

ECCLES SCHOOL

Sigel Twp. School District #4
Harbor Beach, Michigan

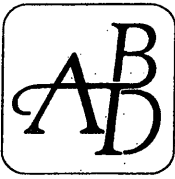
REPORT ON FINANCIAL STATEMENTS

(with required supplementary and
additional information)

June 30, 2010

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Eccles School
5754 Section Line Rd.
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We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Eccles School**, as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents. These financial statements are the responsibility of **Eccles School'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 **Eccles School** as of June 30, 2010 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2010, on our consideration of the **Eccles School's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages *i* through *v* and page 17, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires 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.

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Board of Education
Eccles School
September 22, 2010

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise **Eccles School's** basic financial statements. The additional information on pages 18 and 19 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Eccles School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2010

Eccles School District, a K-8 school district located in Huron County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Eccles School District administration's discussion and analysis of the financial results for the fiscal years ended June 30, 2010 and June 30, 2009.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years' financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long – Term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's “Accounting Manual.” In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds and Debt Service Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements are required by GASB 34. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

Eccles School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2010

Summary of Net Assets

The following schedule summarizes the net assets at fiscal year ended June 30, 2010 and 2009:

| Assets | June 30, 2010 | June 30, 2009 |
|---|----------------------|----------------------|
| Current assets | \$ 226,703 | \$ 254,528 |
| Capital assets | 238,422 | 211,789 |
| Less: Accumulated depreciation | (110,897) | (100,286) |
| Capital assets, net book value | <u>127,525</u> | <u>111,503</u> |
| Total assets | <u>\$ 354,228</u> | <u>\$ 366,031</u> |
| Liabilities | | |
| Current liabilities | <u>\$ 16,708</u> | <u>-</u> |
| Total liabilities | <u>16,708</u> | <u>-</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | 127,525 | \$ 111,503 |
| Unrestricted | <u>209,995</u> | <u>254,528</u> |
| Total net assets | <u>337,520</u> | <u>366,031</u> |
| Total liabilities and net assets | <u>\$ 354,228</u> | <u>\$ 366,031</u> |

Analysis of Financial Position

During the fiscal year ended June 30, 2010, the District's net assets decreased by \$28,511. One of the more significant factors affecting net assets during the year is discussed below.

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal years ended June 30, 2010 and June 30, 2009, \$10,611 and \$8,907 were recorded for depreciation expense.

Eccles School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2010

Results of Operations

For the fiscal year ended June 30, 2010 and 2009, the results of operations, on a District-wide basis, were:

| | Year Ended June 30, 2010 | | Year Ended June 30, 2009 | |
|----------------------------------|--------------------------|------------|--------------------------|------------|
| | Amount | % of Total | Amount | % of Total |
| General Revenues | | | | |
| Investment earnings | \$ 295 | 0.17% | \$ 1,977 | 1.03% |
| Property taxes | 2,823 | 1.63% | 2,549 | 1.32% |
| State sources | 133,376 | 76.79% | 150,347 | 78.09% |
| Federal sources | 5,793 | 3.34% | 7,683 | 3.99% |
| Other | 11,321 | 6.52% | 767 | 0.40% |
| Total general revenues | 153,608 | 88.44% | 163,323 | 84.83% |
| Program Revenues | | | | |
| Operating grants | 20,076 | 11.56% | 29,217 | 15.17% |
| Total revenues | \$ 173,684 | 100.00% | \$ 192,540 | 100.00% |
| Expenses | | | | |
| Instruction | \$ 124,637 | 61.64% | \$ 125,559 | 62.24% |
| Support services | 65,616 | 32.45% | 65,904 | 32.67% |
| Food services | 1,331 | 0.66% | 1,369 | 0.68% |
| Unallocated depreciation expense | 10,611 | 5.25% | 8,907 | 4.42% |
| Total expenses | \$ 202,195 | 100.00% | \$ 201,739 | 100.00% |
| Increase in net assets | \$ (28,511) | | \$ (9,199) | |

Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count and 25% of the prior year's spring count. For the 2009 – 2010 fiscal year, the District's foundation allowance was \$ 7,316 per student FTE, which represented no change from the amount received for the 2008 – 2009 fiscal year.

2. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2010, federal, state and other operating grants accounted for \$ 159,245. This represents a decrease of \$ 19,032 over the total grant sources received for the 2009 – 2010 fiscal year. The decrease is mostly due to the decrease in the State Aid.

Eccles School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2010

3. Interest Earnings

The District received interest on its investments in the amount of \$295 for the fiscal year ended June 30, 2010. This represents a decrease over the prior fiscal year of \$1,682, due primarily to a decline in interest rates.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1st. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30th.

For the 2009 – 2010 fiscal year, the district amended the general fund budget once with the Board adopting the final changes in June 2010. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

| | Original Budget | Final Budget | Actual | Variance with Final Budget positive (negative) | % Variance |
|---------------------|-------------------|-------------------|-------------------|--|--------------|
| Total revenues | <u>\$ 192,729</u> | <u>\$ 172,624</u> | <u>\$ 173,684</u> | <u>\$ 1,060</u> | <u>0.61%</u> |
| Expenditures | | | | | |
| Instruction | \$ 123,539 | \$ 119,205 | \$ 124,637 | \$ (5,432) | -4.56% |
| Supporting services | 85,046 | 98,885 | 92,249 | 6,636 | 6.71% |
| Other | <u>1,400</u> | <u>1,400</u> | <u>1,331</u> | <u>69</u> | <u>4.93%</u> |
| Total expenditures | <u>\$ 209,985</u> | <u>\$ 219,490</u> | <u>\$ 218,217</u> | <u>\$ 1,273</u> | <u>7.08%</u> |

Capital Asset and Debt Administration

Capital Assets

By the end of the 2009 – 2010 fiscal year, the district had invested \$238,422 in a broad range of capital assets, including school buildings and facilities, and various types of equipment. This represents an increase of \$26,633 over the prior fiscal year. Net depreciation expense for the year amounted to \$10,611, bringing the total accumulated depreciation to \$110,897 as of June 30, 2010.

Long- term Debt

At June 30, 2010, the District had no long-term debt outstanding.

Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future.

- With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2010 – 2011 fiscal year. The early indication is that the foundation allowance for 2010 – 2011 will remain uncertain well into the fiscal year which will pose a

Eccles School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2010

challenge to the District to maintain structural balance while continuing with its educational programming.

- The state of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Education Assessment Program) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Left Behind Act, adequate yearly progress of students will be more important as certain portions of funding are now tied to it.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact:

Janet Richards, Superintendent
Eccles School District
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BASIC FINANCIAL STATEMENTS

ECCLES SCHOOL
STATEMENT OF NET ASSETS
June 30, 2010

| | ASSETS | <u>GOVERNMENTAL ACTIVITIES</u> |
|---|---------------|---|
| CURRENT ASSETS: | | |
| Cash and equivalents | | \$ 185,693 |
| Due from other governmental units | | 24,302 |
| Prepaid Wages & Taxes | | <u>16,708</u> |
| TOTAL CURRENT ASSETS | | <u>226,703</u> |
| NONCURRENT ASSETS: | | |
| Capital assets | | 238,422 |
| Less accumulated depreciation | | <u>(110,897)</u> |
| TOTAL NONCURRENT ASSETS | | <u>127,525</u> |
| TOTAL ASSETS | | <u><u>\$ 354,228</u></u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accrued Wages & Taxes | | <u>\$ 16,708</u> |
| TOTAL CURRENT LIABILITIES | | <u>16,708</u> |
| NET ASSETS: | | |
| Invested in capital assets, net of related debt | | 127,525 |
| Unrestricted | | <u>209,995</u> |
| TOTAL NET ASSETS | | <u>337,520</u> |
| TOTAL LIABILITIES AND NET ASSETS | | <u><u>\$ 354,228</u></u> |

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

ECCLES SCHOOL
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

| Functions/Programs | Expenses | Program Revenues | | Governmental Activities |
|---|------------|-------------------------|---------------------|--|
| | | Charges for Services | Operating Grants | Net (Expense) Revenue and Changes in Net Assets |
| Governmental activities: | | | | |
| Instruction | \$ 124,637 | | \$ 1,365 | \$ (123,272) |
| Support services | 65,616 | | 18,575 | (47,041) |
| Food services | 1,331 | | 136 | (1,195) |
| Other | | | | - |
| Unallocated depreciation | 10,611 | | | (10,611) |
| Total governmental activities | \$ 202,195 | - | \$ 20,076 | (182,119) |
| General revenues: | | | | |
| Property taxes, levied for general purposes | | | | 2,823 |
| Federal ARRA sources - unrestricted | | | | 5,793 |
| State of Michigan school aid unrestricted | | | | 133,376 |
| Transfer from other districts | | | | 11,120 |
| Investment revenue | | | | 295 |
| Miscellaneous | | | | 201 |
| Total general revenue | | | | 153,608 |
| Change in net assets | | | | (28,511) |
| Net assets, beginning of year | | | | 366,031 |
| Net assets, end of year | | | | \$ 337,520 |

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

**ECCLES SCHOOL
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010**

| | GENERAL FUND | TOTAL GOVERNMENTAL FUNDS |
|---|-------------------------|---|
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| Cash and equivalents | \$ 185,693 | \$ 185,693 |
| Due from other governmental units | 24,302 | 24,302 |
| Prepaid Wages & Taxes | 16,708 | 16,708 |
| TOTAL ASSETS | \$ 226,703 | \$ 226,703 |
| <u>LIABILITIES AND FUND BALANCE</u> | | |
| LIABILITIES: | | |
| Accrued Wages & Taxes | \$ 16,708 | \$ 16,708 |
| TOTAL LIABILITIES | 16,708 | 16,708 |
| FUND BALANCE: | | |
| Undesignated and unreserved | 209,995 | 209,995 |
| TOTAL FUND BALANCE | 209,995 | 209,995 |
| TOTAL LIABILITIES & FUND BALANCE | \$ 226,703 | \$ 226,703 |

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

ECCLES SCHOOL
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2010

Total Fund Balances - Governmental Funds \$ 209,995

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds

 The cost of the capital assets is:

238,422

 Accumulated depreciation is:

(110,897)

Balance of taxes receivable at 6/30/10 less allowance for doubtful accounts

Net Assets of Governmental Activities

\$ 337,520

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

ECCLES SCHOOL
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

| | GENERAL FUND | TOTAL GOVERNMENTAL FUNDS |
|--|-------------------------|---|
| REVENUES: | | |
| Local sources | \$ 3,319 | \$ 3,319 |
| State sources | 133,376 | 133,376 |
| Federal sources | 25,869 | 25,869 |
| Transfers from other districts | 11,120 | 11,120 |
| TOTAL REVENUES | 173,684 | 173,684 |
| | | |
| EXPENDITURES: | | |
| Instruction | 124,637 | 124,637 |
| Supporting services | 92,249 | 92,249 |
| Food Service | 1,331 | 1,331 |
| TOTAL EXPENDITURES | 218,217 | 218,217 |
| | | |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (44,533) | (44,533) |
| | | |
| FUND BALANCE - BEGINNING OF YEAR | 254,528 | 254,528 |
| | | |
| FUND BALANCE - END OF YEAR | \$ 209,995 | \$ 209,995 |

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

ECCLES SCHOOL
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
June 30, 2010

Total net change in fund balances--governmental funds \$(44,533)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:

| | |
|----------------------|---------------|
| Depreciation expense | (10,611) |
| Capital outlay | <u>26,633</u> |

Change in net assets of governmental activities \$(28,511)

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

ECCLES SCHOOL
Notes to Financial Statements
For The Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

In a previous year, the District implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34), GASB Statement 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government: Omnibus* which provides additional guidance for the implementation of GASB Statement 34, and GASB Statement No. 38, *Certain Financial Disclosures* which changes note disclosure requirements for governmental entities.

GASB Statement 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, district-wide financial statements, required supplementary information and the elimination of the effects of internal service activities and the use of account groups to the already required fund financial statements and notes.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that district-wide financial statements are needed to allow user's of financial reports to access a government's operational accountability. The new GASB model integrates fund-based financial reporting and district-wide financial reporting as complementary components of a single comprehensive financial reporting model.

REPORTING ENTITY:

The Eccles School (the "District") is governed by the Eccles School Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. Also, based on the same criteria, there are no potential component units of government which are required to be included in the reporting entity for Eccles School.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

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

ECCLES SCHOOL
Notes to Financial Statements
For The Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (Continued):

The District first utilizes restricted resources to finance qualifying activities.

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

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

The District does not allocate indirect costs.

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

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

GOVERNMENTAL FUNDS

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

The District reports the following major governmental fund:

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

There are no non-major funds.

ECCLES SCHOOL
Notes to Financial Statements
For The Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION:

Accrual Method:

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

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

Modified Accrual Method:

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

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

State Foundation Revenue:

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2010 the foundation allowance was based on the pupil membership counts taken in February and September of 2009.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes (formerly known as Non-homestead) which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The State revenue is recognized during the foundation period and is funded through payments from October 2009 to August 2010. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

State Categorical Revenue:

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

ECCLES SCHOOL
Notes to Financial Statements
For The Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION, (Continued):

Federal Revenue:

Expenditure-driven grants are recognized when the qualifying expenditures have been incurred and all other grant requirements have been met.

OTHER ACCOUNTING POLICIES:

Cash and Cash equivalents:

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

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

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

Property Taxes:

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

For the year ended June 30, 2010, the District levied the following amounts per \$1,000 of assessed valuation:

| <u>FUND</u> | <u>MILLS</u> |
|---|---------------------|
| General Fund: | |
| Non-Principal Residence Exemption (PRE) | 18.0000 |
| Commercial Personal Property | 6.0000 |

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 on interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

ECCLES SCHOOL
Notes to Financial Statements
For The Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

Capital Assets:

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

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

| | |
|-------------------------------|---------------|
| Buildings and additions | 20 - 40 years |
| Furniture and other equipment | 5 - 15 years |

The District's capitalization policy is to capitalize individual amounts exceeding \$1,500. Group purchases are evaluated on a case-by-case basis.

Use of Estimates:

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

ECCLES SCHOOL
Notes to Financial Statements
For The Year Ended June 30, 2010

NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY:

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

1. In accordance with the State law the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The Board of Education requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head/function level.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a budget resolution.
4. Formal budgetary integration is employed as a management control device during the year for the general, special revenue, and debt service funds. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
5. Appropriations lapse at the end of each fiscal year.
6. The Board of Education may authorize supplemental appropriations during the year. The Board of Education authorized budget amendments during the fiscal year at their regular scheduled board meetings.
7. The District had various budget violations. See pages 17 through 19.

ECCLES SCHOOL
Notes to Financial Statements
For The Year Ended June 30, 2010

NOTE 3 - CASH AND EQUIVALENTS - CREDIT RISK:

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

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

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

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. At June 30, 2010, the carrying amount of the District's deposits was \$185,693 and the bank balance was \$223,824, all of which was covered by federal deposit insurance. The District places its deposits with high quality financial institutions.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

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

The District has no investments.

NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS:

Receivables at June 30, 2010 from other governmental units consist of the following:

| | |
|---------------------|-----------------|
| Governmental units: | |
| State Aid | <u>\$24,302</u> |
| | <u>\$24,302</u> |

ECCLES SCHOOL
Notes to Financial Statements
For The Year Ended June 30, 2010

NOTE 5 –CAPITAL ASSETS:

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

| | <u>BALANCE</u> <u>July 1, 2009</u> | <u>ADDITIONS</u> | <u>DELETIONS</u> | <u>BALANCE</u> <u>June 30, 2010</u> |
|---------------------------------|---------------------------------------|------------------|------------------|--|
| Capital assets: | | | | |
| Building and Improvements | \$ 139,357 | \$ 26,633 | | \$ 165,990 |
| Furniture and equipment | <u>72,432</u> | <u>-</u> | | <u>72,432</u> |
| Total Capital Assets | 211,789 | 26,633 | - | 238,422 |
| Accumulated depreciation: | | | | |
| Building and Improvements | (79,906) | (3,251) | | (83,157) |
| Furniture and equipment | <u>(20,380)</u> | <u>(7,360)</u> | | <u>(27,740)</u> |
| Total Accumulated depreciation: | <u>(100,286)</u> | <u>(10,611)</u> | <u>-</u> | <u>(110,897)</u> |
| Net capital assets | <u>\$ 111,503</u> | <u>\$ 16,022</u> | <u>-</u> | <u>\$ 127,525</u> |

Depreciation for the fiscal year ended June 30, 2010 amounted to \$10,611

ECCLES SCHOOL
Notes to Financial Statements
For The Year Ended June 30, 2010

NOTE 6 –EMPLOYEE RETIREMENT SYSTEM- DEFINED BENEFIT PLAN:

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

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4.3% of all wages over \$15,000. Members joining the system on or after July 1, 2009 contribute at the following graduated rate: 3% of the first \$5,000, 3.6% of \$5,001 through \$15,000 and 6.4% of all wages over \$15,000.

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

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2010 was 16.94% through September 2009 and 16.72% for October 1, 2009 through June 30, 2010. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the years ended June 30, 2010, 2009, and 2008 were \$16,574 \$16,023, and \$12,964 respectively.

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

Other post-employment benefits – Also within the MPERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the MPERS with the balance deducted from the monthly pension.

ECCLES SCHOOL
Notes to Financial Statements
For The Year Ended June 30, 2010

NOTE 7 - RISK MANAGEMENT:

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the state of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 8 – THE AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)

During the year ended June 30, 2010 the District recorded revenue of \$5,793 for unrestricted ARRA stabilization funds to off-set a shortage in the State of Michigan foundation funding. It is uncertain if the District will receive unrestricted ARRA stabilization funds in the future.

REQUIRED SUPPLEMENTAL INFORMATION

ECCLES SCHOOL
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010

| | GENERAL FUND | | | VARIANCE FAVORABLE (UNFAVORABLE) |
|--|----------------------------|-------------------------|-------------------|---|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | |
| REVENUES: | | | | |
| Local sources | \$ 4,550 | \$ 3,250 | \$ 3,319 | \$ 69 |
| State sources | 157,443 | 132,506 | 133,376 | 870 |
| Federal sources | 20,236 | 25,868 | 25,869 | 1 |
| Transfers from other districts | 10,500 | 11,000 | 11,120 | 120 |
| TOTAL REVENUES | 192,729 | 172,624 | 173,684 | 1,060 |
| EXPENDITURES: | | | | |
| Instruction | 123,539 | 119,205 | 124,637 | (5,432) |
| Supporting services | 85,046 | 98,885 | 92,249 | 6,636 |
| Food Service | 1,400 | 1,400 | 1,331 | 69 |
| TOTAL EXPENDITURES | 209,985 | 219,490 | 218,217 | 1,273 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (17,256) | (46,866) | (44,533) | 2,333 |
| FUND BALANCE - BEGINNING OF YEAR | 254,528 | 254,528 | 254,528 | - |
| FUND BALANCE - END OF YEAR | \$ 237,272 | \$ 207,662 | \$ 209,995 | \$ 2,333 |

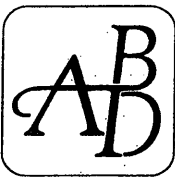
ADDITIONAL INFORMATION

ECCLES SCHOOL
GENERAL FUND
SCHEDULE OF REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2010

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE - FAVORABLE (UNFAVORABLE)</u> |
|------------------------------------|-------------------|-------------------|---|
| REVENUES: | | | |
| LOCAL SOURCES: | | | |
| Property taxes | \$ 2,800 | \$ 2,823 | \$ 23 |
| Interest earnings | 250 | 295 | 45 |
| Miscellaneous | 200 | 201 | 1 |
| TOTAL REVENUE FROM LOCAL SOURCES | <u>3,250</u> | <u>3,319</u> | <u>69</u> |
| STATE SOURCES: | | | |
| State school aid | 122,300 | 122,547 | 247 |
| Special education - Headlee | 3,020 | 3,655 | 635 |
| At risk | 7,186 | 7,174 | (12) |
| TOTAL REVENUE FROM STATE SOURCES | <u>132,506</u> | <u>133,376</u> | <u>870</u> |
| FEDERAL SOURCES: | | | |
| ARRA revenue | 5,793 | 5,793 | - |
| Title II, Part A | 1,365 | 1,365 | - |
| Milk Grant | 135 | 136 | 1 |
| REAP | 18,575 | 18,575 | - |
| TOTAL REVENUE FROM FEDERAL SOURCES | <u>25,868</u> | <u>25,869</u> | <u>1</u> |
| Transfers from other districts | <u>11,000</u> | <u>11,120</u> | <u>120</u> |
| TOTAL REVENUES | <u>\$ 172,624</u> | <u>\$ 173,684</u> | <u>\$ 1,060</u> |

ECCLES SCHOOL
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2010

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE - FAVORABLE (UNFAVORABLE)</u> |
|--|------------------|------------------|---|
| Instruction | | | |
| Salaries | \$ 85,602 | \$ 91,396 | \$ (5,794) |
| Employee benefits | 25,687 | 25,493 | 194 |
| Purchased services | 3,000 | 2,979 | 21 |
| Teaching supplies | 3,500 | 3,354 | 146 |
| Title II | 1,365 | 1,365 | - |
| Miscellaneous | 51 | 50 | 1 |
| Total Instruction | <u>119,205</u> | <u>124,637</u> | <u>(5,432)</u> |
| Food Services | | | |
| Food & Milk Expense | 1,400 | 1,331 | 69 |
| Total Food Services | <u>1,400</u> | <u>1,331</u> | <u>69</u> |
| Support Services | | | |
| Special Education: | | | |
| Salaries | 6,900 | 6,855 | 45 |
| Employee benefits | 2,250 | 2,160 | 90 |
| Teaching supplies | 2,060 | 2,091 | (31) |
| Travel | 300 | 250 | 50 |
| Total Special Education | <u>11,510</u> | <u>11,356</u> | <u>154</u> |
| Other Instructional Staff Services | | | |
| REAP - Wages | 12,205 | 12,205 | (0) |
| REAP - Travel expense | - | - | - |
| REAP - Teaching expense | 4,052 | 4,052 | 0 |
| REAP - Capital outlay | 2,318 | 2,318 | - |
| Total Other Instructional Staff Services | <u>18,575</u> | <u>18,575</u> | <u>-</u> |
| Administrative | | | |
| Salaries | 4,200 | 4,158 | 42 |
| Purchased services | 17,450 | 11,403 | 6,047 |
| Teaching supplies | 4,200 | 4,142 | 58 |
| Board Dues & Fees | - | - | - |
| Total Administrative | <u>25,850</u> | <u>19,703</u> | <u>6,147</u> |
| Operating and Maintenance | | | |
| Salaries | 4,750 | 4,687 | 64 |
| Utilities | 4,600 | 4,551 | 49 |
| Insurance - Property | 1,700 | 1,695 | 5 |
| Insurance - Errors & Omissions | 525 | 501 | 24 |
| Heating Oil | - | - | - |
| Capital Outlay | 26,800 | 26,633 | 167 |
| Custodial supplies | 1,375 | 1,366 | 9 |
| Field Trips | 3,200 | 3,182 | 18 |
| Total Operating and Maintenance | <u>42,950</u> | <u>42,615</u> | <u>335</u> |
| Total Support Services | <u>98,885</u> | <u>92,249</u> | <u>6,636</u> |
| Total Expenditures | <u>\$219,490</u> | <u>\$218,217</u> | <u>\$ 1,273</u> |



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA
Valerie J. Hartel, CPA

September 22, 2010

Terry L. Haske, CPA
Jamie L. Peasley, CPA
Timothy D. Franzel
Laura J. Kosal, CPA
Jill M. Mulders, CPA

.....
Robert L. Tuckey, CPA

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

Board of Education
Eccles School
5754 Section Line Rd.
Harbor Beach, MI 48441

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Eccles School** as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements of the District's primary government and have issued our report thereon dated September 22, 2010. Our opinion is for the primary government only and not for the primary reporting entity. 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 Controller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We have identified certain deficiencies in internal control over financial reporting, described as 2010-1 and 2010-2 in the accompanying schedule of findings and responses that we consider to be material weaknesses in internal control over financial reporting.

Compliance and Other Matters

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

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1-800-234-8829

2956 Main Street • Marlette, MI 48453
989-635-7545 fax: 989-635-7547

6261 Church Street • Cass City, MI 48726
989-872-3730 fax: 989-872-3978

Board of Education
Eccles School
September 22, 2010

We noted certain matters that we reported to management of **Eccles School** in a separate letter dated September 22, 2010.

Eccles School's responses to the findings identified in our audit are described in the accompanying schedule of findings and response. We did not audit **Eccles School's** response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of education, management, U.S. Department of Education, Michigan Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

September 22, 2010

To the Board of Education
Eccles School
5754 Section Line Rd.
Harbor Beach, MI 48441

Schedule of Findings and Responses

Findings considered material weaknesses:

Finding 2010-1

Criteria:

Statement on Auditing Standards #115 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition:

Currently, the District's staff requests the external auditor's assistance in the preparation of the annual financial statements and related footnotes.

Context:

External assistance is required to prepare the annual financial statements and related footnotes.

Effect:

Utilization of the external auditor in preparing the financial statements and related footnotes to the financial statements assists management with the external financial reporting responsibility, to ensure their financial statements are accurate.

Cause:

The staff of the district does understand all information included in the annual financial statements; however, assistance of the external auditor was utilized in preparing the financial statements and footnotes to the financial statements.

Recommendation:

At this time, we recommend no changes to this situation and communicate this as required by professional standards. The correct process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #115.

Client Response:

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

September 22, 2010

To the Board of Education
Eccles School
5754 Section Line Rd.
Harbor Beach, MI 48441

Schedule of Findings and Responses

Findings considered material weaknesses:

Finding 2010-2

Criteria:

Statement on Auditing Standards #115 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client has a small staff that limits the segregation of duties.

Condition:

Due to the limited number of board members, many critical duties are combined and given to the available staff and/or board members.

Context:

Internal controls are weakened due to the lack of segregation of duties.

Effect:

Other board members must be utilized in order to achieve good internal controls.

Cause:

The district does not have enough board members and staff to have a proper segregation of duties.

Recommendation:

At this time, we recommend the district segregate the duties whenever possible and communicate this as required by professional standards. The correct process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #115.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to hire additional staff. We will continue to segregate duties based on available staff. We would expect this situation to be ongoing in future years.

To the Board of Education
Eccles School
5754 Section Line Rd.
Harbor Beach, MI 48441

Schedule of Prior Audit Findings
For the Year Ended June 30, 2009

- **Finding 2009-1 Material Weakness**

Condition:

After considering the qualifications of the accounting personnel of Eccles School, we believe that the personnel have the abilities to maintain the day-to-day bookkeeping of the School District, but they do not have the qualifications and abilities to generate financial statements, including required footnotes, in accordance with accounting principles generally accepted in the United States of America.

Recommendation:

We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Current Status:

The District maintains that it is not cost efficient to develop this expertise. They plan to continue to use external auditors for this technical assistance.

- **Finding 2009-2 Material Weakness**

Condition:

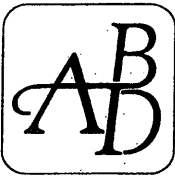
Due to the limited number of staff, many critical duties are combined and given to the available staff and/or board members.

Recommendation:

At this time, we recommend the district segregate the duties whenever possible and communicate this as required by professional standards. The current process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Current Status:

The District maintains that it is not cost effective or necessary to hire additional employee within the business office. Other staff members and/or board members will be utilized in order to achieve good internal controls.



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
Certified Public Accountants

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September 22, 2010

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Jill M. Mulders, CPA

.....
Robert L. Tuckey, CPA

Members of the Board
Eccles School

In planning and performing our audit of the financial statements of the *Eccles School* as of and for the year ended June 30, 2010, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 22, 2010 on the financial statements of *Eccles School*. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Michigan Department of Education (MDE) guidance on Lesson Plans

In the past, MDE guidance through fiscal year June 30, 2010 allowed the use of lesson plans as adequate documentation for federal timekeeping documentation requirements in certain situations. The U.S. Department of Education has issued the *Cost Allocation Guide for State and Local Governments* informally called the *Green Book*. The guidance supersedes previous guidance and does not recognize lesson plans as adequate documentation.

For fiscal year ending June 30, 2011, district personnel will need to comply with documentation requirements for federal timekeeping requirements by using personnel activity reports and semi-annual certifications as required by OMB Circular A-87.

Statement No. 54 of the Governmental Accounting Standards Board

The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

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The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority before the end of the fiscal year. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. We would be happy to discuss these changes in terminology with you to determine the appropriate allocation of fund balance.

Health care reform

Prior to year end Congress passed sweeping health reform changes. We know key individuals in your District have already begun to learn about the requirements and implementation procedures. We recommend you continue to monitor this major piece of legislation as many answers to basic questions have not been determined.

Insurance review considerations

Identity theft and improper hacking into computer systems has become a daily occurrence in our country. These issues are very disturbing to the individuals and organizations effected. Insurance companies have recognized this issue and now offer various types of riders for this type of coverage and other issues. We recommend when reviewing your insurance, this type of coverage be discussed with your agent.

Budget and Salary/Compensation Transparency Reporting

We all have heard from the federal government and state governments about the continued need for transparency in regards to governmental spending. Local districts, intermediate districts and public academies are now mandated through the revised language in Section 18(2) of the State School Aid Act to provide that increase in transparency. The revised language requires educational institutions to publish more financial information to their website or though their intermediate district's website if they do not have one of their own.

There is a long list of required disclosures. The revised guidelines can be found on the Michigan Department of Education's website. The posting of this information needs to be disclosed within 30 days after the board adopted its 2010-11 annual school operating budget, or not later than July 30, 2010. We recommend the District review its website, as well as Section 18(2) of the State School Aid Act, to ensure they are in compliance.

Investment Policy

While the District is aware of their investments, procedures, and associated risks, we recommend the board adopt a written investment policy to establish disclosure requirements addressing risks of the deposits and investments of the District.

School District Financial Statements

Currently the software the District is using accounts for the cash receipts and disbursements of the District, but does not have financial statement preparation capability. As a result of this, balance sheets, income statements and budget to actual comparisons are not available or are only available by transferring data to excel spreadsheets. We recommend the District upgrade its software so that these essential financial statements are available to the board for management decision and oversight.

Members of the Board
September 22, 2010
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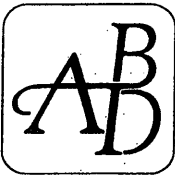
This communication is intended solely for the information and use of management and others within the governmental unit and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to be of service to the *Eccles School* and look forward each year to continuing our relationship. The cooperation extended to us by your staff throughout the audit was greatly appreciated. Should you wish to discuss any item included in this letter further, we would be happy to do so.

Very truly yours,

A handwritten signature in black ink that reads "Anderson, Tuckey, Bernhardt & Doran, P.C." The signature is written in a cursive style.

Anderson, Tuckey, Bernhardt & Doran, P.C.
Certified Public Accountants



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
Certified Public Accountants

Gary R. Anderson, CPA
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Terry L. Haske, CPA
Jamie L. Peasley, CPA
Timothy D. Franzel
Laura J. Kosal, CPA
Jill M. Mulders, CPA

.....
Robert L. Tuckey, CPA

September 22, 2010

To the Members of the Board
Eccles School

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of ***Eccles School*** for the year ended June 30, 2010, and have issued our report thereon dated September 22, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Governmental Auditing Standards

As stated in our engagement letter dated November 13, 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 U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of ***Eccles School***. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of ***Eccles School's*** compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 15, 2010.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by ***Eccles School*** 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 2010. We noted no transactions entered into by ***Eccles School*** during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 estimate affecting the financial statements was estimated fixed asset lives for depreciation.

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Members of the Board
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The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. We did not identify any significant disclosures.

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 each opinion unit's 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 management representation letter dated September 22, 2010.

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 **Eccles School'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 **Eccles School'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 Members of the Board and management of **Eccles School** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Anderson, Tuckey, Bernhardt, & Doran, P.C.
Certified Public Accountants