

**Williamston Community Schools  
Williamston, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2012**

Williamston Community Schools

TABLE OF CONTENTS

June 30, 2012

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
ADMINISTRATION'S DISCUSSION AND ANALYSIS	iii-xi
BASIC FINANCIAL STATEMENTS	
District-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet - Governmental Funds	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Statement of Fiduciary Net Assets	7
Statement of Changes in Fiduciary Net Assets	8
Notes to Financial Statements	9-24
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL FUND	
Budgetary Comparison Schedule	25
Note to Required Supplementary Information	26
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	27-28
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	29-30
Combining Statement of Fiduciary Net Assets - Private Purpose Trust Funds	31
Combining Statement of Changes in Fiduciary Net Assets - Private Purpose Trust Funds	32
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	33-34

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Williamston Community Schools  
Williamston, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Williamston Community Schools (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Williamston Community Schools' 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, the major fund, and the aggregate remaining fund information of Williamston Community Schools as of June 30, 2012, 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 October 26, 2012 on our consideration of Williamston Community Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope and testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 26, 2012

## **BASIC FINANCIAL STATEMENTS**

Williamston Community Schools

STATEMENT OF NET ASSETS

June 30, 2012

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 1,470,452
Cash on hand with paying agent	1,005,967
Receivables	
Taxes	27,156
Accounts	94,113
Due from other governmental units	2,465,342
Inventories	26,607
Prepays	<u>159,896</u>
Total current assets	5,249,533
Noncurrent assets	
Capital assets not being depreciated	1,341,655
Capital assets, net of accumulated depreciation	<u>42,743,705</u>
Total noncurrent assets	<u>44,085,360</u>
TOTAL ASSETS	49,334,893
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	214,731
Accrued salaries	935,613
Other accrued liabilities	478,203
Short-term notes payable	2,009,059
Unearned revenue	17,058
Accrued interest payable	272,039
Current portion of long-term debt	2,244,930
Current portion of accrued vacation pay	19,250
Current portion of accrued sick pay	<u>308,482</u>
Total current liabilities	6,499,365
Noncurrent liabilities	
Noncurrent portion of accrued vacation pay	4,812
Noncurrent portion of accrued sick pay	77,120
Noncurrent portion of long-term debt	<u>50,909,701</u>
Total noncurrent liabilities	<u>50,991,633</u>
TOTAL LIABILITIES	<u>57,490,998</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	(9,069,271)
Restricted for debt service	15,906
Restricted for food and nutrition	134,856
Restricted for community service	857
Unrestricted	<u>761,547</u>
TOTAL NET ASSETS	<u>\$ (8,156,105)</u>

See accompanying notes to financial statements.

Williamston Community Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants	Capital Grants	Revenues and Changes in Net Assets
Governmental Activities					Governmental Activities
Instruction	\$ 10,250,936	\$ 11,441	\$ 621,065	\$ -	\$ (9,618,430)
Supporting services	5,659,487	224,585	787,532	-	(4,647,370)
Community services	759,952	462,511	40,148	-	(257,293)
Food service	558,608	332,970	239,718	-	14,080
Interest on long-term debt	2,376,462	-	-	10,067	(2,366,395)
Unallocated depreciation	1,419,556	-	-	-	(1,419,556)
<b>TOTAL</b>	<b>\$ 21,025,001</b>	<b>\$ 1,031,507</b>	<b>\$ 1,688,463</b>	<b>\$ 10,067</b>	<b>(18,294,964)</b>
General revenues					
Property taxes					4,497,175
State school aid - unrestricted					11,785,657
Education Jobs funds					31,750
Investment earnings					7,586
Special education county allocation					1,096,676
Miscellaneous					373,947
<b>TOTAL GENERAL REVENUES</b>					<b>17,792,791</b>
<b>CHANGE IN NET ASSETS</b>					<b>(502,173)</b>
Net assets, beginning of year					(7,653,932)
Net assets, end of year					<b>\$ (8,156,105)</b>

See accompanying notes to financial statements.

Williamston Community Schools

Governmental Funds

BALANCE SHEET

June 30, 2012

	General	Nonmajor Governmental Funds	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,203,866	\$ 266,586	\$ 1,470,452
Cash on hand with paying agent	1,005,967	-	1,005,967
Receivables			
Taxes	-	27,156	27,156
Accounts	92,443	1,670	94,113
Due from other governmental units	2,461,213	4,129	2,465,342
Due from other funds	-	162,848	162,848
Inventories	18,538	8,069	26,607
Prepays	159,896	-	159,896
	<u>4,941,923</u>	<u>470,458</u>	<u>5,412,381</u>
<b>TOTAL ASSETS</b>	<b>\$ 4,941,923</b>	<b>\$ 470,458</b>	<b>\$ 5,412,381</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 201,150	\$ 13,581	\$ 214,731
Short-term notes payable	2,009,059	-	2,009,059
Accrued salaries	923,807	11,806	935,613
Other accrued liabilities	473,848	4,355	478,203
Due to other funds	162,848	-	162,848
Deferred revenue	-	17,058	17,058
	<u>3,770,712</u>	<u>46,800</u>	<u>3,817,512</u>
<b>TOTAL LIABILITIES</b>	<b>3,770,712</b>	<b>46,800</b>	<b>3,817,512</b>
<b>FUND BALANCES</b>			
<b>Nonspendable</b>			
Inventories	18,538	8,069	26,607
Prepays	159,896	-	159,896
<b>Restricted</b>			
Debt service	-	287,945	287,945
Food and nutrition	-	126,787	126,787
Community service	-	857	857
<b>Assigned</b>			
Subsequent year's expenditures	120,900	-	120,900
Unassigned	871,877	-	871,877
	<u>1,171,211</u>	<u>423,658</u>	<u>1,594,869</u>
<b>TOTAL FUND BALANCES</b>	<b>1,171,211</b>	<b>423,658</b>	<b>1,594,869</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 4,941,923</b>	<b>\$ 470,458</b>	<b>\$ 5,412,381</b>

See accompanying notes to financial statements.



Williamston Community Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS

June 30, 2012

**Total fund balances - governmental funds** \$ 1,594,869

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

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

The cost of capital assets is	\$ 66,894,104	
Accumulated depreciation is	<u>(22,808,744)</u>	
		44,085,360

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Long-term debt payable	(53,154,631)	
Accrued interest payable	(272,039)	
Accrued vacation pay	(24,062)	
Accrued sick pay	<u>(385,602)</u>	
		<u>(53,836,334)</u>

**Net assets of governmental activities** \$ (8,156,105)

Williamston Community Schools

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2012

	General	Nonmajor Governmental Funds	Total
<b>REVENUES</b>			
Local sources	\$ 2,060,110	\$ 4,046,571	\$ 6,106,681
State sources	12,774,986	83,438	12,858,424
Federal sources	255,012	206,035	461,047
<b>TOTAL REVENUES</b>	<b>15,090,108</b>	<b>4,336,044</b>	<b>19,426,152</b>
<b>EXPENDITURES</b>			
Current			
Instruction	10,276,042	-	10,276,042
Supporting services	5,659,487	-	5,659,487
Community service	-	759,952	759,952
Food service	-	558,608	558,608
Debt service			
Principal retirement	-	2,084,173	2,084,173
Interest, fiscal, and other charges	-	1,609,326	1,609,326
<b>TOTAL EXPENDITURES</b>	<b>15,935,529</b>	<b>5,012,059</b>	<b>20,947,588</b>
<b>EXCESS OF REVENUES (UNDER) EXPENDITURES</b>	<b>(845,421)</b>	<b>(676,015)</b>	<b>(1,521,436)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Debt proceeds	-	4,172,946	4,172,946
Bond premium	-	102,565	102,565
Bond issuance cost	-	(55,019)	(55,019)
Underwriter discount	-	(28,688)	(28,688)
Transfer to escrow agent	-	(3,393,858)	(3,393,858)
County special education allocation	1,096,676	-	1,096,676
Transfers from other funds	82,523	8,051	90,574
Transfers to other funds	(8,051)	(82,523)	(90,574)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,171,148</b>	<b>723,474</b>	<b>1,894,622</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>325,727</b>	<b>47,459</b>	<b>373,186</b>
Fund balances, beginning of year	845,484	376,199	1,221,683
Fund balances, end of year	<u>\$ 1,171,211</u>	<u>\$ 423,658</u>	<u>\$ 1,594,869</u>

See accompanying notes to financial statements.

Williamston Community Schools

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

**Net change in fund balances - total governmental funds** **\$ 373,186**

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 90,399	
Depreciation expense	<u>(1,419,556)</u>	
Excess of depreciation expense over capital outlay		(1,329,157)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Debt principal retirement	5,404,173	
Bond and loan proceeds	(4,172,946)	
Amortization of bond premium	34,546	
Bond proceeds (accrued SBLF interest)	<u>(773,312)</u>	
Excess of principal retirement over bond proceeds		492,461

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued vacation pay	(5,015)	
(Increase) in accrued sick pay	(60,278)	
Decrease in accrued interest payable	<u>26,630</u>	
		<u>(38,663)</u>

**Change in net assets of governmental activities** **\$ (502,173)**

Williamston Community Schools

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

	Private Purpose Trust Funds	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 9,573	\$ 169,619
Investments	4,325	-
	<u>13,898</u>	<u>169,619</u>
TOTAL ASSETS		<u>\$ 169,619</u>
LIABILITIES		
Due to students		
High School	-	\$ 114,360
Middle School	-	55,259
	<u>-0-</u>	<u>169,619</u>
TOTAL LIABILITIES		<u>\$ 169,619</u>
NET ASSETS		
Held in trust for private purposes	<u>\$ 13,898</u>	

See accompanying notes to financial statements.

Williamston Community Schools

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2012

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Investment earnings	
Interest	\$ 87
DEDUCTIONS	
Other supporting services	<u>310</u>
CHANGE IN NET ASSETS	(223)
Net assets - beginning of year	<u>14,121</u>
Net assets - end of year	<u><u>\$ 13,898</u></u>

See accompanying notes to financial statements.

Williamston Community Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 4*, these financial statements present the financial activities of Williamston Community Schools (primary government). The District has no activities that would be classified as component units.

Based upon the application of these criteria, the financial statements of the District contain all the funds controlled by the District.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the District are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments, and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major fund and aggregated nonmajor funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary funds are reported by type.

The District presents the following major governmental fund:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

Williamston Community Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

3. Measurement Focus

The district-wide and fiduciary private purpose trust fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the district-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary private purpose trust fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used 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 period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period.

Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

If/when both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources if they are needed.

5. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

Williamston Community Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

5. Budgets and Budgetary Accounting - continued

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the required supplementary information of the financial statements:

- a. The Assistant 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.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred in excess of the amount appropriated unless authorized in the budget.
- d. The budgets are legally adopted at the functional level; however, they are maintained at the object level for control purposes.
- e. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, and Debt Service Funds.
- f. The budget, as presented, has been amended in a legally permissible manner. Supplemental appropriations were made during the year, with the last one approved June 18, 2012.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking, savings, money market accounts, and pooled investment funds. Cash equivalents are recorded at market (fair) value.

Investments consist of certificates of deposit with original maturities of greater than 90 days. Investments are recorded at market (fair) value.

7. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2012, to be paid in July and August 2012. The total amount of \$2,465,342 due from other governmental units consists of \$2,319,237 and \$146,105 State Aid and grant and local programs, respectively.



Williamston Community Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

9. Inventories

Inventories are stated at cost on a first in/first out basis. Inventories consist of food and paper goods. Reported inventories are equally offset by nonspendable fund balance in the fund financial statements which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

10. Capital Assets

Capital assets include land, buildings and building improvements, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost of \$5,000 or more with estimated useful lives of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and building improvements	50 years
Equipment	5 - 20 years
Vehicles	8 years

11. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences and reported them as accrued sick pay and accrued vacation pay within the financial statements. Accumulated vested sick and vacation leave amounts and nonvested sick, and vacation leave amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a liability in the district-wide financial statements.

12. Deferred/Unearned Revenues

The unexpended balance of various federal and/or state categorical and local grants is carried forward as deferred/unearned revenue until the period in which eligible expenditures are incurred. Other monies collected in advance, such as summer school, community education programs, and summer school lunch, recreational programs are also reflected as deferred/unearned if they meet this criteria.

13. Short-Term Note Obligations

Short-term debt is recognized as a liability of a governmental fund and is included on the balance sheet of the applicable fund. During the current year, the District borrowed funds to meet short-term cash flow borrowing needs. The final payment is due and payable in August 2012, and anticipated State Aid is expected to be sufficient to cover this commitment.

14. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements. Accrued interest payable is due within one year and is reported as a current liability.

Williamston Community Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

15. Long-Term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

16. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year-end).

The District levies taxes of \$18.00 per \$1,000 of taxable valuation on most nonprimary residency exempt property and \$6 per \$1,000 of taxable value on commercial personal property for general governmental services and \$7.30 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. Original Taxable Value for 2011 was \$397,611,458. Current property tax revenue generated from these levies for the general fund was \$1,246,174 and for debt service funds \$2,915,944.

17. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. 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, 2012, the foundation allowance was based on the average of pupil membership counts taken in September of 2011 and February of 2011. The average calculation was weighted 90% for the September 2011 count and 10% for the February 2011 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the year and two (2) payments made in July and August subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

18. 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 expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred/unearned revenue in the respective statements.

Williamston Community Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

19. County Special Education Revenue Allocation

The millage was collected by Ingham Intermediate School District (IISD) and the payments to the District were based on the most recent IISD budget at the time of allocation of excess revenues, after all IISD costs had been reimbursed. The allocation is paid pro rata based upon the K-12 pupil enrollment, including Special Education students enrolled at IISD, of the District compared to the total County wide enrollment. The K-12 enrollment for the District is defined as the blended official count for the State foundation grant.

20. Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers on the governmental fund financial statements. Transfers are netted as part of the reconciliation to the district-wide financial statements.

21. Federal Programs

Federal programs are accounted for in the General Fund and specific Special Revenue Funds.

22. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. 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.
2. Certificates of deposit issued 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.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Williamston Community Schools  
 NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks in the State of Michigan in the name of the School District.

Deposits

There is custodial credit risk as it related to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it.

As of June 30, 2012, the carrying amount of the District's deposits was \$1,582,749 and the bank balance was \$1,732,297 of which \$1,713,353 was covered by Federal depository insurance. The balance of \$18,944 was uninsured and uncollateralized. The District had \$300 of cash on hand. The District also had \$1,005,967 on deposit with the State of Michigan at the Michigan Finance Authority in relation to the set aside payments to repay the State Aid Anticipation Note, Series 2011C-1 that is due and payable August 19, 2012.

Investments

As of June 30, 2012, the carrying amounts and market values for each type of investment as reported in the cash and cash equivalents caption on the combined balance sheet are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment funds			
MILAF - Cash Management & MAX Class Funds	\$ 35,943	\$ 35,943	N/A
MBIA - Michigan Class	34,977	34,977	N/A
	<u>\$ 70,920</u>	<u>\$ 70,920</u>	

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2012, the MBIA - Michigan Class investment is rated AAAM by Standard and Poor's. As of June 30, 2012, the investment in MILAF was rated AAAM by Standard and Poor's.

Interest rate risk

The District has adopted a policy that indicates how 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 limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The District has adopted a policy that indicates how 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.

Williamston Community Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Custodial credit risk

The District has adopted a policy that indicates how the District will minimize custodial credit risk. Custodial credit risk is the risk of loss due to the failure of the security issuer or backer. The Board policy limits investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with the Board approved policy.

The following summarizes the cash, cash equivalents, and investments as of June 30, 2012:

	Governmental Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$ 1,470,452	\$ 179,192	\$ 1,649,644
Cash on hand with paying agent	1,005,967	-	1,005,967
Investments	-	4,325	4,325
	\$ 2,476,419	\$ 183,517	\$ 2,659,936

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents, and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

**NOTE C: CAPITAL ASSETS**

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

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated				
Land	\$ 1,341,655	\$ -	\$ -	\$ 1,341,655
Capital assets being depreciated				
Buildings and building improvements	60,021,809	-	-	60,021,809
Vehicles and equipment	5,497,605	90,399	(57,364)	5,530,640
Subtotal of capital assets being depreciated	65,519,414	90,399	(57,364)	65,552,449
Less accumulated depreciation for:				
Buildings and building improvements	(17,079,495)	(1,100,436)	-	(18,179,931)
Vehicles and equipment	(4,367,057)	(319,120)	57,364	(4,628,813)
Total accumulated depreciation	(21,446,552)	(1,419,556)	57,364	(22,808,744)
Net capital assets being depreciated	44,072,862	(1,329,157)	-0-	42,743,705
Capital assets, net	\$ 45,414,517	\$ (1,329,157)	\$ -0-	\$ 44,085,360

Total depreciation expense of \$1,419,556 was not allocated to governmental functions. The expense appears on the statement of activities as "unallocated".

Williamston Community Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE D: LONG-TERM DEBT**

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Amounts Due Within One Year
1996 Building and Site Bonds	\$ 11,350,000	\$ -	\$ -	\$ 11,350,000	\$ -
2001 Refunding Bonds	4,395,000	-	(4,395,000)	-0-	-
2005 Building and Site Bonds	19,000,000	-	(1,000,000)	18,000,000	1,000,000
2011 Refunding Bonds	-	3,375,000	-	3,375,000	1,160,000
Michigan School Bond Loans					
Principal and interest	18,220,699	1,571,258	-	19,791,957	-
1998 Durant Resolution Bonds	59,557	-	(9,173)	50,384	50,384
Unamortized bond items	621,836	-	(34,546)	587,290	34,546
Vacation pay	19,047	33,114	(28,099)	24,062	19,250
Sick pay	325,324	660,271	(599,993)	385,602	308,482
	<u>\$ 53,991,463</u>	<u>\$ 5,639,643</u>	<u>\$ (6,066,811)</u>	<u>\$ 53,564,295</u>	<u>\$ 2,572,662</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds - The District has issued bonds to finance the acquisition, new construction, and remodeling of existing school facilities. The following summarizes significant details of the bonds payable outstanding at June 30, 2012:

\$27,535,000 School Building and Site Bonds dated January 1, 1996, due in annual installments ranging from \$1,100,000 to \$1,150,000 from May 1, 2016 through May 1, 2025 with interest of 5.500 percent, payable semi-annually.	\$ 11,350,000
\$23,735,000 School Building and Site Bonds dated February 2, 2005, due in annual installments of \$1,000,000 through May 1, 2030 with interest ranging from 3.50 to 5.00 percent, payable semi-annually.	18,000,000
\$3,375,000 Refunding Bonds dated September 13, 2011, due in annual installments ranging from \$1,095,000 to \$1,160,000 through May 1, 2014 with interest ranging from 2.00 to 3.00 percent, payable semi-annually.	3,375,000

Resolution Bonds

\$143,362 1998 Durant Resolution Bonds dated November 15, 1998, due in an installment of \$50,384, with interest of 4.761353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan.	<u>50,384</u>
	<u>\$ 32,775,384</u>

Williamston Community Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE D: LONG-TERM DEBT - CONTINUED**

Michigan School Bond Loans

The School District borrows on various occasions from the Michigan School Bond Qualification and Loan Program. Repayment is due when the School District has funds available as determined by the State of Michigan. Interest accrues on the unpaid balance. During the year the interest rate ranged from 3.00 to 4.625 percent.

The School District borrowed \$797,946 during this fiscal year and had an additional \$773,312 of accrued interest added to the loan on the outstanding balance during the year. The balances at June 30, 2012, are as follows:

Loan balance	\$ 13,788,522
Interest balance	<u>6,003,435</u>
	<u><u>\$ 19,791,957</u></u>

Advance Refunding - Prior

On October 1, 2001 the District defeased the portion of the 1996 School Building and Site Bonds, which were due and payable May 1, 2010 through May 1, 2015. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2001 Refunding Bonds in the amount of \$6,950,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2012 bonds due and payable May 1, 2013 through May 1, 2015 for the 1996 School Building and Site Bonds in the amount of \$3,300,000 are considered defeased.

On November 10, 1992 the District defeased the portion of the 1988 School Building and Site Bonds which are due and payable May 1, 2006 through May 1, 2014. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 1992 Refunding Bonds in the amount of \$5,720,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2012 bonds due and payable May 1, 2013 through May 1, 2014 for the 1988 School Building and Site Bonds in the amount of \$700,000 are considered defeased.

Advance Refunding - Current

On September 13, 2011, the District defeased a portion of the 2001 Refunding Bonds which were due and payable May 1, 2013 through May 1, 2015. This was accomplished by establishing an irrevocable trust with an escrow agent composed U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued 2011 Refunding Bonds in the amount of \$3,375,000 to provide resources to fund the escrow amounts and pay the cost of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2012, bonds due and payable May 1, 2013 through May 1, 2015 for the 2001 Refunding Bonds in the amount of \$3,320,000 are considered defeased.

As a result of the advance refunding, the District decreased its total debt service requirements by \$143,519, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$141,480.

Williamston Community Schools  
 NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE D: LONG-TERM DEBT - CONTINUED**

Advance Refunding - Current - continued

Sick Pay - In recognition of services to the District, a severance payment is made to eligible employees with at least ten (10) years of service according to their respective employment contracts as follows:

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the sick pay liability. The amounts accumulated for all employees currently vested is calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who currently are not vested are calculated taking total unused sick pay amounts at June 30, 2012 for all nonvested employees and multiplying it by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

A summary of the calculated amounts of accrued sick pay and related payroll taxes as of June 30, 2012, which has been recorded in the District-wide financial statements, is as follows:

	Vested Employees	Nonvested Employees	Total
Sick pay	\$ 47,275	\$ 310,925	\$ 358,200
Payroll taxes	3,616	23,786	27,402
	\$ 50,891	\$ 334,711	\$ 385,602

Vacation Pay - In recognition of services to the District, an accumulated unused vacation days payment will be made upon termination to eligible employees according to past District practice. This payment will be paid on all unused vacation days at the employee's rate of pay at time of termination.

The vacation pay liability, including the related payroll taxes which have been recorded in the district-wide financial statements, is \$24,062.

The annual requirements to pay the debt principal and interest outstanding are as follows:

Year Ending June 30,	Durant Resolution Bonds		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 50,384	\$ 17,256	\$ 2,160,000	\$ 1,551,900
2014	-	-	2,120,000	1,486,200
2015	-	-	2,095,000	1,417,510
2016	-	-	2,100,000	1,349,250
2017	-	-	2,100,000	1,238,750
2018-2022	-	-	10,700,000	4,549,750
2023-2027	-	-	8,450,000	1,804,500
2028-2030	-	-	3,000,000	270,000
	\$ 50,384	\$ 17,256	\$ 32,725,000	\$ 13,667,860

It is not possible to project a payment schedule for the Michigan School Bond Loans due to varying interest rates and timing of repayments. As a result, it is not included in the schedule above.



Williamston Community Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE D: LONG-TERM DEBT - CONTINUED**

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation.

**NOTE E: INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables at June 30, 2012, are as follows:

Due to nonmajor governmental funds from:	
General Fund	<u>\$ 162,848</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE F: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to General Fund:	
From nonmajor governmental funds	<u>\$ 82,523</u>
Transfers to nonmajor governmental funds:	
From General Fund	<u>\$ 8,051</u>

The transfers from the nonmajor governmental funds to the General Fund were to offset a portion of costs of the District that were recognized in the General Fund. The transfers from the General Fund to the nonmajor governmental funds were to cover operational costs related to the District's various programs reported in those nonmajor governmental funds.

**NOTE G: EMPLOYEE RETIREMENT SYSTEM**

Pension Plan Description and Funding Policy

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPSERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2010, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

The payroll for employees covered by the MPSERS for the year ended June 30, 2012 was \$9,205,687 of which \$8,667,124 was for members who have elected the MIP option; the District's total payroll was \$9,421,607.

Williamston Community Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

Pension Plan Description and Funding Policy - continued

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five years of credited service, with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision and hearing insurance coverage. Benefits are established by state statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990 through June 30, 2009 are required to contribute based on a graduated rate: 3% of the first \$5,000 (up to \$150); \$150 plus 3.6% of \$5,001 through \$15,000 (up to \$510 total); \$510 plus 4.3% of all wages over \$15,000. Employees first hired on or after July 1, 2009 are required to contribute based on a graduated rate: 3% of the first \$5,000 (up to \$150); \$150 plus 3.6% of \$5,001 through \$15,000 (up to \$510 total); \$510 plus 6.4% of all wages over \$15,000.

For the period of July 1, 2011 to September 30, 2011, the District was required by State statute to contribute 20.66% for employees who first worked before July 1, 2010 and, if the employee first worked on or after July 1, 2010, the contribution rate was 19.16% of covered compensation for all wages to the Plan. For the period of October 1, 2011 to June 30, 2012, the District was required by State statute to contribute 24.46% for employees who first worked before July 1, 2010 and, if the employee first worked on or after July 1, 2010, the contribution was 23.23% of covered compensation for all wages to the Plan. All employees are required to contribute 3% of gross pay towards retirement health care costs which is included in the MIP contributions below. The total amount contributed to the Plan for the year ended June 30, 2012, and the preceding two years, is as follows:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>	<u>Total</u> <u>Contributions</u>
2012	\$ 734,257	\$ 2,114,187	\$ 2,848,444
2011	565,416	1,877,144	2,442,560
2010	325,187	1,595,141	1,920,328

Williamston Community Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

Pension Plan Description and Funding Policy - continued

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>
2012	8.5%	23.0%
2011	6.8%	20.3%
2010	4.0%	16.8%

Other Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. A component of the employer contribution rate for the pension plan factors into amounts for other postemployment benefits and this amount is paid by the District. The employer contribution rate was 8.50 percent of covered payroll for the period from July 1, 2011 through June 30, 2012. The District's required and actual contributions to the plan for retiree healthcare benefits are included in the contributions shown for pension benefits above.

**NOTE H: RISK MANAGEMENT**

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for boiler, property, fleet, liability, in-land marine, crime, employee dishonesty, boiler and machinery, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's 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 District has not been informed of any special assessments being required.

The District also participates in a pool, the SEG Self-Insurer Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's 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 District has not been informed of any special assessments being required.

**NOTE I: FLEXIBLE BENEFITS PLAN**

In February 1992, the District implemented a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The plan, available to all employees, permits them to reduce their salary and put these amounts into a flexible benefits account up to certain limits.

The plan allows the employee to reduce their salary and apply it to medical reimbursement, dependent care reimbursements, co-pay for health insurance premiums, or post-employment group term life insurance.

A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

Williamston Community Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

The Plan is administered by Williamston Community Schools.

Williamston Community Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE J: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT**

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. Williamston Community Schools, a nonplaintiff District, was awarded \$286,724 in the settlement. The funds are being paid as follows:

- a. One half was paid over the next ten (10) years which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds were recorded within the General Fund as categorical State Aid. The year ended June 30, 2008 was the last year of payments of these funds.
- b. One-half is being paid over the next fifteen years which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1352 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

**NOTE K: SHORT-TERM NOTES**

On August 20, 2010, the District issued a short-term State School Aid Anticipation Note in the amount of \$4,500,000 for the purpose of funding operating expenditures until the 2011 State Aid payments began. This short-term note, which had a net outstanding balance of \$4,525,191 (principal and accrued interest payable) at June 30, 2011, was reported in the General Fund and in the government-wide financial statements under the caption short-term notes payable. There was \$1,748,574 of cash on deposit with the paying agent at June 30, 2011 to pay for a portion of the notes outstanding. The remaining funds to make the balance of the payment due came from State Aid and other funds on hand when the payment was due. The outstanding balance was paid in August 2011.

On August 20, 2011, the District issued a short-term State School Aid Anticipation Note in the amount of \$2,000,000 for the purpose of funding operating expenditures until the 2012 State Aid payments began. This short-term note, which has a net outstanding balance of \$2,009,059 (principal and accrued interest payable) at June 30, 2012, is reported in the General Fund and in the government-wide financial statements under the caption short-term notes payable. There was \$1,005,967 of cash on deposit with the paying agent at June 30, 2012 to pay for a portion of the notes outstanding. The remaining funds to make the balance of the payment due will come from State Aid and other funds on hand when the payment is due. The outstanding balance was paid in August 2012.

**NOTE L: SUBSEQUENT EVENTS**

After the year ended June 30, 2012, the following subsequent events occurred:

On August 20, 2012, the District issued State School Aid Anticipation Notes totaling \$1,917,000 for the purpose of funding operating expenditures until the fiscal year 2013 State Aid payments begin. These short-term notes will be paid off when the District accumulates sufficient State Aid revenues. Future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

Williamston Community Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE M: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS**

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, 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 following are the five classifications of fund balance under this standard:

*Nonspendable* - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

*Restricted* - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

*Committed* - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

*Assigned* - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

*Unassigned* - all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

**Fund Balance Classification Policies and Procedures**

For committed fund balance, Williamston Community Schools' highest level of decision-making authority is the Board of Education. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is through a formal action and approval by the Board of Education and committed fund balances do not lapse at year end.

For assigned fund balance, the Board of Education is authorized to assign amounts to a specific purpose. The authorization is delegated by the Board of Education to the District's Superintendent.

For the classification of fund balances, Williamston Community Schools considers restricted amounts to have been spent first when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, Williamston Community Schools considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**NOTE N: CONTINGENT LIABILITIES**

There are potential legal actions pending against the District. Due to the inconclusive nature of many of the actions, it is not possible for District Counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any.

**NOTE O: UPCOMING ACCOUNTING PRONOUNCEMENT**

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the District's 2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets,

Williamston Community Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

deferred outflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

## **REQUIRED SUPPLEMENTARY INFORMATION**



Williamston Community Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 1,724,374	\$ 1,786,221	\$ 2,060,110	\$ 273,889
State sources	12,288,065	12,689,812	12,774,986	85,174
Federal sources	246,945	278,695	255,012	(23,683)
<b>TOTAL REVENUES</b>	<b>14,259,384</b>	<b>14,754,728</b>	<b>15,090,108</b>	<b>335,380</b>
<b>EXPENDITURES</b>				
Instruction				
Basic programs	8,859,705	8,436,516	8,518,344	(81,828)
Added needs	1,936,660	1,974,800	1,757,698	217,102
<b>TOTAL INSTRUCTION</b>	<b>10,796,365</b>	<b>10,411,316</b>	<b>10,276,042</b>	<b>135,274</b>
Supporting services				
Pupil services	549,524	515,356	740,251	(224,895)
Instructional staff	923,922	915,417	843,119	72,298
General administration	190,140	211,020	199,087	11,933
School administration	870,802	833,444	891,665	(58,221)
Athletics	-	357,702	294,685	63,017
Business and other supporting services	2,891,929	2,745,342	2,690,680	54,662
<b>TOTAL SUPPORTING SERVICES</b>	<b>5,426,317</b>	<b>5,578,281</b>	<b>5,659,487</b>	<b>(81,206)</b>
<b>TOTAL EXPENDITURES</b>	<b>16,222,682</b>	<b>15,989,597</b>	<b>15,935,529</b>	<b>54,068</b>
<b>EXCESS OF REVENUES (UNDER) EXPENDITURES</b>	<b>(1,963,298)</b>	<b>(1,234,869)</b>	<b>(845,421)</b>	<b>389,448</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
County special education allocation	975,000	1,087,711	1,096,676	8,965
Transfers from other funds	92,597	50,000	82,523	32,523
Transfers to other funds	-	-	(8,051)	(8,051)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,067,597</b>	<b>1,137,711</b>	<b>1,171,148</b>	<b>33,437</b>
<b>NET CHANGES IN FUND BALANCE</b>	<b>(895,701)</b>	<b>(97,158)</b>	<b>325,727</b>	<b>\$ 422,885</b>
Fund balance, beginning of year	845,484	845,484	845,484	-0-
Fund balance, end of year	<u>\$ (50,217)</u>	<u>\$ 748,326</u>	<u>\$ 1,171,211</u>	<u>\$ 422,885</u>

Williamston Community Schools

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2012

**NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2012, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Instruction			
Basic needs	\$ 8,436,516	\$ 8,518,344	\$ (81,828)
Supporting services			
Pupil services	515,356	740,251	(224,895)
School administration	833,444	891,665	(58,221)
Transfers to other funds	-	8,051	(8,051)

## **OTHER SUPPLEMENTARY INFORMATION**

Williamston Community Schools

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2012

	Special Revenue Funds		
	Food Service	Community Services	Red Cedar Recreation Association
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,469	\$ -	\$ -
Receivables			
Taxes	-	2,328	-
Accounts	1,670	-	-
Due from other governmental units	3,848	281	-
Due from other funds	130,339	32,509	-
Inventories	8,069	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	<u>\$ 147,395</u>	<u>\$ 35,118</u>	<u>\$ -0-</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 757	\$ 12,824	\$ -
Accrued salaries	-	11,806	-
Other accrued liabilities	721	3,634	-
Deferred revenue	11,061	5,997	-
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL LIABILITIES	12,539	34,261	-0-
<b>FUND BALANCES</b>			
Nonspendable			
Inventories	8,069	-	-
Restricted			
Debt service	-	-	-
Food and nutrition	126,787	-	-
Community services	-	857	-
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL FUND BALANCES	<u>134,856</u>	<u>857</u>	<u>-0-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 147,395</u>	<u>\$ 35,118</u>	<u>\$ -0-</u>

Debt Service Funds

1996 Debt	2001 Debt	2005 Debt	2011 Refunding Bonds	Durant	Total
\$ 29,035	\$ 107,565	\$ 41,534	84,983	\$ -	\$ 266,586
15,135	-	8,503	1,190	-	27,156
-	-	-	-	-	1,670
-	-	-	-	-	4,129
-	-	-	-	-	162,848
-	-	-	-	-	8,069
<u>\$ 44,170</u>	<u>\$ 107,565</u>	<u>\$ 50,037</u>	<u>\$ 86,173</u>	<u>\$ -0-</u>	<u>\$ 470,458</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,581
-	-	-	-	-	11,806
-	-	-	-	-	4,355
-	-	-	-	-	17,058
-0-	-0-	-0-	-0-	-0-	46,800
-	-	-	-	-	8,069
44,170	107,565	50,037	86,173	-	287,945
-	-	-	-	-	126,787
-	-	-	-	-	857
<u>44,170</u>	<u>107,565</u>	<u>50,037</u>	<u>86,173</u>	<u>-0-</u>	<u>423,658</u>
<u>\$ 44,170</u>	<u>\$ 107,565</u>	<u>\$ 50,037</u>	<u>\$ 86,173</u>	<u>\$ -0-</u>	<u>\$ 470,458</u>

Williamston Community Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES

Year Ended June 30, 2012

	Special Revenue Funds		
	Food Service	Community Services	Red Cedar Recreation Association
REVENUES			
Local sources	\$ 347,873	\$ 755,490	\$ -
State sources	33,684	39,687	-
Federal sources	206,035	-	-
TOTAL REVENUES	587,592	795,177	-0-
EXPENDITURES			
Current			
Food service	558,608	-	-
Community services	-	758,752	1,200
Debt service			
Principal retirement	-	-	-
Interest, fiscal, and other charges	-	-	-
TOTAL EXPENDITURES	558,608	758,752	1,200
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	28,984	36,425	(1,200)
OTHER FINANCING SOURCES (USES)			
Debt proceeds	-	-	-
Bond premium	-	-	-
Bond issuance cost	-	-	-
Underwriter discount	-	-	-
Transfer to escrow agent	-	-	-
Transfers from other funds	-	8,051	-
Transfers to other funds	(38,107)	(44,416)	-
TOTAL OTHER FINANCING SOURCES (USES)	(38,107)	(36,365)	-0-
NET CHANGE IN FUND BALANCES	(9,123)	60	(1,200)
Fund balances, beginning of year	143,979	797	1,200
Fund balances, end of year	\$ 134,856	\$ 857	\$ -0-

Debt Service Funds

1996 Debt	2001 Debt	2005 Debt	2011 Refunding Bonds	Durant	Total
\$ 614,755	\$ 1,171,851	\$ 1,013,351	\$ 143,251	\$ -	\$ 4,046,571
-	-	-	-	10,067	83,438
-	-	-	-	-	206,035
614,755	1,171,851	1,013,351	143,251	10,067	4,336,044
-	-	-	-	-	558,608
-	-	-	-	-	759,952
-	1,075,000	1,000,000	-	9,173	2,084,173
625,887	48,000	877,467	57,078	894	1,609,326
625,887	1,123,000	1,877,467	57,078	10,067	5,012,059
(11,132)	48,851	(864,116)	86,173	-0-	(676,015)
30,526	-	767,420	3,375,000	-	4,172,946
-	-	-	102,565	-	102,565
-	-	-	(55,019)	-	(55,019)
-	-	-	(28,688)	-	(28,688)
-	-	-	(3,393,858)	-	(3,393,858)
-	-	-	-	-	8,051
-	-	-	-	-	(82,523)
30,526	-0-	767,420	-0-	-0-	723,474
19,394	48,851	(96,696)	86,173	-0-	47,459
24,776	58,714	146,733	-	-	376,199
\$ 44,170	\$ 107,565	\$ 50,037	\$ 86,173	\$ -0-	\$ 423,658

Williamston Community Schools

Private Purpose Trust Funds

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

	<u>Suzie Lorenz</u>	<u>Scott Hughes</u>	<u>Steve Smith</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,565	\$ 6,262	\$ 746	\$ 9,573
Investments	<u>4,325</u>	<u>-</u>	<u>-</u>	<u>4,325</u>
<b>TOTAL ASSETS</b>	<u>\$ 6,890</u>	<u>\$ 6,262</u>	<u>\$ 746</u>	<u>\$ 13,898</u>
<b>NET ASSETS</b>				
Held in trust for private purposes	<u>\$ 6,890</u>	<u>\$ 6,262</u>	<u>\$ 746</u>	<u>\$ 13,898</u>



Williamston Community Schools

Private Purpose Trust Funds

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2012

	<u>Suzie Lorenz</u>	<u>Scott Hughes</u>	<u>Steve Smith</u>	<u>Total</u>
ADDITIONS				
Investment earnings				
Interest	\$ -	\$ 87	\$ -	\$ 87
DEDUCTIONS				
Other supporting services	<u>310</u>	<u>-</u>	<u>-</u>	<u>310</u>
CHANGE IN NET ASSETS	(310)	87	-0-	(223)
Net assets - beginning of year	<u>7,200</u>	<u>6,175</u>	<u>746</u>	<u>14,121</u>
Net assets - end of year	<u>\$ 6,890</u>	<u>\$ 6,262</u>	<u>\$ 746</u>	<u>\$ 13,898</u>

Principals

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

To the Board of Education  
Williamston Community Schools  
Williamston, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Williamston Community Schools (the District) as of and for the year ended June 30, 2012, which collectively comprise Williamston Community Schools' basic financial statements and have issued our report thereon dated October 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of control 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 an instance of noncompliance that is required to be reported under *Governmental Auditing Standards* which is described as noted below:

## 2012-1 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund.

Criteria: The Uniform Budgeting and Accounting Act requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Cause: The District did not amend the budget sufficiently when it became apparent spending was going to exceed the amounts appropriated in the over budget areas.

Effect: The District has not maintained adequate control over budgetary compliance in accordance with State law in the certain areas where the overages occurred.

Recommendation: We recommend the District continue to monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: Management of the District is currently reviewing procedures related to budgetary compliance in accordance with State law.

The District's response to the finding identified in our audit is described above. We did not audit the District'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 and administration of Williamston Community Schools, others within the District, and the pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 26, 2012