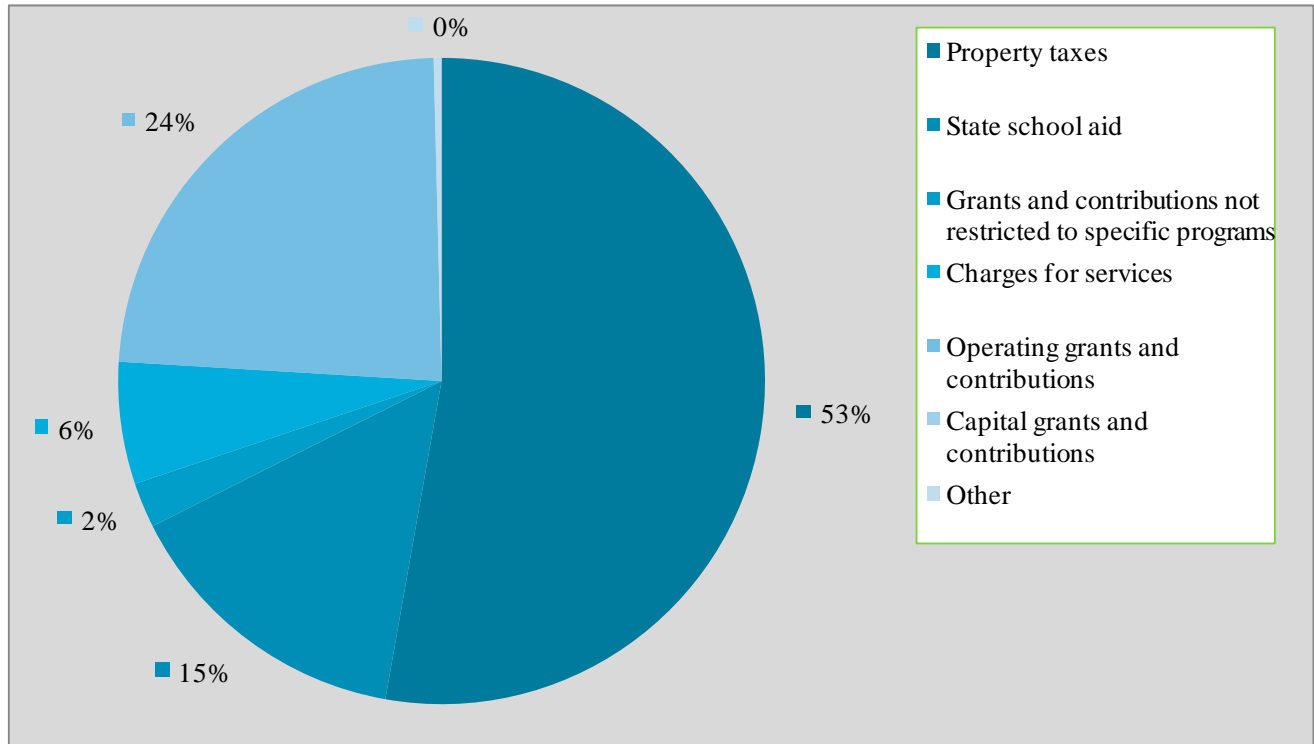
Governmental activities. Net assets decreased by \$24,483. Key elements of this decrease are as follows:

- A substantial investment of cash into physical plant. Over \$500,000 of existing fund balance was used to complete the Career Center's Allied Health Wing.
- The first bond payment due on the Allied Health was paid during 2008-09.
- Interest on long-term debt increased due to the State of Michigan refinancing the 1998 school improvement bond, and no interest or principle payment was made during the 2007-08 school year. Future payments of interest increase due to this refinancing.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - District Activities



Financial Analysis of the Government's Funds

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

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

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,932,330. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents approximately 66 percent of total general fund expenditures and transfers out.

The fund balance of the District's general fund increased by \$13,984 during the current fiscal year. The largest revenue source in this fund is state revenue which includes primarily state aid. Expenditures consist primarily of costs associated with providing curriculum, and technical support to the local school districts.

The special education special revenue fund has a total fund balance of \$5,034,413, which increased by \$259,002 from the prior year. These resources are restricted for special education programs administered by the District and transfers to local districts for special education programs. The largest portion of this fund's revenue comes from property taxes while the largest expenditure is transfers to local districts.

The vocational education fund has a total fund balance of \$2,489,869 which decreased by \$75,075 from the prior year. These resources are restricted for vocational education purposes.

The debt service funds incurred \$388,444 in debt service costs during the year which were funded through transfers from those funds benefiting from the related bond financed projects. The capital project fund, which is closed at year-end incurred \$1,224,136 in capital outlay costs during the year, funded through transfers of local revenue sources and proceeds from the 2007 Building and Site bond issue.

Budgetary Highlights

Bay-Arenac ISD continues to budget in a very conservative manor. Only known revenues and budgeted for. Expenditures are budget at expected or worst case level. This continues to produce positive annual budget to actual activity. The ISD also takes a very proactive position to address budget shortfalls during any given fiscal year. All this leads to very few noteworthy budget events.

In the general fund there was a large variance between the original and final amended budgets. Several grants were not included in the original budget. The affected grants were as follows including the approximate adjustment: Parent Involvement and Education (“PIE”) \$235,000, Great Parent Great Start \$250,000, High Priority School \$70,000, Title 1 \$100. These grants included both revenue and expense adjustment so there is no impact on the over/under revenue amount. The Section 81 revenue budget was increased \$94,000 that resulted in an increase in the amount over revenue.

Capital Asset and Debt Administration

Capital assets. The District’s investment in capital assets for its governmental type activities as of June 30, 2009, amounted to \$13,806,771 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, furniture and equipment.

The Major capital asset event during the current fiscal year was completion of the Career Center’s Allied Health Wing. Including furnishings and equipment the total cost was over \$6,000,000. Bay-Arenac ISD annually upgrades and/or replaces aging equipment, facilities and furnishings. This investment during 2008-09 exceeded the depreciation expense by over \$400,000.

District’s Capital Assets (net of depreciation) June 30, 2009

Land	\$ 40,000
Buildings and improvements	12,685,988
Furniture and equipment	<u>1,080,783</u>
Total	<u>\$13,806,771</u>

Additional information on the District’s capital assets can be found in Note III.C on page 30 of this report.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$3,918,532. Of this balance \$653,532 is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations, and is payable solely from state aid payments from the State of Michigan. The remaining balance of \$3,265,000 represents general obligation bonds of the District.

The District's total bonded debt decreased by \$226,352 during the current fiscal year, with no new debt issuances.

Additional information on the District's long-term debt can be found in Note III.E on page 32 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2009-10 fiscal year:

- Property tax revenue to decrease 3.00%.
- Categorical changes projected in state aid due remained flat.
- Wages were projected to increase 2.0% per negotiated contract.
- Health Care to increase 10%.
- Retirement rate to increase from 16.54% to 17.30%.
- Federal revenue projections were done on a grant-by-grant basis, with offsetting expenditures in all cases.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 4228 Two Mile Road, Bay City, Michigan, 48706-9723.

BASIC FINANCIAL STATEMENTS

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Statement of Net Assets

June 30, 2009

	Governmental Activities
Assets	
Current assets:	
Cash and investments	\$ 11,165,671
Receivables	3,414,502
Inventories	200,963
Prepaid items	181,952
Total current assets	<u>14,963,088</u>
Noncurrent assets:	
Unamortized bond issuance costs	30,263
Capital assets:	
Capital assets not being depreciated	40,000
Capital assets being depreciated	22,238,681
Less accumulated depreciation	(8,471,910)
Total capital assets	<u>13,806,771</u>
Total assets	<u>28,800,122</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	2,680,977
Unearned revenue	834,025
Bonds payable due within one year	425,570
Compensated absences due within one year	8,856
Total current liabilities	<u>3,949,428</u>
Noncurrent liabilities	
Bonds payable, net of current portion	3,466,902
Compensated absences payable, net of current portion	192,070
Total liabilities	<u>7,608,400</u>
Net assets	
Invested in capital assets, net of related debt	10,567,831
Restricted for:	
Special education	5,034,413
Vocational education	2,489,869
Medicaid outreach	314,258
Unrestricted	2,785,351
Total net assets	<u>\$ 21,191,722</u>

The accompanying notes are an integral part of the basic financial statements.

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Statement of Activities

For The Year Ended June 30, 2009

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction	\$ 9,575,586	\$ 156,679	\$ 4,496,433	\$ (4,922,474)
Supporting services	18,502,341	1,888,497	3,422,153	(13,191,691)
Community services	880,544	-	-	(880,544)
Transfers to other districts and other services	3,759,258	-	-	(3,759,258)
Unallocated depreciation	615,791	-	-	(615,791)
Interest on long-term debt	168,924	-	-	(168,924)
Total governmental activities	\$ 33,502,444	\$ 2,045,176	\$ 7,918,586	(23,538,682)
General revenues:				
Property taxes:				
General				678,516
Special education				10,195,556
Vocational education				6,796,219
Unrestricted state school aid				4,954,992
Grants and contributions not restricted to specific programs				757,121
Unrestricted investment earnings				131,795
Total general revenues				23,514,199
Change in net assets				(24,483)
Net assets, beginning of year, as restated				21,216,205
Net assets, end of year				<u>\$ 21,191,722</u>

The accompanying notes are an integral part of the basic financial statements.

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Balance Sheet Governmental Funds June 30, 2009

	<u>General</u>	<u>Special Education</u>
Assets		
Cash and investments	\$ 4,876,279	\$ 4,213,931
Receivables:		
Taxes	99	1,489
Accounts	75,495	38,978
Due from other funds	-	655,632
Due from other governments	380,367	1,655,231
Inventories	24,076	-
Prepaid items	33,948	93,748
	<u> </u>	<u> </u>
Total assets	<u>\$ 5,390,264</u>	<u>\$ 6,659,009</u>
Liabilities and fund balances		
Liabilities		
Accounts payable	\$ 57,941	\$ 105,904
Accrued payroll and other liabilities	41,712	1,518,692
Due to other funds	1,229,929	-
Deferred revenue	756,070	-
	<u> </u>	<u> </u>
Total liabilities	<u>2,085,652</u>	<u>1,624,596</u>
Fund balances		
Reserved for:		
Inventories	24,076	-
Prepaid items	33,948	93,748
Medicaid outreach expenditures	314,258	-
Unreserved:		
Undesignated	2,932,330	4,940,665
	<u> </u>	<u> </u>
Total fund balances	<u>3,304,612</u>	<u>5,034,413</u>
	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 5,390,264</u>	<u>\$ 6,659,009</u>

The accompanying notes are an integral part of the basic financial statements.

Regional Vocational Education	Nonmajor Governmental Funds	Total
\$ 2,075,461	\$ -	\$ 11,165,671
992	-	2,580
19,793	-	134,266
574,297	-	1,229,929
588,526	653,532	3,277,656
176,887	-	200,963
54,256	-	181,952
<u>\$ 3,490,212</u>	<u>\$ 653,532</u>	<u>\$ 16,193,017</u>
\$ 419,484	\$ -	\$ 583,329
502,904	-	2,063,308
-	-	1,229,929
77,955	653,532	1,487,557
<u>1,000,343</u>	<u>653,532</u>	<u>5,364,123</u>
176,887	-	200,963
54,256	-	181,952
-	-	314,258
<u>2,258,726</u>	<u>-</u>	<u>10,131,721</u>
<u>2,489,869</u>	<u>-</u>	<u>10,828,894</u>
<u>\$ 3,490,212</u>	<u>\$ 653,532</u>	<u>\$ 16,193,017</u>

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2009

Fund balances - total governmental funds	\$ 10,828,894
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Amounts reported for governmental activities in the statement of net assets are different because:

Long-term receivables are reported as an asset and revenue when earned on the statement of net assets while the governmental funds report these balances as an asset and deferred revenue until the availability criterion for revenue recognition is met.

Add - deferred long-term receivable	653,532
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	22,278,681
Deduct - accumulated depreciation	(8,471,910)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Add - unamortized bond issuance costs	30,263
Add - unamortized bond discount	26,060
Deduct - bonds payable	(3,918,532)
Deduct - accrued interest on bonds payable	(34,340)
Deduct - compensated absences	(200,926)
	(3,918,532)

Net assets of governmental activities	<u><u>\$ 21,191,722</u></u>
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The accompanying notes are an integral part of the basic financial statements.

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Statement of Revenue, Expenditures and Changes in Fund Balances Governmental Funds For The Year Ended June 30, 2009

	<u>General</u>	<u>Special Education</u>
Revenue		
Local sources	\$ 2,795,587	\$ 11,651,981
State sources	1,411,206	3,422,798
Federal sources	297,310	4,078,873
	<u>4,504,103</u>	<u>19,153,652</u>
Total revenue		
Expenditures		
Current:		
Instruction	121,884	4,645,960
Supporting services	3,727,848	10,885,685
Community services	433,655	436,731
Transfers to local districts	170,126	2,922,249
Debt service:		
Principal	3,668	-
Interest	35	-
Capital outlay	32,903	4,025
	<u>4,490,119</u>	<u>18,894,650</u>
Total expenditures		
Revenue over (under) expenditures	<u>13,984</u>	<u>259,002</u>
Other financing sources (uses)		
Transfers in	-	-
Transfers out	-	-
	<u>-</u>	<u>-</u>
Total other financing sources (uses)		
Net changes in fund balances	13,984	259,002
Fund balances, beginning of year	<u>3,290,628</u>	<u>4,775,411</u>
Fund balances, end of year	<u>\$ 3,304,612</u>	<u>\$ 5,034,413</u>

The accompanying notes are an integral part of the basic financial statements.

Regional Vocational Education	Nonmajor Governmental Funds	Total
\$ 8,021,624	\$ 134,297	\$ 22,603,489
829,544	-	5,663,548
937,425	-	5,313,608
<u>9,788,593</u>	<u>134,297</u>	<u>33,580,645</u>
4,807,742	-	9,575,586
3,634,216	-	18,247,749
10,158	-	880,544
666,883	-	3,759,258
-	222,684	226,352
-	165,760	165,795
19,560	1,224,136	1,280,624
<u>9,138,559</u>	<u>1,612,580</u>	<u>34,135,908</u>
<u>650,034</u>	<u>(1,478,283)</u>	<u>(555,263)</u>
-	725,109	725,109
(725,109)	-	(725,109)
<u>(725,109)</u>	<u>725,109</u>	<u>-</u>
(75,075)	(753,174)	(555,263)
<u>2,564,944</u>	<u>753,174</u>	<u>11,384,157</u>
<u>\$ 2,489,869</u>	<u>\$ -</u>	<u>\$ 10,828,894</u>

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For The Year Ended June 30, 2009

Net change in fund balances - total governmental funds \$ (555,263)

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

Long-term receivables are reported as revenue when earned on the statement of activities while the governmental funds report these balances as revenue when the available criteria for revenue recognition occurs.

Deduct - change in deferred long-term receivables (102,684)

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

Add - capital outlay 1,032,756
Deduct - depreciation expense (615,791)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but is recorded as a reduction in bonds payable on the government-wide statements.

Add - principal payments on bonds and notes payable 226,352

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

Deduct - increase in the accrual for compensated absences (6,724)
Deduct - amortization of bond issuance costs (1,681)
Deduct - amortization of bond discount (1,448)

Change in net assets of governmental activities \$ (24,483)

The accompanying notes are an integral part of the basic financial statements.

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

**Statement of Revenue, Expenditures
and Changes in Fund Balances
Budget and Actual
General and Major Special Revenue Funds
For The Year Ended June 30, 2009**

	General			Variance with Final Budget
	Budgeted Amounts		Actual	
	Original	Final		
Revenue				
Local sources:				
Property taxes	\$ 687,657	\$ 687,657	\$ 678,516	\$ (9,141)
Other	344,381	390,463	375,298	(15,165)
Transfers from districts	1,735,853	1,987,423	1,741,773	(245,650)
State sources	1,259,039	1,677,993	1,411,206	(266,787)
Federal sources	374,126	490,310	297,310	(193,000)
Total revenue	4,401,056	5,233,846	4,504,103	(729,743)
Expenditures				
Current:				
Instruction:				
Basic programs	16,502	69,886	61,601	(8,285)
Adult continuing education	-	-	-	-
Student instruction and added needs	111,345	174,526	60,283	(114,243)
Supporting services:				
Pupil services	36,209	160,470	61,418	(99,052)
Instructional staff	2,354,840	2,390,292	1,936,395	(453,897)
General administration	206,890	214,466	194,450	(20,016)
School administration	-	-	-	-
Business services	414,746	462,933	388,458	(74,475)
Operation and maintenance	223,356	239,068	204,026	(35,042)
Transportation services	-	-	-	-
Central services	1,126,949	1,147,338	943,262	(204,076)
Other support services	-	-	(161)	(161)
Community services	318,746	689,027	433,655	(255,372)
Transfers to local districts	136,730	170,126	170,126	-
Debt service:				
Principal	3,400	3,686	3,668	(18)
Interest	400	18	35	17
Capital outlay	30,500	32,600	32,903	303
Total expenditures	4,980,613	5,754,436	4,490,119	(1,264,317)
Revenue over (under) expenditures	(579,557)	(520,590)	13,984	534,574
Other financing uses				
Transfers out	-	-	-	-
Net change in fund balances	(579,557)	(520,590)	13,984	534,574
Fund balances, beginning of year	3,290,628	3,290,628	3,290,628	-
Fund balances, end of year	\$ 2,711,071	\$ 2,770,038	\$ 3,304,612	\$ 534,574

Special Education Fund			
Budgeted Amounts		Actual	Variance with Final Budget
Original	Final		
\$ 10,325,614	\$ 10,325,614	\$ 10,195,556	\$ (130,058)
1,480,194	936,881	1,390,685	453,804
50,115	48,900	65,740	16,840
3,006,220	2,993,785	3,422,798	429,013
4,514,597	4,476,838	4,078,873	(397,965)
<u>19,376,740</u>	<u>18,782,018</u>	<u>19,153,652</u>	<u>371,634</u>
-	-	-	-
-	-	-	-
4,553,259	4,854,725	4,645,960	(208,765)
7,689,085	7,765,187	7,721,613	(43,574)
1,492,283	1,504,107	1,342,914	(161,193)
107,767	131,639	117,927	(13,712)
1,500	1,500	2,207	707
341,843	354,702	306,282	(48,420)
359,160	373,989	296,814	(77,175)
529,071	582,868	603,202	20,334
549,990	565,712	493,203	(72,509)
787	6,000	1,523	(4,477)
221,534	471,302	436,731	(34,571)
3,510,436	3,419,409	2,922,249	(497,160)
-	-	-	-
-	-	-	-
<u>67,500</u>	<u>8,290</u>	<u>4,025</u>	<u>(4,265)</u>
<u>19,424,215</u>	<u>20,039,430</u>	<u>18,894,650</u>	<u>(1,144,780)</u>
(47,475)	(1,257,412)	259,002	1,516,414
-	-	-	-
(47,475)	(1,257,412)	259,002	1,516,414
<u>4,775,411</u>	<u>4,775,411</u>	<u>4,775,411</u>	<u>-</u>
<u>\$ 4,727,936</u>	<u>\$ 3,517,999</u>	<u>\$ 5,034,413</u>	<u>\$ 1,516,414</u>

Continued...

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Statement of Revenue, Expenditures

and Changes in Fund Balances

Budget and Actual

General and Major Special Revenue Funds (Concluded)

For The Year Ended June 30, 2009

	Vocational Education			Variance with Final Budget
	Budgeted Amounts		Actual	
	Original	Final		
Revenue				
Local sources				
Property taxes	\$ 6,885,784	\$ 6,885,784	\$ 6,796,219	\$ (89,565)
Other	614,959	717,608	638,398	(79,210)
Transfer from districts	481,000	584,329	587,007	2,678
State sources	749,000	835,768	829,544	(6,224)
Federal sources	930,225	940,026	937,425	(2,601)
 Total revenue	 9,660,968	 9,963,515	 9,788,593	 (174,922)
Expenditures				
Current:				
Instruction:				
Basic programs	-	-	-	-
Adult continuing education	96,524	104,315	118,467	14,152
Student instruction and added needs	4,646,988	4,911,789	4,689,275	(222,514)
Supporting services:				
Pupil services	1,007,633	974,353	963,170	(11,183)
Instructional staff	170,093	169,290	105,183	(64,107)
General administration	116,385	118,244	108,094	(10,150)
School administration	978,918	1,115,859	1,013,183	(102,676)
Business services	159,170	167,353	150,471	(16,882)
Operation and maintenance	1,148,291	1,121,242	1,004,253	(116,989)
Transportation services	38,000	117,709	86,038	(31,671)
Central services	144,796	158,098	123,824	(34,274)
Other support services	129,788	80,000	80,000	-
Community services	-	10,912	10,158	(754)
Transfers to local districts	653,544	666,883	666,883	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	116,000	55,500	19,560	(35,940)
 Total expenditures	 9,406,130	 9,771,547	 9,138,559	 (632,988)
 Revenue over (under) expenditures	 254,838	 191,968	 650,034	 458,066
Other financing sources (uses)				
Transfers out	458,875	(725,110)	(725,109)	1
 Net change in fund balances	 713,713	 (533,142)	 (75,075)	 458,067
Fund balances, beginning of year	2,564,944	2,564,944	2,564,944	-
Fund balances, end of year	\$ 3,278,657	\$ 2,031,802	\$ 2,489,869	\$ 458,067

The accompanying notes are an integral part of the basic financial statements.

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2009

Assets

Cash and investments	\$ 54,237
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Liabilities

Due to student groups	\$ 54,237
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The accompanying notes are an integral part of the basic financial statements.

NOTES TO FINANCIAL STATEMENTS

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Bay Arenac Intermediate School District, (the “District”), has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. Component units include entities for which the government is considered to be financially accountable.

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 primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *fiduciary* activities which are utilized to account for the assets of other entities for which the district acts in an agency capacity.

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

Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

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

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. 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 received within 60 days of year end, expenditure driven grant revenue 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.

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 general government, except those required to be accounted for in another fund.

The *special education special revenue fund* accounts for monies received from federal, state and local sources which are restricted to instruction and services related to special education.

The *regional vocational education special revenue fund* accounts for monies received from federal, state and local sources which are restricted to instruction and services related to providing vocational education.

Additionally, the District reports the following fund types:

The *debt service funds* account for the accumulation of assets for payment of debt service on Durant and general obligation bonds.

The *capital projects fund* accounts for the acquisition or construction of capital assets.

The *agency fund* accounts for assets held for other organizations in an agency capacity.

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 Governmental Accounting Standards Board.

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

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

D. Assets, liabilities and equity

1. Cash and cash equivalents and investments

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

Investments are reported at fair value.

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

2. *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).

3. *Inventories and prepaid items*

Inventories, which consist of supplies and vocational program projects in process are valued at cost on the first-in/first-out (FIFO) method. Inventories are recorded as expenditures when consumed rather than when purchased.

Payments made to vendors for services that will benefit periods beyond a fund’s fiscal year-end are recorded as prepaid items in both government-wide and fund financial statements.

4. *Capital assets*

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Land and construction in progress are not depreciated. Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	5-50
Furniture and equipment	5-15

5. *Salaries payable and accrued employee benefits*

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year. The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The District pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

6. *Compensated absences payable*

It is the District's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The balance of compensated absences payable includes salary and retained benefits payable.

7. *Long-term obligations*

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

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. *Durant related issues*

Under Public Act 142 of 1997, enacted in November 1997 as part of the Durant Resolution Package, school districts and intermediate school districts were offered settlement amounts to settle, compromise, and resolve, in their entirety, any potential claims they may have asserted for violations of section 29, Article IX, of the constitution through September 30, 1997, which were similar to the claims asserted by the plaintiffs in the Durant v. State of Michigan case. To be eligible to receive its offer of settlement amount, the non-plaintiff district needed to adopt and submit to the State Treasurer a waiver resolution, in the form set forth in Public Act 142 of 1997, waiving any potential claims through September 30, 1997.

Settlement amounts were based on the formula used to determine amounts owed to Durant plaintiffs. Half the settlement amount was received in ten annual payments; the other half was received in a lump sum by participating in a special bonding program offered through the Michigan Municipal Bond Authority (MMBA) or in fifteen annual payments. Bay Arenac Intermediate School District elected to participate in the special bonding program. Districts electing to bond under the Durant settlement received a lump sum amount (bond proceeds) on November 24, 1998. This created a liability which will be reduced each year with an annual state appropriation made for debt service on the bonds. The annual State of Michigan appropriation is the only revenue source for making the annual debt service payment on the bonds. If the legislature fails to appropriate the funds, the district is under no obligation for payment. Additionally, the bond documentation states specifically that the Bonds shall not be in any way a debt or liability of the State of Michigan. This liability has been

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

booked on the statement of net assets. Annual appropriations from the State are recorded in the Durant Debt Service Fund along with the payment of the interest and principal of the bonds. The original bond proceeds were recorded in the Durant Construction Fund and expended for purposes specified in Section 1351a of the Revised School Code.

9. *Fund equity*

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

10. *Transfers to local districts*

Transfers to local districts includes the payment of grant, tax and other revenues to local districts and is included under this financial statements caption as required by the Michigan Department of Education chart of accounts and reporting format.

11. *Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

12. *Subsequent Events*

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2009, the most recent statement of net assets presented herein, through the auditors' report date, the date these financial statements were available to be issued. No significant such events or transactions were identified.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The general and special revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP). The budgets for the general and special revenue funds are adopted on a functional basis. All annual appropriations lapse at fiscal year end. Noncompliance with budgetary control are shown in the basic financial statements.

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

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

1. The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except permanent funds.
5. Adoption and amendments of all budgets used by the District are governed by Public Act 621, which was followed for the year ended June 30, 2009. Expenditures may not exceed appropriations at the function level (the legal level of budgetary control). The appropriations resolutions are based on the projected expenditures budget of the department heads of the District. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any function must be approved by the Board. Amendments were made to the budget during the year. Amendments that were made are displayed on the budget and actual statements of the general and special revenue funds.

III. DETAILED NOTES ON ALL FUNDS

A. Excess of expenditures over appropriations in budgetary funds

During the year ended June 30, 2009 the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General fund:			
Capital outlay	\$ 32,600	\$ 32,903	\$ 303
Special education fund:			
School administration	1,500	2,207	707
Vocational education fund:			
Adult continuing education	104,315	118,467	14,152

B. Deposits and investments

The captions on the financial statements relating to cash and cash equivalents are as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and investments	\$ 11,165,671	\$ 54,237	\$ 11,219,908

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

Deposits are comprised of the following at year-end:

Checking/savings accounts	\$ 10,964,767
Certificates of deposit (due in 1-5 years)	255,011
Cash on hand	<u>130</u>
Total	<u>\$ 11,219,908</u>

These deposits are in six (6) financial institutions located in Michigan. State policy limits the District's deposit options to financial institutions located in Michigan. All accounts are in the name of the District and a specific fund or common account. They are recorded in District records at fair value.

Investment and Deposit Risk

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the District's investment policy. As of year-end, \$363 of the District's bank balance of \$11,869,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

C. Receivables

The composition of receivables in the government-wide financial statements is as follows:

	Governmental Activities
Taxes	\$ 2,580
Accounts	134,266
Due from other governments	<u>3,277,656</u>
	<u>\$ 3,414,502</u>

D. Accounts payable and accrued liabilities

The composition of accounts payable and accrued liabilities in the government-wide financial statements is as follows:

	Governmental Activities
Accounts payable	\$ 583,329
Accrued payroll and other liabilities	2,063,308
Accrued interest on long-term debt	<u>34,340</u>
	<u>\$2,680,977</u>

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

E. Capital assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008	Additions	Dispositions	Balance June 30, 2009
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 40,000	\$ -	\$ -	\$ 40,000
Construction in progress	4,788,692	673,737	5,462,429	-
Total capital assets not being depreciated	4,828,692	673,737	5,462,429	40,000
Capital assets being depreciated:				
Buildings and improvements	13,905,371	5,566,309	-	19,471,680
Furniture and equipment	2,600,341	255,139	88,479	2,767,001
Total capital assets being depreciated	16,505,712	5,821,448	88,479	22,238,681
Less accumulated depreciation:				
Buildings and improvements	6,370,123	415,569	-	6,785,692
Furniture and equipment	1,574,475	200,222	88,479	1,686,218
Total accumulated depreciation	7,944,598	615,791	88,479	8,471,910
Total capital assets being depreciated, net	8,561,114	5,205,657	-	13,766,771
Government activities capital assets, net	\$ 13,389,806	\$ 5,879,394	\$ 5,462,429	\$ 13,806,771

Depreciation expense was reported as unallocated on the statement of activities because capital assets cannot reasonably be segregated between functions.

F. Interfund activity

Transfers

Total transfers out from the vocational education fund of \$725,109 were received by the nonmajor governmental funds. Transfers were used to: (1) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (2) move receipts restricted to or allowed for capital projects to cover capital expenditures accounted for in the capital project fund.

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

Interfund receivables/payables

Interfund balances primarily reflect balances utilized to facilitate appropriate cash flow for operations. The amounts of interfund receivables and payables at year-end are as follows:

	Interfund Receivables	Interfund Payables
Major Funds:		
General Fund	\$ -	\$ 1,229,929
Special Education Fund	655,632	-
Vocational Education Fund	574,297	-
	\$ 1,229,929	\$ 1,229,929

G. Long-term debt

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009	Due In One Year
1998 School Improvement Revenue Bonds (Durant Settlement), \$1,845,061 issued, due in annual installments from \$112,691 to \$299,122 plus interest at 4.8% through 2013 (payable only by an annual State of Michigan Appropriation to the District)	\$ 756,216	\$ -	\$ (102,684)	\$ 653,532	\$ 299,122
2007 School Building and Site General Obligation Bonds, \$3,500,000 issued, due in annual installments from \$125,000 to \$250,000 plus interest at 4.0% through 2027 (limited tax general obligation)	3,385,000	-	(120,000)	3,265,000	125,000
Installment note with a bank, \$119,723, paid in full in August 2008	3,668	-	(3,668)	-	-
Subtotal installment debt	4,144,884	-	(226,352)	3,918,532	424,122
Unamortized bond discount	(27,508)	-	1,448	(26,060)	1,448
Net installment debt	4,117,376	-	(224,904)	3,892,472	425,570
Compensated absences	194,202	15,284	(8,560)	200,926	8,856
Total long-term debt	\$ 4,311,578	\$ 15,284	\$ (233,464)	\$ 4,093,398	\$ 434,426

Compensated absences are generally liquidated from the general, special education and vocational education funds.

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

Annual debt service requirements to maturity for installment debt are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 424,122	\$ 223,629	\$ 647,751
2011	242,691	145,950	388,641
2012	253,050	135,384	388,434
2013	263,669	124,363	388,032
2014	145,000	112,875	257,875
2015-2019	835,000	471,000	1,306,000
2020-2024	1,035,000	284,590	1,319,590
2025-2027	<u>720,000</u>	<u>61,320</u>	<u>781,320</u>
Totals	<u>\$ 3,918,532</u>	<u>\$ 1,559,111</u>	<u>\$5,477,643</u>

IV. OTHER INFORMATION

A. 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. During the year ended June 30, 2009, the District carried insurance to cover risks of losses except for employee dental coverage as discussed below.

The District has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

The District has self-insured dental claims with maximum annual benefits of \$1,000 (\$1,500 lifetime maximum for orthodontic services) per employee. The District recognizes the cost of the benefits as the claims are presented. Unused benefits are forfeited at the end of the year. The District retains the services of an independent agency to administer its dental cases. No estimate of claims incurred but not reported under the plan is available, but District management expects the amount, if any, to be immaterial to the basic financial statements as of June 30, 2009. There were no significant reductions in insurance coverage during the year.

B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 or December 1 of the following year by the various governmental units within the District. Delinquent real taxes are advanced to the District by the Revolving Tax Funds of the counties within the District.

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

C. Defined benefit pension plan

Plan Description

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

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 through June 30, 2008 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.54% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPERS for the years ended June 30, 2009, 2008, and 2007 were \$2,337,121, \$2,246,891, and \$2,266,483, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

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

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

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

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

D. Contingencies

Federal Grant Programs

The District participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

E. Capital Projects

The Capital Projects Bond Construction Fund (the "Fund") includes capital project activities funded with bonds issued after May 1, 1994 in the amount of \$3,500,000. In addition to the bond proceeds, the Fund also includes capital project activities that were funded by local funds. For these capital projects, as it relates to the bonded proceeds, the District has complied with the applicable provisions of 1351(a) of the Revised School Code.

F. Prior Period Adjustment

Beginning net assets of governmental activities were increased by \$756,216 to properly recognize revenue attributable to the long-term Durant settlement receivable that had not been recognized in prior years.

* * * *

**COMBINING AND INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES**

NONMAJOR GOVERNMENTAL FUNDS

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2009

	<u>Debt Service</u>			<u>Total</u>
	<u>1998 Durant Bonds</u>	<u>2007 Building and Site Bonds</u>	<u>Capital Projects</u>	
Assets				
Due from other governments	\$ 653,532	\$ -	\$ -	\$ 653,532
Liabilities and fund balances				
Liabilities				
Deferred revenue	653,532	-	-	653,532
Fund balances				
Unreserved:				
Undesignated	-	-	-	-
Total liabilities and fund balances	\$ 653,532	\$ -	\$ -	\$ 653,532

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT
Combining Statement of Revenue, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
For The Year Ended June 30, 2009

	<u>Debt Service</u>			<u>Total</u>
	<u>1998 Durant Bonds</u>	<u>2007 Building and Site Bonds</u>	<u>Capital Projects</u>	
Revenue				
Local sources	\$ 129,569	\$ -	\$ 4,728	\$ 134,297
Expenditures				
Debt service:				
Principal	102,684	120,000	-	222,684
Interest	26,885	138,875	-	165,760
Capital outlay	-	-	1,224,136	1,224,136
Total expenditures	129,569	258,875	1,224,136	1,612,580
Revenue under expenditures	-	(258,875)	(1,219,408)	(1,478,283)
Other financing sources				
Transfers in	-	258,875	466,234	725,109
Net change in fund balances	-	-	(753,174)	(753,174)
Fund balances, beginning of year	-	-	753,174	753,174
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

AGENCY FUND

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Agency Fund

Statement of Changes in Assets and Liabilities

For the Year Ended June 30, 2009

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2008</u>
Assets				
Cash and cash equivalents	<u>\$ 60,883</u>	<u>\$ 321,502</u>	<u>\$ 328,148</u>	<u>\$ 54,237</u>
Liabilities				
Due to student groups	<u>\$ 60,883</u>	<u>\$ 321,502</u>	<u>328,148</u>	<u>\$ 54,237</u>

SINGLE AUDIT

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

October 1, 2009

Board of Education
Bay Arenac Intermediate School District
Bay City, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Bay Arenac Intermediate School District**, as of and for the year ended June 30, 2009, and have issued our report thereon dated October 1, 2009. 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 Bay Arenac Intermediate School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bay Arenac Intermediate School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bay Arenac Intermediate School District's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Bay Arenac Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Bay Arenac Intermediate School District in a separate letter dated September 29, 2009.

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

A handwritten signature in cursive script that reads "Lehmann Johnson".

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

October 1, 2009

Board of Education
Bay Arenac Intermediate School District
Bay City, Michigan

Compliance

We have audited the compliance of ***Bay Arenac Intermediate School District***, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Bay Arenac Intermediate School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Bay Arenac Intermediate School District's management. Our responsibility is to express an opinion on Bay Arenac Intermediate School District's compliance based on our audit.

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

In our opinion, Bay Arenac Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

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

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2009

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Pass-through Grantor's Number	Approved Grant Award Amount
U.S. Department of Agriculture			
<i>Passed through Michigan State University</i> Food Stamp Nutrition Education Project	10.561	N/A	\$ 44,913
U.S. Department of Education			
<i>Passed through the Michigan Department of Education</i> Title I, Part A Grants to Local Educational Agencies	84.010	091570-0809	70,000
Title I, Part D Grants to Local Educational Agencies	84.013	081700-0708	88,345
Title I, Part D Grants to Local Educational Agencies	84.013	091700-0809	156,377
2008-2009 IDEA Flowthrough	84.027A	090450-0809	3,849,061
2008-2007 IDEA Flowthrough	84.027A	080450-0708	3,811,513
2007-2006 IDEA Flowthrough	84.027A	070450-0607	3,785,300
Special Education IDEA State Initiated	84.027A	080490-TS	60,000
Special Education IDEA State Initiated	84.027A	090490-TS	51,250
Service Provider Self-Review	84.027A	090440-708	4,000
State Initiated Competitive	84.027A	090480-EOSD	50,000
Vocational Education Regional Allocation	84.048A	083520-8012-08	900,457
Vocational Education Regional Allocation	84.048A	093520-90128	926,226
Vocational Education Regional Allocation	84.048A	093530-90118	7,800
Preschool Grant	84.173A	070460-0607	185,277
Preschool Grant	84.173A	084060-0708	185,073
Preschool Grant	84.173A	090460-0809	182,651
Infants and Toddlers	84.181A	081340-190	193,685
Infants and Toddlers	84.181A	091340-190	180,043
Drug Free Formula	84.186	082860-0708	80,742
Drug Free Formula	84.186	092860-0809	63,285
Title IIA	84.367	090520-0809	751
Total passed-through Michigan Department of Education			
<i>Passed through Delta College</i> Carl D Perkins Progm	84.243	083540-7014-8	6,020
<i>Passed through Saginaw Intermediate School District</i> Reading First	84.357	N/A	3,009
<i>Passed through Huron Intermediate School District</i> Mid-Michigan Autism Network Program	84.027	N/A	3,800
Total U.S. Department of Education			
U.S. Department of Health and Health and Human Services			
<i>Passed through Michigan Department of Community Health</i> Medicaid Administrative Outreach	84.310	U310A040006	92,021
Total Expenditures of Federal Awards			

Accrued (Deferred) Revenue July 1, 2008	Cash Received	Expenditures		Accrued (Deferred) Revenue June 30, 2009
		(Memo Only) Prior Year(s)	Year Ended June 30, 2009	
\$ -	\$ 29,572	\$ -	\$ 34,285	\$ 4,713
-	-	-	47,697	47,697
26,928	29,647	26,928	2,719	-
-	33,072	-	57,797	24,725
26,928	62,719	26,928	60,516	24,725
-	2,703,740	-	3,523,378	819,638
695,228	834,432	3,672,309	139,204	-
16,962	16,962	161,767	-	-
30,000	30,000	60,000	-	-
-	25,625	-	51,250	25,625
1,390	1,390	1,390	-	-
-	50,000	-	50,000	-
743,580	3,662,149	3,895,466	3,763,832	845,263
195,889	195,889	900,457	-	-
-	510,976	-	926,226	415,250
-	-	-	5,179	5,179
195,889	706,865	900,457	931,405	420,429
1,064	1,064	18,910	-	-
64,464	68,243	181,294	3,779	-
-	-	-	147,841	147,841
65,528	69,307	200,204	151,620	147,841
40,033	51,525	182,193	11,492	-
-	90,022	-	148,129	58,107
40,033	141,547	182,193	159,621	58,107
(3,308)	27	77,407	3,335	-
-	46,981	-	55,697	8,716
(3,308)	47,008	77,407	59,032	8,716
-	751	-	751	-
1,068,650	4,690,346	5,282,655	5,174,474	1,552,778
-	-	-	6,020	6,020
-	3,009	-	3,009	-
-	3,800	-	3,800	-
1,068,650	4,697,155	5,282,655	5,187,303	1,558,798
-	92,020	162,388	92,020	-
\$ 1,068,650	\$ 4,818,747	\$ 5,445,043	\$ 5,313,608	\$ 1,563,511

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Notes to Schedule of Expenditures of Federal Awards

Basis of Accounting

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

Reconciliation of Basic Financial Statements

Revenues from federal sources per the June 30, 2009 basic financial statements agree with federal expenditures from the June 30, 2009 Schedule of Expenditures of Federal Awards.

Expenditures are in agreement with amount reported in the basic financial statements. Management has utilized the Grants Section Auditors Report (form R7120) and Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Schedule of Subrecipient Expenditures of Federal Awards

For the Year Ended June 30, 2009

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Pass-through Grantor's Number	Amount of Subrecipient Award	Due To (From) Subrecipients July 1, 2008
<u>I.D.E.A. Flowthrough</u>	84.027A	090450-0809		
Bangor Township Schools			\$ 55,527	\$ -
Bay City Public Schools			273,762	-
Pinconning Area Schools			76,188	-
			<u>405,477</u>	<u>-</u>
<u>Preschool Incentive</u>	84.173A	090460-0809		
Bangor Township Schools			19,662	-
Bay City Public Schools			96,937	-
Pinconning Area Schools			26,978	-
			<u>143,577</u>	<u>-</u>
<u>Vocational Education Regional Allocation</u>	84.048A	093520-90128		
Midland County ESA			118,001	-
Saginaw City Schools			535,543	-
			<u>653,544</u>	<u>-</u>
Total Federal Awards Passed-through to Subrecipients			\$ 1,202,598	\$ -

Subrecipient Current Year Expenditures	Current Year Cash Transferred to Subrecipient	Due To (From) Subrecipients June 30, 2009
\$ 55,527	\$ 55,527	\$ -
206,935	206,935	-
76,188	76,188	-
<u>338,650</u>	<u>338,650</u>	<u>-</u>
19,662	19,662	-
62,311	62,311	-
26,978	26,978	-
<u>108,951</u>	<u>108,951</u>	<u>-</u>
118,001	118,001	-
535,543	535,543	-
<u>653,544</u>	<u>653,544</u>	<u>-</u>
\$ 1,101,145	\$ 1,101,145	\$ -

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2009

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: *Unqualified*

Internal controls over financial reporting:
Material weakness(es) identified? _____ yes x no
Significant deficiency(ies) identified 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 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 in accordance with Circular A-133,
Section 510(a)? _____ yes x no

Identification of Major Programs

CFDA Number(s) *Name of Federal Program or Cluster*

84.027 & 84.173 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

BAY ARENAC INTERMEDIATE SCHOOL DISTRICT

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended June 30, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None

SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS

None

* * * * *

120 DAY BOND AUDIT

INDEPENDENT AUDITORS' REPORT

October 1, 2009

Board of Education
Bay Arenac Intermediate School District
Bay City, Michigan

We have audited the accompanying schedule of revenue, expenditures and changes in fund balance of the capital projects fund (the "schedule") which accounted for the proceeds and disbursement of the 2007 Building and Site Bonds of *Bay Arenac Intermediate School District*, Bay City, Michigan, as of and for the three years ended June 30, 2009. This schedule is the responsibility of Bay Arenac Intermediate School District's management. Our responsibility is to express an opinion on this schedule based on our audit.

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

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

In our opinion, the schedule referred to above presents fairly, in all material respects, the results of operations of the 2007 Building and Site Bonds of Bay Arenac Intermediate School District for the three years ending June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated October 1, 2009 on our consideration of Bay Arenac Intermediate School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



BAY ARENAC INTERMEDIATE SCHOOL DISTRICT
Capital Projects Fund
2007 Building and Site Bonds
Schedule of Revenue, Expenditures and Changes in Fund Balance
For the Three Year Period Ending June 30, 2009

<hr/>	
Revenue	
Local sources	<u>\$ 106,610</u>
Expenditures	
Current - supporting services	2,789
Capital outlay	6,007,474
Bond issuance costs	<u>33,625</u>
Total expenditures	<u>6,043,888</u>
Revenue under expenditures	<u>(5,937,278)</u>
Other financing sources (uses)	
Issuance of bonds	3,500,000
Transfers in	2,466,234
Discount on issuance of bonds	<u>(28,956)</u>
Total other financing sources (uses)	<u>5,937,278</u>
Net change in fund balance	-
Fund balance, beginning of period	<u>-</u>
Fund balance, end of period	<u><u>\$ -</u></u>

October 1, 2009

To the Board of Education
Bay Arenac Intermediate School District
Bay City, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Bay Arenac Intermediate School District* (the “District”) for the year ended June 30, 2009, and have issued our report thereon dated October 1, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated March 31, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District’s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of

its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on August 5, 2009.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated September 29, 2009.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the Bay Arenac Intermediate School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive style with a large initial 'L' and 'J'.

Bay Arenac Intermediate School District

Comments and Recommendations

For the Year Ended June 30, 2009

In planning and performing our audit of the financial statements of the Bay Arenac Intermediate School District as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

Other Matters

Documentation of Review and Approval

During our review of several transaction cycles we noted that although there was some evidence that documents were being reviewed, the review in most cases was not evidenced by the designated reviewer signing and dating the document. We noted no reviewer sign offs in our review of bank reconciliations and the bi-monthly payroll registers. We noted that purchase order review was not documented consistently from department to department. We recommend that the District consider implementing formal written policies requiring that all reviews, in conjunction with all major transaction cycles, be evidenced by signing and dating of the applicable documents by the designated reviewer.

Bay Arenac Intermediate School District

Comments and Recommendations (Concluded)

For the Year Ended June 30, 2009

Review of Manual Journal Entries

Although there appears to be an informal process for reviewing manual journal entries, that process does not appear to be consistently applied and the review is not documented by signing and dating by the designated reviewer. We recommend that the District consider implementing formal written policies requiring consistent review and approval of manual journal entries by an appropriate and independent member of management and that the review be documented by signing and dating of specific documents by the designated reviewer.

Date Documentation of Checks Received

During testing of receivables balances we reviewed a check that appeared to have been held for a significant amount of time before being deposited in the District's bank account. Although the District appears to have a system in place that would assure timely deposit of checks received in the central accounting office, the documentation reviewed bore no evidence of the date that the check was received. Because of this, we were not able to determine when the check was received and whether it was deposited in a timely fashion. We recommend that the District consider implementing formal written policies requiring that remittance advices supporting checks received be date stamped when received.

Formal Written Accounting Policies

The District's accounting policies and procedures have not been documented in a written policy manual. Transaction cycle processes appear to be inconsistently applied between operating departments and the central accounting office does not have a formal system for treating all similar transactions in a consistent manner. We recommend that the District consider drafting formal written accounting policies and procedures that cover all significant transaction cycles. We also recommend that once these policies and procedures have been created that the District provide appropriate training for all appropriate personnel as to their responsibilities and the consistent application of accounting policies and procedures.

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September 29, 2009

Rehmann Robson
5800 Gratiot Road
P.O. Box 2025
Suite 201
Saginaw, MI 48605-2025

We are providing this letter in connection with your audit of the financial statements of **Bay Arenac Intermediate School District** as of June 30, 2009 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Bay Arenac Intermediate School District and the respective changes in financial position and, where applicable, cash flows thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of September 29, 2009, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all—
 - a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Minutes of the meetings of Board of Education or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.
5. We are in agreement with the adjusting journal entries you have proposed, and they have been posted.

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you have reported to us.
10. We have a process to track the status of audit findings and recommendations.
11. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
12. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
13. The District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
14. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and affiliated governmental units that are not included in the financial statements as part of the reporting entity.
 - b. Guarantees, whether written or oral, under which the District is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.

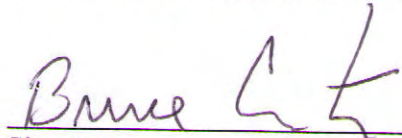
15. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
16. There are no—
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with *Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Reservations or designation of fund equity that were not properly authorized and approved.
17. As part of your audit, you prepared the draft financial statements and related notes and schedule of expenditures of federal awards. We have designated a competent management-level individual to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and schedule of expenditures of federal awards.
18. The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
19. The District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
20. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
21. The financial statements properly classify all funds and activities.
22. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
23. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
24. Provisions for uncollectible receivables have been properly identified and recorded.

25. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
26. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
27. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
28. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
29. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
30. Required supplementary information (RSI) is measured and presented within prescribed guidelines.
31. With respect to federal award programs:
 - a. We are responsible for complying and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
 - b. We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
 - c. We are responsible for complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
 - d. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies (including material weaknesses) reported in the schedule of findings and questioned costs.

- e. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to major federal programs.
- f. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- g. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including those resulting from other audits or program reviews.
- h. Amounts claimed or used for matching were determined in accordance with relevant guidelines in *OMB Circular A-87, Cost Principles for State, Local, and Tribal Governments*, and *OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- i. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- j. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- k. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- l. We have charged costs to federal awards in accordance with applicable cost principles.
- m. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- n. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of *OMB Circular A-133*.
- o. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.
- p. We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.

- q. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- r. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a corrective action plan for each audit finding.

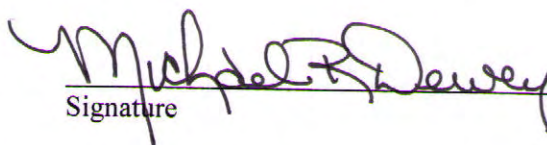
No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.



Signature

DIRECTOR OF ADMIN SVCS

Title



Signature

Superintendent

Title