

# THORNAPPLE KELLOGG SCHOOLS

Barry, Allegan, Kent and Ionia Counties,  
Michigan



Report on Financial Statements  
For the year ended June 30, 2011

**THORNAPPLE KELLOGG SCHOOL DISTRICT**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and additional information)**  
**YEAR ENDED JUNE 30, 2011**

# CONTENTS

	<u>Page</u>
<b>Independent auditors' report</b> .....	iv - v
<b>Management's Discussion and Analysis</b> .....	vi - xiii
<b>Basic financial statements</b> .....	1
District-wide financial statements	
Statement of net assets .....	2 - 3
Statement of activities .....	4
Fund financial statements	
Balance sheet - governmental funds .....	5 - 6
Statement of revenues, expenditures and changes in fund balances governmental funds.....	7 - 8
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	9
Fiduciary funds	
Statement of fiduciary net assets.....	10
Statement of changes in fiduciary net assets.....	11
Notes to financial statements .....	12 - 32
<b>Required supplementary information</b> .....	33
Statement of revenues, expenditures and changes in fund balance - budget and actual.....	34

# CONTENTS

	<u>Page</u>
<b>Additional information</b> .....	35
Nonmajor governmental fund types	
Combining balance sheet .....	36
Combining statement of revenues, expenditures, and changes in fund balances .....	37
Special revenue funds	
Combining balance sheet .....	38
Combining statement of revenues, expenditures and changes in fund balances .....	39
Debt service fund	
Combining balance sheet .....	40
Combining statement of revenues, expenditures and changes in fund balances .....	41
General fund	
Statement of expenditures and other financing uses .....	42
Long-term debt	
Bonded debt .....	43 - 48
School bond loan fund.....	49
School loan revolving fund .....	50

## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Thornapple Kellogg School District

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

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

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

As described in Notes 1 and 13 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2011, on our consideration of Thornapple Kellogg School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

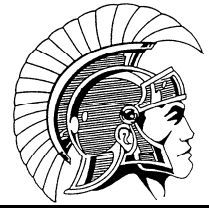
The management's discussion and analysis and budgetary comparison information on pages vi through xiii and 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Thornapple Kellogg School District's basic financial statements. The additional information on pages 36 through 50 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Maney Costeiran PC*

September 29, 2011

**Thornapple Kellogg Schools**  
**Management's Discussion and Analysis**  
**June 30, 2011**



As management of the Thornapple Kellogg Schools (“the District”), a K-12 school district located in Barry, Allegan, Kent and Ionia Counties, Michigan, we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2011. Please read it in conjunction with the District’s financial statements, which immediately follow this section.

**Overview of the Financial Statements**

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Additional Information.

The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District’s overall financial status. These statements present an aggregate view of the District’s finances and a longer-term view of those finances.
- The remaining statements are fund financial statements that focus on individual parts of the District. These statements look at the District’s operations in more detail than the district-wide statements by providing information about the District’s most significant funds - the General Fund and the 2007 Capital Projects Funds, with all other funds presented in one column as Nonmajor Funds.

The fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Additional Information follows and includes combining and individual fund statements.

**District-wide Statements**

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District’s assets and liabilities and use the accrual basis of accounting. All of the current year’s revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District’s net assets, and how they have changed. Net assets - the difference between the District’s assets and liabilities - is one way to measure the District’s financial health or position. Over time, increases or decreases in the District’s net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

The relationship between revenues and expenses is the District’s operating results. However, it should be noted that unlike most private-sector companies where improving shareholder wealth is the goal, the District’s goal is to provide services to our students. Therefore, in order to assess the overall health of the District, one must consider many non-financial factors such as the quality of education provided, breadth of curriculum offered, condition of school facilities, and the safety of the schools.

**Thornapple Kellogg Schools  
Management's Discussion and Analysis  
June 30, 2011**



---

The statement of net assets and statement of activities report the governmental activities for the District, which encompass all of the District's services including instruction, supporting services, community services and food services. Property taxes, unrestricted State Aid, State grants, and Federal grants finance most of these activities.

**Fund Financial Statements**

The District's fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law and by bond covenants, though the District may establish other funds to help control and manage money for particular purposes. It may also establish other funds to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

The fund level financial statements are reported on a modified accrual basis, which measures only those revenues that are "measurable" and "currently available". Expenses are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund financial statements are formatted to comply with the legal requirements of the Michigan Department of Education's Bulletin 1022. In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including:

- Debt Service Funds - consisting of the 2002, 2004, 2006, 2007, and 2010 Debt Funds.
- Special Revenue Funds - consisting of the Food Service and the Public Library Funds.
- Capital Projects Funds - consisting of the 2007 Capital Projects Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is 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. Future debt obligations are not recorded.

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Thornapple Kellogg Schools  
Management's Discussion and Analysis  
June 30, 2011**



**Financial Analysis of the District as a Whole**

The following summary of net assets provides the perspective of the District as a whole as of June 30, 2011 and 2010, respectively.

	<u>2011</u>	<u>2010</u>	Percentage change
<b>Assets</b>			
Current assets	\$ 9,623,927	\$ 11,944,650	-19.43%
Deferred charges, net	855,711	846,754	1.06%
Capital assets	91,838,948	90,088,971	1.94%
Less accumulated depreciation	<u>(19,028,945)</u>	<u>(17,826,570)</u>	6.74%
Capital assets, net book value	<u>72,810,003</u>	<u>72,262,401</u>	0.76%
Total assets	<u>83,289,641</u>	<u>85,053,805</u>	-2.07%
<b>Liabilities</b>			
Current liabilities	7,165,805	7,163,546	0.03%
Non-current liabilities	<u>73,803,197</u>	<u>74,029,577</u>	-0.31%
Total liabilities	<u>80,969,002</u>	<u>81,193,123</u>	-0.28%
Net assets:			
Invested in capital assets, net of related debt	2,696,662	3,658,693	-26.29%
Unrestricted	<u>(376,023)</u>	<u>201,989</u>	-286.16%
Total net assets	<u>\$ 2,320,639</u>	<u>\$ 3,860,682</u>	<u>-39.89%</u>

Capital assets net of related debt, \$2.7 million, is the original cost of the District's capital assets, less depreciation plus the remaining fund balance in 2007 Capital Projects Funds, less the long-term debt outstanding (excluding accrued interest on the school bond loan programs) used to finance the acquisition of those assets. This debt will be repaid from voter-approved property taxes collected as the debt and interest payments come due.

The remaining amount of net assets of \$(.4) million was unrestricted and represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

**Thornapple Kellogg Schools  
Management's Discussion and Analysis  
June 30, 2011**



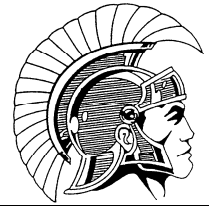
The Statement of Activities presents changes in net assets from operating results:

	2011	2010	Percentage change
<b>Program Revenues</b>			
Charges for services	\$ 904,068	\$ 863,510	4.70%
Operating grants	1,915,353	1,667,266	14.88%
<b>General Revenues</b>			
Property taxes	5,605,559	5,731,421	-2.20%
Interest earnings	55,890	169,945	-67.11%
State school aid, unrestricted	19,972,808	19,302,737	3.47%
Federal sources - unrestricted	347,400	1,362,395	-74.50%
Intermediate	1,463,949	1,529,986	-4.32%
Other	114,276	73,187	56.14%
Total revenues	<u>30,379,303</u>	<u>30,700,447</u>	-1.05%
<b>Expenses</b>			
Instruction	16,953,509	17,062,605	-0.64%
Support services	10,170,571	10,718,115	-5.11%
Community services	206,622	230,156	-10.23%
Food service	1,068,232	1,038,228	2.89%
Public library	49,907	49,562	0.70%
Interest on long-term debt	3,470,505	3,671,002	-5.46%
Total expenses	<u>31,919,346</u>	<u>32,769,668</u>	-2.59%
Increase (decrease) in net assets	(1,540,043)	(2,069,221)	-25.57%
<b>Net assets, beginning of year</b>	<u>3,860,682</u>	<u>5,929,903</u>	-34.89%
<b>Net assets, end of year</b>	<u>\$ 2,320,639</u>	<u>\$ 3,860,682</u>	-39.89%

Local property taxes and unrestricted state aid supported the majority of the governmental activities. The property tax revenue comes mainly from the 18.0000 mills on all Non-Principal Residence Exemption (non-homestead property), which we are required to levy by the State in order to receive our full State foundation allowance. The District appreciates the support of the community in maintaining our facilities, as \$3.7 million of the \$5.6 million in tax revenue is generated by a debt millage specifically designated for future debt service.

Of the District's total revenues available to operate the District, a little under 3 percent or about \$.90 million came from fees charged to those who benefited from the programs. Approximately 5.4 percent or \$1.63 million of revenues came from other governments or organizations that subsidize certain programs with grants and other directed types of funding.

**Thornapple Kellogg Schools  
Management's Discussion and Analysis  
June 30, 2011**



The expenses represent the financial support of each functional area required during the year. Being in the business of educating children, the largest expenses were incurred in Instruction, which accounted for \$17.0 million or 53 percent of total expenses. Direct Support Services cost \$10 million or 32 percent of all expenses, which includes such items as transportation, maintenance, security, supervision, counseling, health care, athletics, and a variety of similar services that support the District's mission of educating children.

The District experienced a decrease in net assets of \$1,540,043 or approximately 40 percent. The decrease in net assets differs from the change in fund balance and a reconciliation appears later in the financial statements.

**Financial Analysis of the District's Funds**

The District uses funds to record and analyze financial information. Thornapple Kellogg Schools' funds are described as follows:

General Fund

The General Fund is the principal operating fund. The General Fund had total revenues of \$25,509,433 and total expenditures of \$25,554,417. It ended the fiscal year with a fund balance of \$3,730,131, down from \$3,775,115 as of June 30, 2010. The District has reduced its fund balance due to less State revenues and increasing expenditures. The fund balance is appropriately restricted and assigned.

2007 Capital Projects Fund

The Thornapple Kellogg community approved a bond issue in May 2007 to renovate, equip and add to current facilities, purchase new buses and technology. \$29 million of general obligation bonds were issued on July 17, 2007. Construction began in the spring of 2008. Investment and other earnings were \$50,227 with expenditures of over \$2.37 million for fiscal year ending June 30, 2011. The remaining fund balance of \$1.4 million will be used for technology.

Nonmajor Funds

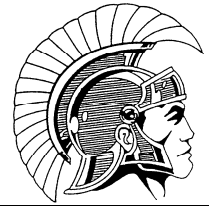
Special Revenue Funds

The District operates two Special Revenue Funds, for food service and the public library. Total revenues were \$1,130,206, with total expenditures of \$1,091,476. The ending fund balances of each fund were Food Service of \$61,006, and Public Library of \$11,282.

Debt Service Funds

The District operates five Debt Service Funds for the 2002 bond issue, the 2004 refunding bond issue, the 2006 refunding bond issue, the 2007 bond issue, the 2010 refunding bond issue, and the Durant bond. Total revenues were \$3,673,607 and other financing sources of \$1,523,307, with total expenditures of \$5,237,417. The ending fund balances in the Debt Service Funds totaled \$244,097.

**Thornapple Kellogg Schools  
Management's Discussion and Analysis  
June 30, 2011**



Fiduciary Funds

The Agency Fund and the Trust Funds are operated as fiduciary funds of the District. The assets of these funds are being held for the benefit of the District's employees and students. Balances on hand at June 30, 2011 totaled \$342,415.

**General Fund Budgetary Highlights**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)	% variance
Total revenues and other	\$ 25,063,695	\$ 25,414,981	\$ 25,509,433	\$ 94,452	0.37%
Expenditures and other					
Instruction	\$ 15,499,205	\$ 15,565,255	\$ 15,615,134	\$ (49,879)	-0.32%
Supporting services	10,004,984	9,793,430	9,751,048	42,382	0.43%
Community services	176,425	197,375	188,235	9,140	4.63%
Total expenditures and other	\$ 25,680,614	\$ 25,556,060	\$ 25,554,417	\$ 1,643	0.01%

Over the course of the year, the District revised the annual operating budget in March and June. The District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires the budget be amended to ensure expenditures do not exceed appropriations.

***Analysis of Financial Position***

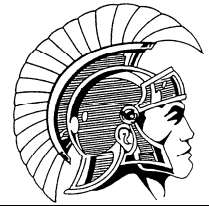
The District remains in stable condition as of June 30, 2011. Management continues to make conservative reductions of operating expenses in every possible area and increase revenues in appropriate areas as a contribution to costs incurred. Management also intends to utilize the remaining fund balance, as needed, to continue to fund quality educational programs and curriculum to comply with new State requirements during inevitable economic downturns in the future.

**Capital Asset and Debt Administration**

**Capital Assets**

By the end of 2010, the District had invested \$91.8 million in a broad range of capital assets, including land, school buildings, vehicles, athletic facilities, technology equipment and software. This amount represents a net increase of \$1.7 million or 1.9% from last year. (More detailed information about capital assets can be found in Note 4 in the Notes to Financial Statements.) Total depreciation expense for the year was \$1,842,768.

**Thornapple Kellogg Schools  
Management's Discussion and Analysis  
June 30, 2011**



The District's 2007 Capital Projects Funds expended \$2.37 million for construction in progress, land, buses and technology equipment. The remaining fund balances of \$1.4 million is designated for the construction projects, purchase of additional buses, and to continue to update technology, equipment and furnishings in all instructional areas.

At June 30, 2011, the District's investment in capital assets (net of accumulated depreciation), was \$72.8 million. Net book value of capital assets is detailed as follows:

	<u>2011</u>	<u>2010</u>
Land	\$ 1,653,636	\$ 1,653,636
Land improvements	1,655,700	1,143,550
Building and additions	67,513,562	47,357,778
Furniture and equipment	1,455,563	1,620,037
Vehicles	531,542	468,709
Construction in progress	<u>-</u>	<u>20,018,691</u>
Net capital assets	<u>\$ 72,810,003</u>	<u>\$ 72,262,401</u>

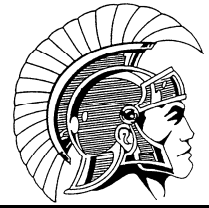
**Long-Term Debt**

At year end, the District had \$76.4 million in general obligation bonds and other long-term debt outstanding - a net decrease of approximately \$.02 million from last year.

- The District continued to pay down its debt, retiring \$11.1 million of outstanding bonds and other liabilities.
- The District refinanced its 2002 bond, receiving a bond issuance of \$8,725,000.
- \$65,130 was added to employee incentive programs during the year, and \$148,727 of this liability was used/paid during the year.

The District's bond rating for General Obligation Unlimited Tax debt remains at "A2" from Moody's Investors Service and upgraded in June 2007 to "A" from "A-" from Standard & Poor's. Additionally, since all of the District's outstanding General Obligation Unlimited Tax debt is qualified by the State of Michigan School Loan Revolving Fund program, it carries the State's current program rating of "AA3" and "AA-" from Moody's Investors Service and Standard & Poor's, respectively. The State limits the amount of general obligation debt that schools can issue to 15% of the assessed value of all taxable property within a district's boundaries. The District's other obligations include severance pay and accumulated sick leave. Detailed information about our long-term liabilities are presented in the Notes to Financial Statements.

**Thornapple Kellogg Schools  
Management's Discussion and Analysis  
June 30, 2011**



---

**Factors Bearing on the District's Future**

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

We considered many factors when setting the District's 2011-12 fiscal year budget. Since the District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect the revenues to fund its appropriation to school districts. Currently the State of Michigan is in a state of reform. The foundation grant has been reduced by \$470/pupil for the 2011/2012 school year. There are some one-time opportunities for additional funding, however without structural increases, educational programming may be significantly impacted.

Another major factor affecting our budget is our student count. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2011-12 budget is 75 percent and 25 percent of the February 2011 and September 2011 student counts, respectively. The 2011-12 fiscal year budget was adopted in June 2011, based on an estimate of students that will be enrolled in September 2011. Enrollment is expected to remain unchanged for the 2011-12 fiscal year. The District had been experiencing some growth over the past several years, however, due to the poor economy, enrollment has not changed significantly.

Approximately 75 percent of total General Fund revenues are from the foundation allowance. Under State law, the District cannot levy additional property tax revenue for general operations. As a result, the District funding is heavily dependent on the State's ability to fund local school operations.

The financial stability of Thornapple Kellogg Schools may make a significant downturn if the State is not able to adequately fund school districts in the near future.

**Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, and 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, contact the Business Office, Thornapple Kellogg Schools, 10051 Green Lake Road, Middleville, MI 49333.

## **BASIC FINANCIAL STATEMENTS**

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

	<u>Governmental activities</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash	\$ 2,974,840
Cash - restricted state set-aside	1,049,142
Receivables:	
Accounts receivable	29,691
Property taxes receivable	82,572
Due from other governmental units	4,016,130
Inventories	14,879
Prepaid expenditures	15,745
Restricted cash - capital projects	495,285
Restricted investments - capital projects	945,643
	<hr/>
<b>TOTAL CURRENT ASSETS</b>	<b>9,623,927</b>
	<hr/>
<b>NONCURRENT ASSETS:</b>	
Deferred charges, net of amortization	855,711
Capital assets	91,838,948
Less accumulated depreciation	(19,028,945)
	<hr/>
<b>TOTAL NONCURRENT ASSETS</b>	<b>73,665,714</b>
	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 83,289,641</b>
	<hr/> <hr/>

	<b>Governmental activities</b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 397,280
Accrued salaries and related items	1,617,589
Due to other governmental units	736,511
Accrued interest	469,123
Deferred revenue	181,258
State aid anticipation note payable	1,200,000
Current portion of long-term obligations	2,425,412
Current portion of compensated absences and termination benefits	138,632
<b>TOTAL CURRENT LIABILITIES</b>	<b>7,165,805</b>
<b>NONCURRENT LIABILITIES:</b>	
Noncurrent portion of long-term obligations	73,328,989
Noncurrent portion of compensated absences and termination benefits	474,208
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>73,803,197</b>
<b>TOTAL LIABILITIES</b>	<b>80,969,002</b>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	2,696,662
Restricted - food service	46,127
Unrestricted	(422,150)
<b>TOTAL NET ASSETS</b>	<b>2,320,639</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 83,289,641</b>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net assets</u>
Governmental activities:				
Instruction	\$ 16,953,509	\$ -	\$ 1,354,619	\$ (15,598,890)
Support services	10,170,571	152,504	12,428	(10,005,639)
Community services	206,622	173,182	-	(33,440)
Food service	1,068,232	528,806	541,144	1,718
Public library	49,907	49,576	7,162	6,831
Interest on long-term debt	3,470,505	-	-	(3,470,505)
Total governmental activities	<u>\$ 31,919,346</u>	<u>\$ 904,068</u>	<u>\$ 1,915,353</u>	<u>(29,099,925)</u>
General revenues:				
Property taxes, levied for general purposes				1,949,938
Property taxes, levied for debt service				3,655,621
Investment earnings				55,890
State sources - unrestricted				19,972,808
Federal sources - unrestricted				347,400
Intermediate sources				1,463,949
Other				114,276
Total general revenues				<u>27,559,882</u>
<b>CHANGE IN NET ASSETS</b>				(1,540,043)
<b>NET ASSETS, beginning of year</b>				<u>3,860,682</u>
<b>NET ASSETS, end of year</b>				<u><u>\$ 2,320,639</u></u>

See notes to financial statements.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011**

<b>ASSETS</b>	<b>General fund</b>	<b>2007 Capital projects</b>	<b>Other nonmajor governmental funds</b>	<b>Total governmental funds</b>
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 2,652,344	\$ -	\$ 322,496	\$ 2,974,840
Cash - restricted state set-aside	1,049,142	-	-	1,049,142
Receivables:				
Property taxes receivable	14,383	-	68,189	82,572
Accounts receivable	27,626	-	2,065	29,691
Due from other governmental units	4,007,591	-	8,539	4,016,130
Due from other funds	95	-	-	95
Inventories	-	-	14,879	14,879
Prepaid expenditures	15,745	-	-	15,745
Restricted cash and cash equivalents	-	495,285	-	495,285
Restricted investments	-	945,643	-	945,643
<b>TOTAL ASSETS</b>	<b>\$ 7,766,926</b>	<b>\$ 1,440,928</b>	<b>\$ 416,168</b>	<b>\$ 9,624,022</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 348,418	\$ 37,441	\$ 7,627	\$ 393,486
Accrued salaries and related items	1,616,639	-	950	1,617,589
Due to other funds	-	-	95	95
Due to other governmental units	736,511	-	3,794	740,305
Deferred revenue	135,227	-	87,317	222,544
State aid anticipation note payable	1,200,000	-	-	1,200,000
<b>TOTAL LIABILITIES</b>	<b>4,036,795</b>	<b>37,441</b>	<b>99,783</b>	<b>4,174,019</b>
<b>FUND BALANCES:</b>				
Nonspendable:				
Inventories	-	-	14,879	14,879
Prepaid expenditures	15,745	-	-	15,745

See notes to financial statements.

	<u>General fund</u>	<u>2007 Capital projects</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
<b>FUND BALANCES (Concluded):</b>				
Restricted for:				
Debt service	\$ -	\$ -	\$ 244,097	\$ 244,097
Food service	-	-	46,127	46,127
Capital projects	-	1,403,487	-	1,403,487
Assigned for:				
Retirement and sick leave	617,635	-	-	617,635
Capital improvements	731,849	-	-	731,849
Subsequent year expenditures	679,905	-	-	679,905
Unassigned	<u>1,684,997</u>	<u>-</u>	<u>11,282</u>	<u>1,696,279</u>
<b>TOTAL FUND BALANCES</b>	<u>3,730,131</u>	<u>1,403,487</u>	<u>316,385</u>	<u>5,450,003</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 7,766,926</u>	<u>\$ 1,440,928</u>	<u>\$ 416,168</u>	<u>\$ 9,624,022</u>
<b>Total governmental fund balances</b>				\$ 5,450,003
Amounts reported for governmental activities in the statement of net assets are different because:				
Value of unamortized bond issuance costs				855,711
Capital assets used in governmental activities are not financial resources and are not reported in the funds:				
The cost of the capital assets is			\$ 91,838,948	
Accumulated depreciation is			<u>(19,028,945)</u>	72,810,003
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Bonds payable				(75,754,401)
Compensated absences and termination benefits				(612,840)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid				(469,123)
Deferred revenue at June 30, 2011, expected to be collected after September 1, 2011				<u>41,286</u>
<b>Net assets of governmental activities</b>				<u>\$ 2,320,639</u>

See notes to financial statements.

**THORNAPPLE KELLOGG SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2011**

	<u>General fund</u>	<u>2007 Capital projects</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
<b>REVENUES:</b>				
Local sources:				
Property taxes	\$ 1,948,018	\$ -	\$ 3,641,711	\$ 5,589,729
Investment earnings	5,063	46,748	4,079	55,890
Other local sources	433,039	3,479	557,772	994,290
Total local sources	<u>2,386,120</u>	<u>50,227</u>	<u>4,203,562</u>	<u>6,639,909</u>
Intermediate sources	1,463,949	-	24,054	1,488,003
State sources	20,244,094	-	86,690	20,330,784
Federal sources	1,415,270	-	489,507	1,904,777
Total revenues	<u>25,509,433</u>	<u>50,227</u>	<u>4,803,813</u>	<u>30,363,473</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction	15,615,134	-	-	15,615,134
Supporting services	9,751,048	-	-	9,751,048
Food service	-	-	1,041,569	1,041,569
Community service	188,235	-	49,907	238,142
Capital outlay	-	2,370,569	-	2,370,569

See notes to financial statements.

	<u>General fund</u>	<u>2007 Capital projects</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
<b>EXPENDITURES:</b>				
Debt service:				
Principal repayment	\$ -	\$ -	\$ 2,329,259	\$ 2,329,259
Interest on bonded debt	-	-	2,838,808	2,838,808
Bond issuance costs			67,271	67,271
Other	-	-	2,079	2,079
	<u>25,554,417</u>	<u>2,370,569</u>	<u>6,328,893</u>	<u>34,253,879</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<u>(44,984)</u>	<u>(2,320,342)</u>	<u>(1,525,080)</u>	<u>(3,890,406)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from sale of refunding bonds	-	-	8,725,000	8,725,000
Payment to refunded bond escrow	-	-	(8,853,252)	(8,853,252)
Bond premium	-	-	195,523	195,523
Proceeds from school bond loan fund	-	-	1,456,036	1,456,036
	<u>-</u>	<u>-</u>	<u>1,523,307</u>	<u>1,523,307</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(44,984)</u>	<u>(2,320,342)</u>	<u>(1,773)</u>	<u>(2,367,099)</u>
<b>FUND BALANCES:</b>				
Beginning of year, as restated	<u>3,775,115</u>	<u>3,723,829</u>	<u>318,158</u>	<u>7,817,102</u>
End of year	<u>\$ 3,730,131</u>	<u>\$ 1,403,487</u>	<u>\$ 316,385</u>	<u>\$ 5,450,003</u>

See notes to financial statements.

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

**Net change in fund balances total governmental funds** \$ (2,367,099)

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

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

Depreciation expense	(1,842,768)
Capital outlay	2,397,827
Loss on disposal of capital assets	(7,457)

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

Accrued interest payable, beginning of the year	508,904
Accrued interest payable, end of the year	(469,123)

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

Proceeds from issuance of bonds	(8,725,000)
Borrowings from school loan revolving fund	(1,456,036)
Payments on debt	2,329,259
Payment to refunded bond escrow	8,853,252
Bond premium	(195,523)
Bond issuance costs	67,271
Amortization of bond issuance costs	(58,314)
Amortization of deferred amount on bond refunding	(26,659)
Amortization of bond premium	26,600
Amortization of bond discount	(4,141)
Long-term interest on school bond loan fund (accrued)	(453,029)
Long-term interest on school loan revolving fund (accrued)	(217,435)

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

Deferred revenue, beginning of the year	(25,455)
Deferred revenue, end of the year	41,286

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

Accrued compensated absences and termination benefits, beginning of the year	696,437
Accrued compensated absences and termination benefits, end of the year	(612,840)

**Change in net assets of governmental activities** \$ (1,540,043)

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2011**

	<b>Agency fund</b>	<b>Trust funds</b>
<b>ASSETS:</b>		
Cash	\$ 292,079	\$ 42,026
Accounts receivable	-	8,310
	<b>TOTAL ASSETS</b>	<b>TOTAL ASSETS</b>
	\$ 292,079	\$ 50,336
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Due to employees	\$ -	\$ 8,826
Due to student groups	292,079	-
	<b>TOTAL LIABILITIES</b>	<b>TOTAL LIABILITIES</b>
	292,079	8,826
<b>NET ASSETS:</b>		
Restricted for trust activities	-	41,510
	<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>TOTAL LIABILITIES AND NET ASSETS</b>
	\$ 292,079	\$ 50,336

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
YEAR ENDED JUNE 30, 2011**

	<u>Trust funds</u>
<b>ADDITIONS:</b>	
Interest earnings	\$ 48
Other	<u>504</u>
<b>CHANGE IN NET ASSETS</b>	552
<b>NET ASSETS:</b>	
Beginning of year	<u>40,958</u>
End of year	<u>\$ 41,510</u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

Thornapple Kellogg School District (“the District”) was organized under the School Code of the State of Michigan and services a population of approximately 3,000 students. The District is governed by the Thornapple Kellogg Schools Board of Education (the “Board”), consisting of seven members elected to four-year terms. The Board has decision-making authority, the power to designate management and responsibility for the primary accountability for fiscal matters.

The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services.

The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. In addition, the District’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and No. 39.

The financial statements of Thornapple Kellogg School District have been prepared in conformity with accounting principles generally accepted in the United States of America, as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**B. District-wide and Fund Financial Statements**

The district-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 district-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities.

The district-wide statement of net assets 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.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. District-wide and Fund Financial Statements (Continued)**

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

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

The district-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, investment income and other revenue). 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 district-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 district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds** - Governmental funds are used to account for the District's general activity. The acquisition, use and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

**Major governmental funds:**

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

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. District-wide and Fund Financial Statements (Concluded)**

**Major governmental funds (Concluded):**

The *2007 capital projects fund* accounts for financial resources to be used for the acquisition of fixed assets or construction of major capital projects. It is considered a major fund.

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Revised School Code.

**Non-major governmental funds:**

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service and public library activities in the special revenue funds. None of the special revenue funds are considered major funds.

The *debt service funds* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. The 2002, 2004, 2006, 2007, 2010, and Durant debt service funds are not considered major funds.

**Fiduciary funds** account for assets held by the District in a trustee capacity or as an agent for individuals or school-related organizations. Fiduciary funds are not included in the District's financial statements.

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

The *private purpose trust fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where both the principal and interest may be spent. The activity of the student loan program are reported here.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Measurement focus refers to what is being measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The district-wide and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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 district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

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

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. State Revenue**

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

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

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

**E. Other Accounting Policies**

*1. Investments*

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

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Other Accounting Policies (Continued)**

*1. Investments (Concluded)*

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

*2. Property Taxes*

Property taxes for the District are levied December 1 by the townships of Leighton, Wayland, Carlton, Irving, Orangeville, Rutland, Thornapple, Yankee Springs, Campbell, Bowne, and Caledonia. The taxes are then collected by each governmental unit and remitted to the District. The counties of Allegan, Barry, Ionia, and Kent, through their delinquent Tax Revolving Fund, advance all delinquent real property taxes at March 1 to the District each year prior to June 30.

Taxes uncollected are written off after three years from the date of the levy, unless material in amount.

Section 1211(1) of 1993 PA 32 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Other Accounting Policies (Continued)**

2. *Property Taxes (Concluded)*

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

Fund	Mills
General fund:	
Non-Principal Residence Exemption (PRE)	18.0000
Commercial Personal Property	6.0000
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	7.0000

3. *Inventories*

Inventories are valued at cost (first-in, first-out). Inventories of the food service fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

4. *Interfund Activity*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds."

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Other Accounting Policies (Continued)**

5. *Capital Assets*

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

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

Land improvements, buildings and additions, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10 - 20 years
Buildings and additions	40 - 50 years
Vehicles	5 - 10 years
Furniture and other equipment	3 - 10 years

6. *Compensated Absences*

Severance pay, accumulated sick leave, and early retirement incentive at June 30, 2011, has been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their age and years of service. The liability for compensated absences includes salary related payments. In the fund financial statements only the matured liability is reported. The total liability is recorded in the district-wide financial statements.

7. *Net Asset Report*

In the computation of invested in capital assets, net of related debt, school bond loan fund and school bond revolving fund principal proceeds of \$8,284,697 are considered capital-related debt. Accrued interest on the school bond loan fund and school bond revolving fund of \$3,381,862 has been included in the calculation of restricted and unrestricted net assets.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Other Accounting Policies (Concluded)**

8. *Long-term Obligations*

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

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

9. *Use of Estimates*

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

10. *Fund Balance*

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

Nonspendable fund balance - amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.

Restricted fund balance - amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District's Capital Projects and Food Service fund balances are considered restricted.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**E. Other Accounting Policies (Concluded)**

*10. Fund Balance (Concluded)*

Committed fund balance - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

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

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

State of Michigan 1968 PA 2 (the Uniform Budgetary and Accounting Act) requires that the general fund of a school district is under budgetary control and that both budgeted and actual financial results do not incur a deficit. Thornapple Kellogg Schools has also adopted budgets for its special revenue funds. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. Violations, if any, are noted in the required supplementary information section. All appropriations lapse at the end of the fiscal year.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting (Concluded)**

Thornapple Kellogg Schools utilize the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Director of Finance and Operations to establish proposed operating budgets for the fiscal year commencing in the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original general and special revenue funds budgets were amended during the year in compliance with State of Michigan 1968 PA 2 (the Uniform Budgetary and Accounting Act).
- Budgets for the general and special revenue funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

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

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
Bonds	\$ 945,643	0.2565	AAA	100.0%
Portfolio weighted average maturity		0.2565		

1 day maturity equals 0.0027, one year equals 1.00

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

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

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

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

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2011, \$3,081,789 of the District's bank balance of \$3,700,771 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount of the District’s deposits were \$4,853,372.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counter party, 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.

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

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$334,105	\$ 4,853,372
Investments	945,643
	\$ 5,799,015
	\$ 5,799,015

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)**

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

Cash - district wide	\$ 334,105
Cash - restricted state set-aside	2,974,840
Restricted cash and cash equivalents - Capital projects	1,049,142
Restricted investments - Capital projects	495,285
	945,643
	\$ 5,799,015

**NOTE 4 - CAPITAL ASSETS**

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

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,653,636	\$ -	\$ -	\$ 1,653,636
Construction in progress	20,018,691	-	(20,018,691)	-
Total capital assets, not being depreciated	21,672,327	-	(20,018,691)	1,653,636
Capital assets, being depreciated:				
Land improvements	1,963,000	606,391	-	2,569,391
Buildings and additions	60,156,705	21,284,484	-	81,441,189
Furniture and equipment	4,654,897	327,616	(407,330)	4,575,183
Vehicles	1,642,042	198,027	(240,520)	1,599,549
Total capital assets, being depreciated	68,416,644	22,416,518	(647,850)	90,185,312
Accumulated depreciation:				
Land improvements	819,450	94,241	-	913,691
Buildings and additions	12,798,927	1,128,700	-	13,927,627
Furniture and equipment	3,034,860	488,102	(403,342)	3,119,620
Vehicles	1,173,333	131,725	(237,051)	1,068,007
Total accumulated depreciation	17,826,570	1,842,768	(640,393)	19,028,945
Net capital assets being depreciated	50,590,074	20,573,750	(7,457)	71,156,367
Net governmental capital assets	\$ 72,262,401	\$ 20,573,750	\$ (20,026,148)	\$ 72,810,003

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL ASSETS (Concluded)**

Depreciation for the fiscal year ended June 30, 2011 was allocated to the following programs:

Instruction	\$ 1,421,972
Support services	375,746
Community services	18,387
Food services	26,663
	\$ 1,842,768
	\$ 1,842,768

**NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS**

Due from other governmental units at June 30, 2011 consist of the following:

Other governmental units:	
State aid	\$ 3,586,994
Other	429,136
	\$ 4,016,130
	\$ 4,016,130

No allowance is considered necessary.

**NOTE 6 - NOTES PAYABLE**

At June 30, 2011, the District has a note payable of \$1,200,000. The note has an interest rate of 0.8% and matures August 19, 2011. The District has funds on deposit with financial institutions, to be applied against the \$1,200,000 note. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2010	Additions	Payments	Balance June 30, 2011
\$ -	\$ 1,200,000	\$ -	\$ 1,200,000
-	1,200,000	-	1,200,000

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - LONG-TERM DEBT**

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

Long-term debts and other obligations currently outstanding are as follows:

2002 general obligation bonds due in annual installments of \$600,000 to \$690,000 through May 2013 with interest from 3.150% to 5.000%	\$ 1,290,000
2004 refunding term bonds due in annual installments of \$1,120,000 to \$1,215,000 through May 2022 with interest from 2.750% to 5.000%	12,800,000
2006 refunding term bonds due in annual installments of \$35,000 to \$1,570,000 through May 2028 with interest from 4.000% to 4.150%	9,835,000
2007 general obligation bonds due in annual installments of \$535,000 to \$1,770,000 through May 2032 with interest from 4.000% to 5.000%	27,695,000
2010 refunding term bonds due in annual installments of \$15,000 to \$1,035,000 through May 2022 with interest from 2.000% to 4.000%	8,710,000
Less: deferred amount on bond refunding (net)	(1,066,495)
Less: discount on 2006 bond issuance (net)	(70,393)
Add: premium and 2007 bond issuance (net)	532,006
Add: premium and 2010 bond issuance (net)	195,523
Total general obligation debt	59,920,641
Limited obligation (Durant) bonds due in annual installments of \$25,412 to \$67,857 through May 2013 with an interest rate of 4.76%. Certain future state aid payments have been pledged as security.	93,269
Total bonded debt	60,013,910
Borrowings and accrued interest from the State of Michigan under the School Bond Loan Fund, including interest	9,213,347
Borrowings and accrued interest from the State of Michigan under the School Loan Revolving Fund, including interest	6,527,144
Obligation under contract for compensated absences	263,824
Obligation under contract for severance benefits	273,661
Obligation under contract for early retirement incentive	75,355
Total general long-term debt	\$76,367,241

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - LONG-TERM DEBT (Continued)**

The annual requirements to amortize long-term debt outstanding as of June 30, 2011, including interest of \$29,038,763 are as follows:

Year ending June 30,	Principal	Interest	Total
2012	\$ 2,425,412	\$ 2,678,779	\$ 5,104,191
2013	2,707,857	2,584,126	5,291,983
2014	2,745,000	2,455,357	5,200,357
2015	2,835,000	2,357,663	5,192,663
2016	2,945,000	2,257,037	5,202,037
2017 - 2021	16,800,000	9,284,635	26,084,635
2022 - 2026	16,425,000	5,386,006	21,811,006
2027 - 2031	11,770,000	1,946,660	13,716,660
2032 - 2034	1,770,000	88,500	1,858,500
Total	60,423,269	29,038,763	89,462,032
Due to school bond loan fund	9,213,347	-	9,213,347
Due to school loan revolving fund	6,527,144	-	6,527,144
Deferred amount on bond refunding	(1,066,495)	-	(1,066,495)
Unamortized discount on bond issuance	(70,393)	-	(70,393)
Unamortized premium on bond issuance	727,529	-	727,529
Accumulated compensated absences	263,824	-	263,824
Accumulated severance benefits	273,661	-	273,661
Accumulated early retirement incentive	75,355	-	75,355
	<u>\$ 76,367,241</u>	<u>\$ 29,038,763</u>	<u>\$ 105,406,004</u>

An amount of approximately \$244,000 is available in the debt service funds to service the general obligation debt.

Borrowing from the State of Michigan - The school bond loans payable represents notes payable to the State of Michigan for loans made to the District, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates ranging from 3.2% - 4.8% for the School Revolving Fund notes and 5.0% - 5.375% for the School Bond Loan Fund notes have been assessed for the year ended June 30, 2011. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 7.00 mills. The District is required to levy 7.00 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. Due the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the District, no provision for repayment has been included in the above amortization schedule.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - LONG-TERM DEBT (Concluded)**

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

	Compensated absences/early retirement and severance benefits	General obligation bonds	Limited obligation bonds
Balance July 1, 2010	\$ 696,437	\$ 62,154,170	\$ 117,528
Additions	65,130	8,725,000	-
Deletions	(148,727)	(10,958,530)	(24,258)
Balance June 30, 2011	612,840	59,920,640	93,270
Less current portion	(138,632)	(2,400,000)	(25,412)
Total due after one year	<u>\$ 474,208</u>	<u>\$ 57,520,640</u>	<u>\$ 67,858</u>
	School bond loan fund	School loan revolving fund	Total
Balance July 1, 2010	\$ 8,760,318	\$ 4,853,673	\$ 76,582,126
Additions	453,029	1,673,471	10,916,630
Deletions	-	-	(11,131,515)
Balance June 30, 2011	9,213,347	6,527,144	76,367,241
Less current portion	-	-	(2,564,044)
Total due after one year	<u>\$ 9,213,347</u>	<u>\$ 6,527,144</u>	<u>\$ 73,803,197</u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund payable and receivable balances at June 30, 2011 are as follows:

Receivable fund	Payable fund
Food service	General fund
\$ <u>95</u>	\$ <u>95</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

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

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

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

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)**

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

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate through September 30, 2010 was 16.94% of payroll and increased to 19.41% for the base plan and 17.91% for pension plus members effective October 1, 2010 through October 31, 2010 at which time it increased again due to the number of retirees associated with the early retirement incentive to 20.66% for basic plan members and 19.16% for pension plus members for the period November 1, 2010 through June 30, 2011. In addition, the district is required to match 50% up to 1% of the employees contribution in the pension plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The health care portion is 5.5% before the 3% for the injunction. The District contributions to MPSERS for the year ended June 30, 2011, 2010 and 2009 were \$2,790,935, \$2,501,589, and \$2,447,593, respectively, and were equal to the required contribution for those years.

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

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

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

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - 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 is a member of the West Michigan Risk Management Trust (Trust), a self-insurance program with 32 districts pooling together to insure property, liability and auto exposures. Premiums from members of the Trust are arrived at through standard underwriting procedures. The members of the Trust have contributed amounts sufficient to fund individual and aggregate losses up to \$250,000 and \$1,125,000 respectively, on an annual basis. Excess insurance has been purchased to cover claims exceeding those amounts. A \$1,000 per occurrence deductible for property losses is maintained to place the responsibility for small charges with the members of the Trust.

The District is a member of the West Michigan Workers' Compensation Fund, a self-insurance program with 19 districts pooling together to insure workers' compensation and employers' liability exposures. The fund pays the first \$450,000 of any workers' compensation or employers' liability loss out of a \$1,989,413 loss fund collected from members. Excess insurance has been purchased to cover claims exceeding those amounts.

The District is also a member of the West Michigan Health Insurance Pool (non-profit corporation), a self-insurance fund which provides members with health insurance benefit for its administrator and non-union groups. The pool is considered a public entity risk pool. The pool was created on July 1, 2005 and organized under Public Act 138 of 1982, as amended, as a governmental group self-insurance pool. The District began participation in this pool on September 1, 2005. There were no significant reductions in coverage and settlements did not exceed insurance coverage during the fiscal year ended June 30, 2011.

Health and life insurance is provided by private insurance carriers for other groups. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 11 - BOND COMPLIANCE**

The 2007 capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

The following is a summary of the revenue and expenditures for the capital projects bond activity since inception:

	<u>2007 Bond</u>
Revenue and other financing sources	<u>\$31,858,752</u>
Expenditures and transfers	<u>\$30,455,265</u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

The above revenue amount includes net bond proceeds of \$29,466,637 for the 2007 bond.

**NOTE 12 - SUBSEQUENT EVENTS**

Subsequent to year-end, the District entered into an agreement to borrow \$1,200,000 as a State Aid Note maturing August 20, 2012. The note is secured by the full faith and credit of the District as well as pledged state aid.

**NOTE 13 - FUND BALANCE RECLASSIFICATION**

Beginning July 1, 2010, the District adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which redefined the definition of a special revenue fund. As a result, the athletic activities are now included in the general fund rather than a separate fund. The reclassification of the beginning fund balance is as follows:

	<b>General Fund</b>
Fund balance, as previously stated	\$ 3,729,853
Adoption of GASB 54 (athletic fund balance)	<u>45,262</u>
Fund balance, as restated	<u><u>\$ 3,775,115</u></u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2011**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget - positive (negative)</u>
<b>REVENUES:</b>				
Local sources	\$ 2,325,430	\$ 2,409,153	\$ 2,386,120	\$ (23,033)
Intermediate sources	1,445,698	1,430,604	1,463,949	33,345
State sources	19,909,186	20,169,699	20,244,094	74,395
Federal sources	1,383,381	1,405,525	1,415,270	9,745
Total revenues	<u>25,063,695</u>	<u>25,414,981</u>	<u>25,509,433</u>	<u>94,452</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	13,275,142	13,308,719	13,298,644	10,075
Added needs	<u>2,224,063</u>	<u>2,256,536</u>	<u>2,316,490</u>	<u>(59,954)</u>
Total instruction	<u>15,499,205</u>	<u>15,565,255</u>	<u>15,615,134</u>	<u>(49,879)</u>
Supporting services:				
Pupil	1,506,733	1,516,704	1,548,089	(31,385)
Instructional staff	1,114,672	1,042,103	1,025,890	16,213
General administration	447,738	446,326	427,848	18,478
School administration	1,262,133	1,203,939	1,187,928	16,011
Business	526,538	497,027	479,834	17,193
Operation/maintenance	2,408,709	2,418,244	2,438,545	(20,301)
Pupil transportation	1,936,365	1,888,544	1,852,036	36,508
Central	191,371	197,274	191,006	6,268
Athletics	<u>610,725</u>	<u>583,269</u>	<u>599,872</u>	<u>(16,603)</u>
Total supporting services	<u>10,004,984</u>	<u>9,793,430</u>	<u>9,751,048</u>	<u>42,382</u>
Community services	<u>176,425</u>	<u>197,375</u>	<u>188,235</u>	<u>9,140</u>
Total expenditures	<u>25,680,614</u>	<u>25,556,060</u>	<u>25,554,417</u>	<u>1,643</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u><u>\$ (616,919)</u></u>	<u><u>\$ (141,079)</u></u>	<u>(44,984)</u>	<u><u>\$ 92,809</u></u>
<b>FUND BALANCE:</b>				
Beginning of year, as restated			<u>3,775,115</u>	
End of year			<u><u>\$ 3,730,131</u></u>	

**ADDITIONAL INFORMATION**

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2011**

	<b>Special revenue</b>	<b>Debt service</b>	<b>Total nonmajor governmental funds</b>
<b>ASSETS</b>			
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 78,399	\$ 244,097	\$ 322,496
Accounts receivable	2,065	-	2,065
Property taxes receivable	-	68,189	68,189
Due from other governmental units	8,539	-	8,539
Inventories	14,879	-	14,879
	<b>\$ 103,882</b>	<b>\$ 312,286</b>	<b>\$ 416,168</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 7,627	\$ -	\$ 7,627
Accrued salaries and related items	950	-	950
Due to other funds	95	-	95
Due to other governmental units	3,794	-	3,794
Deferred revenue	19,128	68,189	87,317
	<b>31,594</b>	<b>68,189</b>	<b>99,783</b>
<b>FUND BALANCES:</b>			
Nonspendable - inventories	14,879	-	14,879
Restricted for food service	46,127	-	46,127
Restricted for debt service	-	244,097	244,097
Unreserved, undesignated	11,282	-	11,282
	<b>72,288</b>	<b>244,097</b>	<b>316,385</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 103,882</b>	<b>\$ 312,286</b>	<b>\$ 416,168</b>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2011**

	<u>Special revenue</u>	<u>Debt service</u>	<u>Total nonmajor governmental funds</u>
<b>REVENUES:</b>			
Local sources:			
Property taxes	\$ -	\$ 3,641,711	\$ 3,641,711
Sales and admissions	528,806	-	528,806
Investment earnings	74	4,005	4,079
Other	28,966	-	28,966
Total local sources	<u>557,846</u>	<u>3,645,716</u>	<u>4,203,562</u>
Intermediate sources	24,054	-	24,054
State sources	58,799	27,891	86,690
Federal sources	489,507	-	489,507
Total revenues	<u>1,130,206</u>	<u>3,673,607</u>	<u>4,803,813</u>
<b>EXPENDITURES:</b>			
Current:			
Food service	1,041,569	-	1,041,569
Public library	49,907	-	49,907
Debt service:			
Principal repayment	-	2,329,259	2,329,259
Interest on bonded debt	-	2,838,808	2,838,808
Bond issuance costs	-	67,271	67,271
Other	-	2,079	2,079
Total expenditures	<u>1,091,476</u>	<u>5,237,417</u>	<u>6,328,893</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>38,730</u>	<u>(1,563,810)</u>	<u>(1,525,080)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from sale of refunding bonds	-	8,725,000	8,725,000
Payment to refunded bond escrow	-	(8,853,252)	(8,853,252)
Bond premium	-	195,523	195,523
Proceeds from school bond loan fund	-	1,456,036	1,456,036
Total other financing sources	<u>-</u>	<u>1,523,307</u>	<u>1,523,307</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>38,730</u>	<u>(40,503)</u>	<u>(1,773)</u>
<b>FUND BALANCES:</b>			
Beginning of year	<u>33,558</u>	<u>284,600</u>	<u>318,158</u>
End of year	<u>\$ 72,288</u>	<u>\$ 244,097</u>	<u>\$ 316,385</u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2011**

<b>ASSETS</b>	<b>Food Service</b>	<b>Public Library</b>	<b>Total</b>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 67,110	\$ 11,289	\$ 78,399
Accounts receivable	2,065	-	2,065
Due from other governmental units	7,327	1,212	8,539
Inventories	14,879	-	14,879
<b>TOTAL ASSETS</b>	<b>\$ 91,381</b>	<b>\$ 12,501</b>	<b>\$ 103,882</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 7,358	\$ 269	\$ 7,627
Accrued salaries and related items	-	950	950
Due to other funds	95	-	95
Due to other governmental units	3,794	-	3,794
Deferred revenue	19,128	-	19,128
<b>TOTAL LIABILITIES</b>	<b>30,375</b>	<b>1,219</b>	<b>31,594</b>
<b>FUND BALANCES:</b>			
Nonspendable - inventories	14,879	-	14,879
Restricted for - food service	46,127	-	46,127
Unreserved/undesignated	-	11,282	11,282
<b>TOTAL FUND BALANCES</b>	<b>61,006</b>	<b>11,282</b>	<b>72,288</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 91,381</b>	<b>\$ 12,501</b>	<b>\$ 103,882</b>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2011**

	<u>Food Service</u>	<u>Public Library</u>	<u>Total</u>
<b>REVENUES:</b>			
Local sources:			
Township appropriated income	\$ -	\$ 2,712	\$ 2,712
Sales	528,806	-	528,806
Investment earnings	62	12	74
Other	3,444	22,810	26,254
Intermediate sources	-	24,054	24,054
State sources	51,637	7,162	58,799
Federal sources	489,507	-	489,507
	<u>1,073,456</u>	<u>56,750</u>	<u>1,130,206</u>
Total revenues			
<b>EXPENDITURES:</b>			
Salaries	352,199	17,700	369,899
Benefits	208,424	4,696	213,120
Purchased services	57,732	22,561	80,293
Supplies and materials	421,337	4,950	426,287
Other expenses	1,877	-	1,877
	<u>1,041,569</u>	<u>49,907</u>	<u>1,091,476</u>
Total expenditures			
<b>NET CHANGE IN FUND BALANCES</b>	31,887	6,843	38,730
<b>FUND BALANCES:</b>			
Beginning of year	<u>29,119</u>	<u>4,439</u>	<u>33,558</u>
End of year	<u>\$ 61,006</u>	<u>\$ 11,282</u>	<u>\$ 72,288</u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2011**

<b>ASSETS</b>	<u>2002 Debt</u>	<u>2004 Debt</u>	<u>2006 Debt</u>	<u>2007 Debt</u>	<u>2010 Debt</u>	<u>Total</u>
<b>ASSETS:</b>						
Cash and cash equivalents	\$ 43,578	\$ 98,208	\$ 14,633	\$ 78,672	\$ 9,006	\$ 244,097
Property taxes receivable	<u>14,009</u>	<u>27,463</u>	<u>4,076</u>	<u>21,713</u>	<u>928</u>	<u>68,189</u>
<b>TOTAL ASSETS</b>	<u>\$ 57,587</u>	<u>\$ 125,671</u>	<u>\$ 18,709</u>	<u>\$ 100,385</u>	<u>\$ 9,934</u>	<u>\$ 312,286</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Deferred revenue	<u>\$ 14,009</u>	<u>\$ 27,463</u>	<u>\$ 4,076</u>	<u>\$ 21,713</u>	<u>\$ 928</u>	<u>\$ 68,189</u>
<b>FUND BALANCES:</b>						
Restricted for debt service	<u>43,578</u>	<u>98,208</u>	<u>14,633</u>	<u>78,672</u>	<u>9,006</u>	<u>244,097</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 57,587</u>	<u>\$ 125,671</u>	<u>\$ 18,709</u>	<u>\$ 100,385</u>	<u>\$ 9,934</u>	<u>\$ 312,286</u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
DEBT SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2011**

	<u>2002 Debt</u>	<u>2004 Debt</u>	<u>2006 Debt</u>	<u>2007 Debt</u>	<u>2010 Debt</u>	<u>Durant</u>	<u>Total</u>
<b>REVENUES:</b>							
Local sources:							
Property taxes	\$ 650,697	\$ 1,466,938	\$ 218,574	\$ 1,175,817	\$ 129,685	\$ -	\$ 3,641,711
Investment earnings	121	260	41	210	3,373	-	4,005
Total local sources	<u>650,818</u>	<u>1,467,198</u>	<u>218,615</u>	<u>1,176,027</u>	<u>133,058</u>	<u>-</u>	<u>3,645,716</u>
State sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,891</u>	<u>27,891</u>
Total revenues	<u>650,818</u>	<u>1,467,198</u>	<u>218,615</u>	<u>1,176,027</u>	<u>133,058</u>	<u>27,891</u>	<u>3,673,607</u>
<b>EXPENDITURES:</b>							
Principal repayments	600,000	1,220,000	30,000	440,000	15,000	24,259	2,329,259
Interest on bonded debt	291,463	644,614	401,175	1,363,163	134,761	3,632	2,838,808
Bond issuance costs	-	-	-	-	67,271	-	67,271
Other	450	648	290	663	28	-	2,079
Total expenditures	<u>891,913</u>	<u>1,865,262</u>	<u>431,465</u>	<u>1,803,826</u>	<u>217,060</u>	<u>27,891</u>	<u>5,237,417</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<u>(241,095)</u>	<u>(398,064)</u>	<u>(212,850)</u>	<u>(627,799)</u>	<u>(84,002)</u>	<u>-</u>	<u>(1,563,810)</u>
<b>OTHER FINANCING SOURCES (USES):</b>							
Proceeds from sale of refunding bonds	-	-	-	-	8,725,000	-	8,725,000
Payment to refunded bond escrow	-	-	-	-	(8,853,252)	-	(8,853,252)
Bond premium	-	-	-	-	195,523	-	195,523
Proceeds from school bond loan fund	218,115	376,000	209,415	626,769	25,737	-	1,456,036
Total other financing sources	<u>218,115</u>	<u>376,000</u>	<u>209,415</u>	<u>626,769</u>	<u>93,008</u>	<u>-</u>	<u>1,523,307</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(22,980)</u>	<u>(22,064)</u>	<u>(3,435)</u>	<u>(1,030)</u>	<u>9,006</u>	<u>-</u>	<u>(40,503)</u>
<b>FUND BALANCES:</b>							
Beginning of year	<u>66,558</u>	<u>120,272</u>	<u>18,068</u>	<u>79,702</u>	<u>-</u>	<u>-</u>	<u>284,600</u>
End of year	<u>\$ 43,578</u>	<u>\$ 98,208</u>	<u>\$ 14,633</u>	<u>\$ 78,672</u>	<u>\$ 9,006</u>	<u>\$ -</u>	<u>\$ 244,097</u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
GENERAL FUND  
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES  
YEAR ENDED JUNE 30, 2011  
(with comparative totals for the year ended June 30, 2010)**

	<u>Salaries</u>	<u>Employee benefits</u>	<u>Purchased services</u>	<u>Supplies and materials</u>	<u>Other expenses</u>	<u>Totals</u>	
						<u>2011</u>	<u>2010</u>
Instruction:							
Elementary	\$ 3,483,069	\$ 1,897,202	\$ 112,589	\$ 105,017	\$ 936	\$ 5,598,813	\$ 5,795,308
Middle school	1,971,909	1,067,104	36,898	60,974	5,274	3,142,159	3,122,289
High school	2,770,060	1,517,229	95,817	84,321	3,018	4,470,445	4,354,457
Readiness	54,147	20,591	847	4,423	7,219	87,227	47,889
Special education	941,609	559,717	20,863	16,847	300,872	1,839,908	1,844,192
Compensatory education	289,049	162,374	-	11,431	-	462,854	575,383
Vocational education	9,860	2,776	-	1,092	-	13,728	14,128
Total instruction	<u>9,519,703</u>	<u>5,226,993</u>	<u>267,014</u>	<u>284,105</u>	<u>317,319</u>	<u>15,615,134</u>	<u>15,753,646</u>
Supporting services:							
Pupil services	650,806	368,994	414	5,340	522,535	1,548,089	1,613,245
Instructional staff services	612,237	302,501	84,918	25,155	1,079	1,025,890	1,306,314
General administration	212,371	96,883	98,941	3,936	15,717	427,848	416,768
School administration	782,840	353,660	37,920	12,831	677	1,187,928	1,396,107
Business services	244,176	116,538	69,403	10,329	39,388	479,834	462,677
Operations and maintenance	813,775	567,664	368,108	647,220	41,778	2,438,545	2,557,791
Transportation	542,099	353,632	23,542	224,731	708,032	1,852,036	1,885,309
Central services	107,199	69,569	14,223	-	15	191,006	192,321
Athletics	275,305	93,585	171,779	45,154	14,049	599,872	604,595
Total support services	<u>4,240,808</u>	<u>2,323,026</u>	<u>869,248</u>	<u>974,696</u>	<u>1,343,270</u>	<u>9,751,048</u>	<u>10,435,127</u>
Community services	135,301	38,284	3,537	10,900	213	188,235	212,289
Outgoing transfers and other transactions	-	-	-	-	-	-	500,000
Total expenditures and other financing uses	<u>\$ 13,895,812</u>	<u>\$ 7,588,303</u>	<u>\$ 1,139,799</u>	<u>\$ 1,269,701</u>	<u>\$ 1,660,802</u>	<u>\$ 25,554,417</u>	<u>\$ 26,901,062</u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
 BONDED DEBT  
 JUNE 30, 2011**

\$24,115,000 Bonds issued November 6, 2002:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 600,000	\$ 30,375	\$ 30,375	2012	\$ 660,750
690,000	18,975	18,975	2013	727,950
<u>\$ 1,290,000</u>	<u>\$ 49,350</u>	<u>\$ 49,350</u>		<u>\$ 1,388,700</u>

The above bonds have interest rates from 3.150% to 5.000%. The bonds were issued for the purpose of erecting, furnishing and equipping an addition and or additions to, and partially remodeling, furnishing and re-furnishing, equipping school facilities; acquiring, installing and equipping educational technology for school facilities; erecting, furnishing and equipping an addition to and utility vehicle structure for the maintenance building; acquiring school buses; constructing, developing and improving outdoor physical education/athletic facilities, including tennis courts; acquiring, developing and improving sites; and to pay a portion of the costs of issuing the bonds.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
BONDED DEBT  
JUNE 30, 2011**

\$20,230,000 Bonds issued May 25, 2004:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 1,215,000	\$ 299,432	\$ 299,432	2012	\$ 1,813,864
1,205,000	269,057	269,057	2013	1,743,114
1,190,000	245,710	245,710	2014	1,681,420
1,175,000	221,613	221,613	2015	1,618,226
1,165,000	197,525	197,525	2016	1,560,050
1,160,000	168,400	168,400	2017	1,496,800
1,155,000	139,400	139,400	2018	1,433,800
1,145,000	110,525	110,525	2019	1,366,050
1,140,000	81,900	81,900	2020	1,303,800
1,130,000	56,250	56,250	2021	1,242,500
1,120,000	28,000	28,000	2022	1,176,000
<u>\$ 12,800,000</u>	<u>\$ 1,817,812</u>	<u>\$ 1,817,812</u>		<u>\$ 16,435,624</u>

The above bonds have interest rates from 2.750% to 5.000%. The bond proceeds were used to refinance the 1996 bond issue and are subject to redemption prior to maturity at the option of the issuer in the manner and at the times as set forth in the bonds.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
BONDED DEBT  
JUNE 30, 2011**

\$10,000,000 Bonds issued November 14, 2006:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 35,000	\$ 199,987	\$ 199,987	2012	\$ 434,974
35,000	199,287	199,287	2013	433,574
35,000	198,588	198,588	2014	432,176
40,000	197,888	197,888	2015	435,776
40,000	197,088	197,088	2016	434,176
40,000	196,288	196,288	2017	432,576
40,000	195,487	195,487	2018	430,974
45,000	194,687	194,687	2019	434,374
45,000	193,787	193,787	2020	432,574
50,000	192,887	192,887	2021	435,774
415,000	191,888	191,888	2022	798,776
1,415,000	183,588	183,588	2023	1,782,176
1,455,000	155,287	155,287	2024	1,765,574
1,490,000	126,187	126,187	2025	1,742,374
1,525,000	96,015	96,015	2026	1,717,030
1,560,000	64,752	64,752	2027	1,689,504
1,570,000	32,579	32,579	2028	1,635,158
<u>\$ 9,835,000</u>	<u>\$ 2,816,270</u>	<u>\$ 2,816,270</u>		<u>\$ 15,467,540</u>

The above bonds have interest rates from 4.000% to 4.150%. The bond proceeds were used to refinance a portion of the 2002 bond issue and are subject to redemption prior to maturity at the option of the issuer in the manner and at the times as set forth in the bonds.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
BONDED DEBT  
JUNE 30, 2011**

\$28,960,000 Bonds issued July 17, 2007:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 535,000	\$ 672,231	\$ 672,231	2012	\$ 1,879,462
565,000	660,863	660,863	2013	1,886,726
590,000	648,856	648,856	2014	1,887,712
615,000	634,106	634,106	2015	1,883,212
750,000	618,731	618,731	2016	1,987,462
890,000	601,856	601,856	2017	2,093,712
1,045,000	581,831	581,831	2018	2,208,662
1,210,000	555,706	555,706	2019	2,321,412
1,380,000	525,456	525,456	2020	2,430,912
1,455,000	492,681	492,681	2021	2,440,362
1,550,000	458,125	458,125	2022	2,466,250
1,675,000	419,375	419,375	2023	2,513,750
1,675,000	379,594	379,594	2024	2,434,188
1,675,000	339,813	339,813	2025	2,354,626
1,675,000	300,031	300,031	2026	2,275,062
1,675,000	260,250	260,250	2027	2,195,500
1,675,000	218,375	218,375	2028	2,111,750
1,760,000	176,500	176,500	2029	2,113,000
1,765,000	132,500	132,500	2030	2,030,000
1,765,000	88,375	88,375	2031	1,941,750
1,770,000	44,250	44,250	2032	1,858,500
<u>\$ 27,695,000</u>	<u>\$ 8,809,505</u>	<u>\$ 8,809,505</u>		<u>\$ 45,314,010</u>

The above bonds have interest rates from 4.000% to 5.000%. The bonds were issued for the purpose of erecting, furnishing and equipping an addition and or additions to, and partially remodeling, furnishing and re-furnishing, equipping school facilities; acquiring, installing and equipping educational technology for school facilities; erecting, furnishing and equipping an addition to and utility vehicle structure for the maintenance building; acquiring school buses; constructing, developing and improving outdoor physical education/athletic facilities, including tennis courts; acquiring, developing and improving sites; and to pay a portion of the costs of issuing the bonds.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
BONDED DEBT  
JUNE 30, 2011**

\$8,725,000 Bonds issued November 3, 2010:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 15,000	\$ 136,125	\$ 136,125	2012	\$ 287,250
145,000	135,975	135,975	2013	416,950
930,000	134,525	134,525	2014	1,199,050
1,005,000	125,225	125,225	2015	1,255,450
990,000	115,175	115,175	2016	1,220,350
975,000	102,800	102,800	2017	1,180,600
965,000	88,175	88,175	2018	1,141,350
950,000	73,700	73,700	2019	1,097,400
945,000	54,700	54,700	2020	1,054,400
1,035,000	35,800	35,800	2021	1,106,600
755,000	15,100	15,100	2022	785,200
<u>\$ 8,710,000</u>	<u>\$ 1,017,300</u>	<u>\$ 1,017,300</u>		<u>\$ 10,744,600</u>

The above bonds have interest rates from 2.000% to 4.000%. The bond proceeds were used to refinance a portion of the 2002 bond issue and are subject to redemption prior to maturity at the option of the issuer in the manner and at the times as set forth in the bonds.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
BONDED DEBT  
JUNE 30, 2011**

\$253,744 Durant Bond – issued on November 24, 1998

Principal due May 15,	Interest due May 15,	Debt service requirement for fiscal year	
		June 30,	Amount
\$ 25,412	\$ 2,477	2012	\$ 27,889
67,857	15,811	2013	83,668
\$ 93,269	\$ 18,288		\$ 111,557

This bond is not subject to redemption prior to maturity by the District and the District hereby covenants that it will not issue any other bonds or obligations for the purpose of refunding this bond. The 4.76% interest rates payable on this bond may be adjusted in the sole discretion of the Authority provided that no interest rate shall exceed the maximum rate permitted by law and no interest rate adjustment which causes the total interest payable on this bond to increase shall be permitted.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the District (the "State Aid Payments"). The District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's depository.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SCHEDULE OF BORROWINGS - STATE OF MICHIGAN  
SCHOOL BOND LOAN FUND  
JUNE 30, 2011**

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Fund. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from and repayments to the State under this program have been summarized as follows:

Year ended June 30,	Loan proceeds	Interest expense	Loan balance (net change)
Loan balance at June 30, 2002	\$ -	\$ -	\$ 4,073,932
2003	69,011	139,234	208,245
2004	1,544,886	142,529	1,687,415
2005	785,924	193,798	979,722
2006	-	283,700	283,700
2007	-	343,318	343,318
2008	-	340,499	340,499
2009	-	373,972	373,972
2010	-	469,515	469,515
2011	-	453,029	453,029
Totals June 30, 2011	<u>\$ 2,399,821</u>	<u>\$ 2,739,594</u>	<u>\$ 9,213,347</u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SCHEDULE OF BORROWINGS - STATE OF MICHIGAN  
SCHOOL LOAN REVOLVING FUND  
JUNE 30, 2011**

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Loan Revolving Fund. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from and repayments to the State under this program have been summarized as follows:

<u>Year ended June 30,</u>	<u>Loan proceeds</u>	<u>Interest expense</u>	<u>Loan balance (net change)</u>
Loan balance at June 30, 2005	\$ -	\$ -	\$ -
2006	264,155	8,261	272,416
2007	466,120	29,206	495,326
2008	856,187	54,928	911,115
2009	1,443,349	125,812	1,569,161
2010	1,399,029	206,626	1,605,655
2011	<u>1,456,036</u>	<u>217,435</u>	<u>1,673,471</u>
Totals June 30, 2011	<u>\$ 5,884,876</u>	<u>\$ 642,268</u>	<u>\$ 6,527,144</u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT**  
**ADDITIONAL REPORTS REQUIRED BY**  
**OMB CIRCULAR A-133**  
**YEAR ENDED JUNE 30, 2011**

## CONTENTS

	<u>Page</u>
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> .....	1 - 2
Report on compliance with requirements that could have a direct and material effect on internal control over compliance in accordance with OMB Circular A-133 .....	3 - 5
Schedule of expenditures of federal awards .....	6 - 9
Notes to schedule of expenditures of federal awards.....	10
Schedule of findings and questioned costs .....	11
Schedule of prior audit findings.....	12

**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  
Thornapple Kellogg School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Thornapple Kellogg School District as of and for the year ended June 30, 2011, which collectively comprise Thornapple Kellogg School District's basic financial statements and have issued our report thereon dated September 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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

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

*Maney Costeiran PC*

September 29, 2011

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

**INDEPENDENT AUDITORS' REPORT**

To the Board of Education  
Thornapple Kellogg School District

Compliance

We have audited Thornapple Kellogg School District's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Thornapple Kellogg School District's major federal programs for the year ended June 30, 2011. Thornapple Kellogg School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Thornapple Kellogg School Districts' management. Our responsibility is to express an opinion on Thornapple Kellogg School District's compliance based on our audit.

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

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

## Internal Control Over Compliance

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Thornapple Kellogg School District as of and for the year ended June 30, 2011, and have issued our report thereon dated September 29, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Thornapple Kellogg School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

*Maney Costeiran PC*

September 29, 2011

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2010	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2011
<u>U.S. Department of Agriculture:</u>								
Passed through the Michigan Department of Education:								
Child Nutrition Cluster:								
Non-cash assistance (donated foods):								
Entitlement	10.555		\$ 69,224	\$ -	\$ -	\$ 69,224	\$ 69,224	\$ -
Bonus			5,498			5,498	5,498	
			<u>74,722</u>	<u>-</u>	<u>-</u>	<u>74,722</u>	<u>74,722</u>	<u>-</u>
Cash assistance:								
National School Breakfast	10.553	101970	48,533	-	44,251	4,282	4,282	-
		111970	53,819	-	-	53,819	53,819	-
			<u>102,352</u>	<u>-</u>	<u>44,251</u>	<u>58,101</u>	<u>58,101</u>	<u>-</u>
National School Lunch	10.555	101950	69,722	-	62,180	7,542	7,542	-
		111950	62,879	-	-	62,879	62,879	-
		101960	278,188	-	246,932	31,256	31,256	-
		111960	255,007	-	-	255,007	255,007	-
			<u>665,796</u>	<u>-</u>	<u>309,112</u>	<u>356,684</u>	<u>356,684</u>	<u>-</u>
Total Child Nutrition Cluster			<u>842,870</u>	<u>-</u>	<u>353,363</u>	<u>489,507</u>	<u>489,507</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>842,870</u>	<u>-</u>	<u>353,363</u>	<u>489,507</u>	<u>489,507</u>	<u>-</u>

The accompanying notes are an integral part of this schedule.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2010	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2011
<u>U.S. Department of Education:</u>								
Passed through Kent Intermediate School District:								
Special Education Cluster:								
Individuals with Disabilities Education Act - Flow Through	84.027A	100450/0910	\$ 472,674	\$ 84,660	\$ 472,674	\$ 84,660	\$ -	\$ -
		110450/1011	466,676	-	-	350,191	466,676	116,485
			<u>939,350</u>	<u>84,660</u>	<u>472,674</u>	<u>434,851</u>	<u>466,676</u>	<u>116,485</u>
Individuals with Disabilities Education Act - Preschool	84.173	100460/0910	30,936	6,526	30,936	6,526	-	-
		110460/1011	30,000	-	-	20,781	30,000	9,219
			<u>60,936</u>	<u>6,526</u>	<u>30,936</u>	<u>27,307</u>	<u>30,000</u>	<u>9,219</u>
ARRA Individuals with Disabilities Education Act - Flow Through	84.391A	100455/0910	558,502	30,539	283,654	30,539	-	-
		110455/1011	274,848	-	-	222,555	274,848	52,293
			<u>833,350</u>	<u>30,539</u>	<u>283,654</u>	<u>253,094</u>	<u>274,848</u>	<u>52,293</u>
ARRA Individuals with Disabilities Education Act - Preschool	84.392A	100465/0910	31,560	3,380	31,560	3,380	-	-
Total special education cluster			<u>1,865,196</u>	<u>125,105</u>	<u>818,824</u>	<u>718,632</u>	<u>771,524</u>	<u>177,997</u>
Safe and Drug Free Schools	84.186	112860/1011	2,500	-	-	2,500	2,500	-
Total passed through Kent Intermediate School District			<u>1,867,696</u>	<u>125,105</u>	<u>818,824</u>	<u>721,132</u>	<u>774,024</u>	<u>177,997</u>

The accompanying notes are an integral part of this schedule.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2010	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2011
<u>U.S. Department of Education (Continued):</u>								
Passed through the Michigan Department of Education :								
Title I cluster:								
Title I	84.010	101530/0910	\$ 182,297	\$ 32,297	\$ 182,297	\$ 32,297	\$ -	\$ -
		111530/1011	188,618	-	-	165,000	188,618	23,618
			370,915	32,297	182,297	197,297	188,618	23,618
ARRA Title I	84.389A	100535/0910	95,987	15,987	95,987	15,987	-	-
		110535/1011	4,722	-	-	4,722	4,722	-
			100,709	15,987	95,987	20,709	4,722	-
Total Title I cluster			471,624	48,284	278,284	218,006	193,340	23,618
Title II Part A	84.367	100520/0910	87,774	22,774	87,774	22,774	-	-
		110520/1011	88,648	-	-	68,000	88,648	20,648
			176,422	22,774	87,774	90,774	88,648	20,648
ARRA State Fiscal Stabilization Fund	84.394A	112525/1011	347,400	-	-	347,400	347,400	-
Total passed through Michigan Department of Education			995,446	71,058	366,058	656,180	629,388	44,266

The accompanying notes are an integral part of this schedule.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2010	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2011
<u>U.S. Department of Education (Continued):</u>								
Passed through Grand Rapids Public Schools:								
Homeless Children & Youths cluster:								
Homeless Children & Youths	84.196	2010-11	\$ 700	\$ -	\$ -	\$ 700	\$ 700	\$ -
ARRA Homeless Children & Youths	84.387	2010-11	1,230	-	-	1,230	1,230	-
Total Homeless Children & Youths cluster			1,930	-	-	1,930	1,930	-
Total U.S. Department of Education			2,865,072	196,163	1,184,882	1,379,242	1,405,342	222,263
<u>U.S. Department of Health and Human Services:</u>								
Passed through Kent Intermediate School District:								
Medicaid Outreach	93.778	2009-10	60,294	-	60,294	-	-	-
		2010-11	9,928	-	-	9,928	9,928	-
Total U.S. Department of Health and Human Services			70,222	-	60,294	9,928	9,928	-
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<u>\$3,778,164</u>	<u>\$196,163</u>	<u>\$ 1,598,539</u>	<u>\$ 1,878,677</u>	<u>\$ 1,904,777</u>	<u>\$ 222,263</u>

The accompanying notes are an integral part of this schedule.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

NOTES:

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Thornapple Kellogg School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. The Special education cluster (CFDA #84.027A, #84.173, #84.391A and #84.392A) and ARRA State Fiscal Stabilization Fund (CFDA# 84.394A) were audited as major programs and represents 59% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Auditors Report in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$1,415,270
Special revenue fund	<u>489,507</u>
	<u><u>\$1,904,777</u></u>

6. Program cluster contained within the schedule are as follows:

Child nutrition cluster consists of CFDA #10.553 and #10.555

Special education cluster consists of CFDA #84.027A, #84.173, #84.391A and #84.392A.

Title I cluster consists of CFDA #84.010 and #84.389A

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

---

**Section I - Summary of Auditors' Results**

---

***Financial Statements***

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

➤ Material weakness(es) identified?                           Yes      X   No

➤ Significant deficiency(ies) identified?                   Yes      X   No

Noncompliance material to financial statements noted?           Yes      X   No

***Federal Awards***

Internal control over major programs:

➤ Material weakness(es) identified:                           Yes      X   No

➤ Significant deficiency(ies) identified?                   Yes      X   None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?                           Yes      X   No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027A, 84.173, 84.391A and 84.392A	Special Education Cluster
84.394A	State Fiscal Stabilization Fund

Dollar threshold used to distinguish between type A and type B programs:                           \$ 300,000

Auditee qualified as low-risk auditee?                      X   Yes           No

---

**Section II - Financial Statement Findings**

---

None

---

**Section III - Federal Award Findings and Questioned Costs**

---

None

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2011**

There were no audit findings for the year ended June 30, 2010.