

COVERT PUBLIC SCHOOLS

FINANCIAL REPORT

June 30, 2011

COVERT PUBLIC SCHOOLS

FINANCIAL STATEMENTS

June 30, 2011

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COVERT PUBLIC SCHOOLS

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COVERT, MICHIGAN 49043**

DISTRICT MISSION STATEMENT

Covert Public Schools is a community-minded organization dedicated to the education of students from early childhood to adulthood. We will:
(1) Provide educational leadership through quality instruction.
(2) Implement an academically sound, standards-based curriculum.
(3) Support students in meeting grade level benchmarks for the District and State standards.

Administration's Discussion and Analysis For Fiscal year ended June 30, 2011

The Governmental Accounting Standard Board Statement 34 (GASB 34) requires Covert Public Schools to provide an Administration Discussion and Analysis of its financial statements.

This format requires the reporting of two types of financial statements. The first one is the Fund Financial Statement and the second is the District-Wide Financial Statement.

FUND STATEMENTS

The fund statements included the following funds and the format used to report them is the modified accrual method of accounting:

- General Fund - Revenues and expenditures for the general operations of the District.
- Special Revenue - This includes the Food Services Fund and Bookstore Fund.
- Capital Projects - The expenditures related to school facility improvement activities within the District.

DISTRICT-WIDE STATEMENTS

These statements are reported on the full accrual basis and all assets and liabilities of the District are shown here whether they are long-term or short-term. All capital assets and long-term obligations are reported in the Statement of Net Assets of the District.

GENERAL FUND BUDGET INFORMATION

The General Fund budget for the upcoming year is adopted by the Board of Education prior to July 1 of the new fiscal year.

This meeting is typically held in June. At this meeting the final budget amendment of the current fiscal year is also normally adopted. There is normally one other amendment between the months of January and April of the current fiscal year.

Below is a recap of the 2011 original budget, final budget and the actual figures in both revenue and expenditures of the current year as compared to the 2010 final actual.

	2011	2011	2011	Final	2010
Revenues:	<u>Original Budget</u>	<u>Final Budget</u>	<u>Final Actual</u>	<u>Variance</u>	<u>Final Actual</u>
Local sources	\$ 6,478,179	\$ 7,945,247	\$ 7,951,205	.08%	\$ 6,609,908
State sources	1,535,127	2,941,599	2,942,979	.05%	1,539,747
Federal sources	<u>1,044,019</u>	<u>636,772</u>	<u>762,208</u>	19.70%	<u>1,583,276</u>
Total Revenues	\$ <u>9,057,325</u>	\$ <u>11,523,618</u>	\$ <u>11,656,392</u>	1.15%	\$ <u>9,732,931</u>
Expenditures:					
Instruction	\$ 5,052,117	\$ 4,788,056	\$ 4,787,981	.00%	\$ 5,997,993
Supporting services	3,361,531	3,882,305	4,011,072	3.32%	4,003,815
Community services	15,000	211,513	211,503	.00%	74,567
Facility improvements	<u>0</u>	<u>31,026</u>	<u>31,025</u>	.00%	<u>353,327</u>
Total Expenditures	\$ <u>8,428,648</u>	\$ <u>8,912,900</u>	\$ <u>9,041,581</u>	1.44%	\$ <u>10,429,702</u>
End of Year					
Fund Balance Deficit	\$ <u>(3,550,627)</u>	\$ <u>(1,503,444)</u>	\$ <u>(1,478,638)</u>	1.65%	\$ <u>(3,241,823)</u>

The final budget revenues were adjusted to reflect the most current information from the state in June 2011 and after reviewing actual local and federal revenue receipts. The final budget expenditures were increased to reflect the additional items needed to be accrued at year end. Actual expenses exceeded budget amounts in one category as there were a greater amount of payables to record at year end than were anticipated when the final budget was adopted at the end of June 2011.

In September 2010 the District received a favorable ruling from the Michigan State Tax Commission stating that the New Covert Generating Plant assets that had previously been reclassified as personal property should in fact be considered real property. This resulted in increased tax revenue and state revenue for the 2010-2011 school year and retroactive payment of amount due for 2009-2010. However, the New Covert Generating Co. is appealing this decision. Of the increased tax revenue to be collected for the 2009 tax levy, four-thirds of this total is obligated to go to our lawyers as indicated in their contract for this issue. The tax revenues for the 2010 tax levy and beyond will not be subject to any lawyer fees.

For the 2009 tax levy, New Covert Generating Co. received a 50% Renaissance Zone tax credit from the state, and for the 2010 tax levy that credit dropped to 25%. These Renaissance Zone tax credits were then paid to the District by the state. Even though the tax credit percentage dropped for the 2010-2011 school year, the District received more Renaissance Zone tax funds. This was due to the payment of funds due to the District for the 2009-2010 school year after the District won the favorable ruling from the Michigan State Tax Commission. The 2010 tax levy was also the final year of the Renaissance Zone tax credit for New Covert Generating Co.; therefore, the District will not receive any Renaissance Zone funds from the state in 2011-2012. As this credit represented the bulk of the District's state aid, the amount of state aid for 2011-2012 will decrease significantly. However, New Covert Generating Co. will now be assessed the full 18 mills on the 2011 tax levy and consequently our local tax revenue should increase to offset the reduction in state revenues.

Due to a delayed payment in 2009-2010 of a scheduled bond payment that was due in 2008-2009, the District made a total of four debt payments for its three large long-term debt obligations in 2009-2010, thereby increasing its principal and interest expense from \$684,493 in 2008-2009 to \$1,074,195 in 2009-2010. In 2010-2011 the District paid the normal three debt obligations for a total principal and interest expense of \$872,338.

In 2009-2010 the District received a large amount of ARRA funding for its Title I program; however, in 2010-2011 the District received only smaller carry-over amounts from the 2009-2010 school year. The District also received ARRA IDEA funding through the VBISD in 2009-2010 and received the final portion of funding for this grant in 2010-2011.

Although state and federal funding sources have become more limited, Covert Public Schools' commitment to allow for continued initiatives to improve effectiveness in aligning teaching styles with student learning behaviors to encourage greater academic gains has not diminished. In an effort to mitigate the potential loss of revenue and to cure the current deficit, the Board of Education passed a multi-phased approach to reduce the per pupil spending. These phases included the reduction of teaching staff with the start of the 2009/2010 school year with the elimination of six teaching positions. During the 2009/2010 school year, the District down-sized staff in the areas of Technology, Business Office, Custodial Department, Paraprofessionals, and Pupil Support Services. During the 2010/2011 school year the District reduced staff in the areas of Technology, JROTC, Choir, Business Office, Nurse, Social Worker, Paraprofessionals, and Food Service. The District also reduced staff expenditures through the resignation of one principal in August 2009 who was not replaced during the 2009-2010 year. Another principal resigned in August 2010 and was not replaced for 2010-2011, as our new Superintendent was assigned the additional duties of the Middle/High School principal. The District has hired a Middle/High School principal for 2011/2012.

It is further recognized that financial pressure continues to be put on the General Fund due to Athletic and Childcare activities, as these funds continue to be unable to generate revenues to cover their costs. Under the rules of GASB 54, for the 2010/2011 school year any special revenue fund that is not self-sufficient will have to be absorbed into the General Fund and will no longer be reported as a separate fund. As neither the Athletic nor Childcare Funds are self-sufficient, for 2010/2011 they are both reported in the General Fund. Athletics is now part of Supporting Services and Childcare is now part of Community Services; however, the District closed operations of the Childcare program in December 2010.

CAPITAL AND SPECIAL REVENUE FUNDS

Capital Projects Fund: The District had two major projects for building renovations for the High School and Middle School Administration areas, classrooms and the addition of a gymnasium. Both projects were substantially completed during the 2009/2010 school year. The District has also completed the last phase of an energy re-engineering of the buildings that focused on heating and cooling systems, water systems and electrical infrastructure to extend the life of the current buildings. As these projects were completed in 2009/2010, there is no activity to report for 2010/2011.

Special Revenue Funds: These include the Food Service and Bookstore Funds of the District for the year ended 6/30/11. Prior years also included the Athletic and Childcare Funds; however, due to the implementation of GASB 54, the activity of the Athletic and Childcare Funds are now

required to be reported as General Fund activity as those funds were not self-sufficient and required annual financial support from the General Fund.

<u>Revenue</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Local Sources	\$ 41,406	\$134,643
State Sources	971	42,779
Federal Sources	414,248	558,660
Investment Income	<u>56</u>	<u>159</u>
Total Revenue	<u>\$ 456,681</u>	<u>\$ 736,241</u>
<u>Expenditures</u>		
Food Service	\$ 466,241	\$ 557,569
Bookstore	0	0
Athletic	0	155,789
Childcare	<u>0</u>	<u>264,974</u>
Total Expenditures	<u>\$ 466,241</u>	<u>\$ 978,332</u>

Other Financing Sources

Transfers In	<u>\$ 0</u>	<u>\$ 323,212</u>
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Revenues Over (Under) Expenditures

Total	<u>\$(9,560)</u>	<u>\$81,121</u>
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The absence of Childcare and Athletic expenditures was mentioned above. The Food Service Department lost approximately \$20,500 in state revenue in 2010-2011, resulting in a loss for the year; however, the District expects to receive this state aid in 2011-2012. Care was also taken to reduce costs in the Food Service Department. Even though the Food Service Fund had a loss in 2010-2011, the fund still ended the year with a positive fund balance of \$38,871. Towards the end of the 2010-2011 school year, the District ended the A-La-Carte line offered during lunch. While this did not have a significant effect on the local revenue for 2010-2011, it will reduce the local revenue for 2011-2012 as the revenue from the A-La-Carte line comprised the majority of the fund's local revenue.

FINANCIAL POSITION OF THE DISTRICT / FUTURE OUTLOOK

The District's combined net assets for the year ending June 30, 2011 are \$1,829,812 compared to \$122,717 for 2010. The fund level current year increase in fund balance was greater than the amount of depreciation recorded for the year, resulting in this increase in combined net assets. The Statement of Activities and the Reconciliation of Governmental Funds Balance Sheet to Net Assets can be found on pages 4 and 6 respectively. A condensed version is shown below. The District's fund balance was depleted during the 2008/2009 fiscal year and the deficit continued to grow during the 2009/2010 fiscal year as the District tried to support and maintain the Board of Education's commitment to student programs and the Capital Projects initiatives of the

District. Due to the Michigan State Tax Commission's ruling on the New Covert Generating Co issue, the District was able to report increases in both local and state revenues and thereby helped the District report a net increase for the year, reducing our deficit from (\$3,241,823) at June 30, 2010 to (\$1,478,638) at June 30, 2011.

Please note that the annual debt and capital lease payments for the District for 2011/2012 are \$853,666 with a graduated payment schedule.

It should be noted that the six teachers and two support staff who retired at the end of the 2009/2010 year have not been replaced, as well as the six additional teachers who resigned at the end of 2009/2010. The District did not fill any of these 14 positions during the 2010/2011 year, nor did we fill the vacancy in the technology department created when a staff member resigned in October 2010. In addition the District also laid off 2 teachers, a nurse, a social worker, a secretary, and an aide during the 2010/2011 school year, as well as closed the Childcare program which resulted in the layoff of the program director and all program aides. We had one teacher retire and two teachers and one aide resign after the 2010/2011 school year, and two of the teaching positions and the aide position have been filled for the 2011/2012 school year. We had one principal resign in August 2010 who was not replaced until the start of the 2011/2012 school year. In August 2010 our superintendent resigned, and in mid-September 2010 Mr. Alexander was hired as an interim superintendent and also served as the interim middle/high school principal for 2010/2011 school year. Mr. Alexander is serving as the superintendent for the 2011/2012 school year.

The District also absorbs per pupil reductions even though it does not receive traditional foundation allowance funds. Economic forecasts for the State of Michigan continue to paint a very bleak picture for the next several years. The District has had a high turnover in members of the Board of Education during the 2009/2010 and 2010/2011 school years. The District will have to rely on the relationship it has established with staff, parents, and the community while it continues to transition into an environment of doing more with less to fulfill the commitment that has remained a constant with the prior and new members of the Board of Education to "Put Children First." The District will have to remain optimistic that the utility organizations remain stable in our local community. Continued expenditure reductions and relationship building with the local community, staff, and parents will be critical to the District's success.

COVERT PUBLIC SCHOOLS
NET ASSETS
June 30, 2011
With comparative amounts for June 30, 2010

	<u>2011</u>	<u>2010</u>
Current assets	\$ 5,577,323	\$ 2,178,514
Unamortized bond issue cost	140,108	146,833
Capital assets - net of accumulated depreciation	<u>14,272,590</u>	<u>14,765,547</u>
 Total Assets	 <u>\$19,990,021</u>	 <u>\$17,090,894</u>
 Current liabilities	 \$ 7,516,515	 \$ 5,881,214
Long-term liabilities	<u>10,643,694</u>	<u>11,086,963</u>
 Total Liabilities	 <u>\$18,160,209</u>	 <u>\$16,968,177</u>
 Net Assets:		
Invested in capital assets, net of related debt	\$ 3,387,259	\$ 3,452,339
Restricted	4,000	0
Unrestricted	<u>(1,561,447)</u>	<u>(3,329,622)</u>
 Total Net Assets	 <u>\$ 1,829,812</u>	 <u>\$ 122,717</u>
 Total Liabilities and Net Assets	 <u>\$19,990,021</u>	 <u>\$17,090,894</u>

**COVERT PUBLIC SCHOOLS
CHANGE IN NET ASSETS
For the year ended June 30, 2011
With comparative amounts for June 30, 2010**

Revenues	<u>2011</u>	<u>2010</u>
Program Revenues:		
Operating Grants	\$ 1,531,779	\$ 2,596,820
Charges for Services	100,040	154,061
Taxes	7,722,384	6,323,763
Unrestricted State Revenues	2,588,627	1,127,642
Interest and Investment Earnings	4,676	2,456
Loss on Disposal of Assets	(46,291)	0
Other	<u>165,567</u>	<u>264,435</u>
 Total General Revenues	 \$ <u>12,066,782</u>	 \$ <u>10,469,177</u>
 Expenditures		
Instruction and Support	\$ 4,857,965	\$ 5,969,424
Support Services	4,345,794	4,260,952
Community Services	211,503	74,567
Food Services	468,680	557,569
Athletics	0	134,947
Bookstore	0	0
Childcare	0	264,974
Interest on Long-Term Debt	444,459	486,295
Depreciation – unallocated	<u>51,998</u>	<u>399,878</u>
 Total Net Expenditures	 \$ <u>10,380,399</u>	 \$ <u>12,148,606</u>
 Change in Net Assets	 \$ <u><u>1,686,383</u></u>	 \$ <u><u>(1,679,429)</u></u>

CAPITAL ASSETS AND DEBT

The District's capital assets consist of its land, buildings, building improvements, buses, other vehicles, furniture and equipment. The Capital Assets of the District total \$23,824,245 less accumulated depreciation of \$9,551,655 for a net of \$14,272,590. GASB 34 requires the District to compute depreciation, which we do on a straight-line basis. The District has two QZAB bonds, one building and site bond, one lease payable, and two short-term loans outstanding at June 30, 2011. See notes 4 and 5 in the Notes to Financial Statements for more information on the District's short-term and long-term debt obligations.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens and taxpayers with an overview of the District's finances. Please feel free to contact the Business Office at (269) 764-3701 with any comments or questions.

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

October 31, 2011

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Covert Public Schools
Covert, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Covert Public Schools, 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 Covert Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Covert Public Schools 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011, on our consideration of Covert Public Schools' 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.

Right. On time.

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INDEPENDENT AUDITOR'S REPORT - Continued

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages I through VII and 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Covert Public Schools' financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Seibel & Company, P.C.

COVERT PUBLIC SCHOOLS
Statement of Net Assets
June 30, 2011

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 4,608,060
Investments	6,013
Accounts receivable	102,214
Due from other governmental units	713,262
Inventories	7,912
Unamortized bond issue costs - current	6,725
Prepaid expenditures	<u>133,137</u>
 Total Current Assets	 \$ <u>5,577,323</u>
 Noncurrent Assets	
Non-depreciable assets:	
Land	\$ 40,000
Capital assets net of accumulated depreciation:	
Building and additions	13,920,898
Buses and other vehicles	73,701
Furniture and equipment	<u>237,991</u>
 Net Capital Assets	 \$ 14,272,590
 Unamortized bond issue costs - noncurrent	 <u>140,108</u>
 Total Noncurrent Assets	 \$ <u>14,412,698</u>
 TOTAL ASSETS	 \$ <u><u>19,990,021</u></u>

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

	Governmental Activities
Liabilities and Net Assets	
Current Liabilities	
Due to other governmental units	\$ 115,831
Due to student activity fund	200
Accounts payable	477,237
Salaries and withholding payable	565,911
Interest payable	63,818
Bonds payable, due within one year	424,302
Notes and contracts payable, due within one year	5,843,277
Compensated absences and severance pay, due within one year	<u>25,939</u>
 Total Current Liabilities	 <u>\$ 7,516,515</u>
Noncurrent Liabilities	
Bonds payable	\$ 10,539,936
Notes and contracts payable	-
Compensated absences and severance pay	<u>103,758</u>
 Total Noncurrent Liabilities	 <u>\$ 10,643,694</u>
 Total Liabilities	 <u>\$ 18,160,209</u>
Net Assets	
Invested in capital assets, net of related debt	\$ 3,387,259
Restricted - NOTE 9	4,000
Unrestricted	<u>(1,561,447)</u>
 Total Net Assets	 <u>\$ 1,829,812</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 19,990,021</u>

COVERT PUBLIC SCHOOLS
Statement of Activities
For the Year Ended June 30, 2011

Functions/Programs	Program Revenues			Governmental Activities Net (Expense) Revenue and Changes in Net Assets	
Expenses	Charges for Services	Operating Grants	Capital Grants	Assets	
Governmental Activities					
Instruction and instructional support	\$ 4,857,965	\$ -	\$ 1,100,406	\$ -	\$ (3,757,559)
Support services	4,345,794	29,153	-	-	(4,316,641)
Community services	211,503	29,481	16,154	-	(165,868)
Food services	468,680	41,406	415,219	-	(12,055)
Interest on long-term debt	444,459	-	-	-	(444,459)
Depreciation - unallocated	51,998	-	-	-	(51,998)
	<u>\$ 10,380,399</u>	<u>\$ 100,040</u>	<u>\$ 1,531,779</u>	<u>\$ -</u>	<u>\$ (8,748,580)</u>
General Revenues:					
Taxes					
Property taxes, levied for general operations					\$ 7,722,384
State of Michigan aid, unrestricted					2,588,627
Interest and investment earnings					4,676
Loss on disposal of asset					(46,291)
Other					165,567
					<u>\$ 10,434,963</u>
Total General Revenues and Special Item					<u>\$ 10,434,963</u>
Change In Net Assets					<u>\$ 1,686,383</u>
Net Assets, Beginning of Year					\$ 122,717
Prior Period Adjustment - NOTE 14					<u>20,712</u>
Adjusted Fund Balance - Beginning of Year					<u>\$ 143,429</u>
NET ASSETS, END OF YEAR					<u>\$ 1,829,812</u>

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

**COVERT PUBLIC SCHOOLS
GOVERNMENTAL FUNDS
Balance Sheet
June 30, 2011**

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash	\$ 4,585,287	\$ 22,773	\$ 4,608,060
Investments	6,013	-	6,013
Accounts receivable	101,863	351	102,214
Due from other governments	697,430	15,832	713,262
Due from other funds	-	11,678	11,678
Inventory	-	7,912	7,912
Prepaid expenses	133,137	-	133,137
	<u>5,523,730</u>	<u>58,546</u>	<u>5,582,276</u>
TOTAL ASSETS	\$ 5,523,730	\$ 58,546	\$ 5,582,276
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	\$ 473,529	\$ 3,708	\$ 477,237
Salaries payable	437,791	3,079	440,870
Employee benefits payable	124,170	871	125,041
Due to other governmental units	115,831	-	115,831
Due to other funds	11,878	-	11,878
Notes payable	5,839,169	-	5,839,169
	<u>7,002,368</u>	<u>7,658</u>	<u>7,010,026</u>
Total Liabilities	\$ 7,002,368	\$ 7,658	\$ 7,010,026
Fund Balance:			
Nonspendable:			
Inventory	\$ -	\$ 7,912	\$ 7,912
Prepaid expenses	133,137	-	133,137
Restricted - NOTE 9	4,000	-	4,000
Assigned to:			
Special revenue	-	42,976	42,976
Unassigned:	<u>(1,615,775)</u>	<u>-</u>	<u>(1,615,775)</u>
Total Fund Balance	\$ (1,478,638)	\$ 50,888	\$ (1,427,750)
TOTAL LIABILITIES AND FUND BALANCE	\$ 5,523,730	\$ 58,546	\$ 5,582,276

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

COVERT PUBLIC SCHOOLS
Reconciliation of the Governmental Funds Balance
Sheet Total Fund Balance
to Net Assets on the Statement of Net Assets
For the Year Ended June 30, 2011

Total governmental fund balances		\$ (1,427,750)
Amounts reported for governmental activities in the statement of net assets are different because:		
Unamortized bond discount		146,833
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		
The cost of the capital assets	\$ 23,824,245	
Accumulated depreciation	<u>(9,551,655)</u>	14,272,590
Long-term liabilities are not due and payable in the current period and are not reported in the funds.		
Bonds payable		(10,964,238)
Leases payable		(4,108)
Compensated absences		(129,697)
Accrued interest is not included as a liability in governmental funds.		<u>(63,818)</u>
Net Assets of Governmental Activities		<u>\$ 1,829,812</u>

**COVERT PUBLIC SCHOOLS
GOVERNMENTAL FUNDS
Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances
For the Year Ended June 30, 2011**

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Local sources:			
Property taxes	\$ 7,722,384	\$ -	\$ 7,722,384
Interest on taxes	1,092	-	1,092
Charges for services	58,634	41,406	100,040
Investment income	4,620	56	4,676
Other	164,475	-	164,475
State sources:			
Unrestricted	2,588,627	-	2,588,627
Operating grant - instruction	338,198	-	338,198
Operating grant - community services	16,154	-	16,154
Operating grant - food	-	971	971
Federal sources:			
Operating grant - instruction	762,208	-	762,208
Operating grant - food	-	414,248	414,248
	<u> </u>	<u> </u>	<u> </u>
Total Revenues	<u>\$ 11,656,392</u>	<u>\$ 456,681</u>	<u>\$ 12,113,073</u>
Expenditures:			
Instruction	\$ 4,787,981	\$ -	\$ 4,787,981
Supporting services	4,011,072	-	4,011,072
Community services	211,503	-	211,503
Food service activities	-	466,241	466,241
Facility improvements	31,025	-	31,025
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	<u>\$ 9,041,581</u>	<u>\$ 466,241</u>	<u>\$ 9,507,822</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 2,614,811</u>	<u>\$ (9,560)</u>	<u>\$ 2,605,251</u>
Other Financing Sources (Uses):			
Interest on long-term debt	\$ (437,033)	\$ -	\$ (437,033)
Principal on long-term debt	<u>(435,305)</u>	<u>-</u>	<u>(435,305)</u>
	<u> </u>	<u> </u>	<u> </u>
Total Financing Sources (Uses)	<u>\$ (872,338)</u>	<u>\$ -</u>	<u>\$ (872,338)</u>
Net Change in Fund Balance	<u>\$ 1,742,473</u>	<u>\$ (9,560)</u>	<u>\$ 1,732,913</u>
Fund Balance - Beginning of Year	\$ (3,241,823)	\$ 60,448	\$ (3,181,375)
Prior Period Adjustment - NOTE 14	<u>20,712</u>	<u>-</u>	<u>20,712</u>
Adjusted Fund Balance - Beginning of Year	<u>\$ (3,221,111)</u>	<u>\$ 60,448</u>	<u>\$ (3,160,663)</u>
FUND BALANCE - END OF YEAR	<u>\$ (1,478,638)</u>	<u>\$ 50,888</u>	<u>\$ (1,427,750)</u>

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

COVERT PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds \$ 1,732,913

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 and adjustments	\$ (498,982)	
Capital outlay	<u>6,025</u>	(492,957)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of government 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 over the life of the bond in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Lease payments	\$ 24,680	
Principal bond payments	406,912	
Amortization of discount	<u>(6,725)</u>	424,867

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid. This represents the decrease in accrued interest for the year. 3,010

Changes in compensated absences are reported as expenditures when financial resources are used in governmental funds. 18,550

Change in Net Assets of Governmental Activities \$ 1,686,383

**COVERT PUBLIC SCHOOLS
FIDUCIARY FUNDS
Balance Sheet
June 30, 2011**

Assets

Cash	\$	116,325
Due from other funds		<u>200</u>

TOTAL ASSETS	\$	<u>116,525</u>
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Liabilities

Accounts payable	\$	2,310
Due to student groups		114,215
Due to other funds		<u>-</u>

TOTAL LIABILITIES	\$	<u>116,525</u>
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COVERT PUBLIC SCHOOLS
Notes to Financial Statements
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Covert Public Schools (the "District") conform to accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies.

A. Reporting Entity:

The Covert Public Schools' Board of Education ("Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education in the area comprised by the District. The Board receives funding from state and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity," as defined by Governmental Accounting Standards Board ("GASB") Statement 14, since Board members are elected by the public and have decision-making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncement, student, parent, and teacher organizations are not included, except to the extent that the District holds assets in the capacity of an agent.

B. Financial Statements:

Government-wide Statements - The District's financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The government-wide financial statements categorize primary activities as either governmental or business-type. All of the District's activities are classified as governmental activities.

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

The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital 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 and federal sources, interest income, etc.).

In creating the government-wide financial statements, the District has eliminated interfund transactions.

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

COVERT PUBLIC SCHOOLS
Notes to Financial Statements
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Financial Statements - Continued:

Fund Statements -The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories as follows:

New Accounting Standards

During the fiscal year 2011, the District adopted **GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions**. This statement establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types.

Fund balance is comprised of five classifications as follows:

Nonspendable Fund Balance - The nonspendable fund balance category represents amounts that are not in a spendable form or are required to be maintained intact.

Restricted Fund Balance - The restricted fund balance category represents amounts constrained to specific purposes by their providers, through constitutional provisions, or by enabling legislation.

Committed Fund Balance - The committed fund balance category represents amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.

Assigned Fund Balance - The assigned fund balance category represents amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.

Unassigned Fund Balance - The unassigned fund balance category represents amounts that are available for any purpose; these amounts are reported only in the general fund.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

COVERT PUBLIC SCHOOLS
Notes to Financial Statements
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Financial Statements - Continued:

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition, construction or equipping of public improvements or major capital facilities.

FIDUCIARY FUNDS

Agency Funds - Agency Funds are used to account for assets held by the School District as an agent for student activity organizations. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Basis of Accounting:

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.

ACCRUAL

Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

MODIFIED ACCRUAL

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized when incurred.

Revenues are generally considered available when they are received in cash (unless legally restricted for some future period), or when expected to be collected soon enough after year-end to pay liabilities of the current period.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, provided the liability normally would be liquidated with expendable available financial resources.

COVERT PUBLIC SCHOOLS
Notes to Financial Statements
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Budgets and Budgetary Accounting:

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

1. Prior to June 30, the superintendent of the School District submits to the school board a proposed operating budget for the fiscal year commencing July 1 of that year. The operating budget includes proposed expenditures and the means of financing them for the General Fund and Special Revenue Fund.
2. Prior to July 1, the budget is legally enacted on an activity level basis through passage of a resolution, and in accordance with Public Act 621 of the State.
3. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
4. The School District is required under Public Act 621 of 1978 to adopt a budget for the General Fund, Debt Retirement Fund and individual Special Revenue Funds. Budget appropriations lapse at year-end.
5. Budget amounts are reported in the financial statements as originally adopted or as amended by the Board of Education.

E. Cash and Cash Equivalents:

For the balance sheet classification, the District considers its investments in highly liquid pooled money funds to be cash equivalents.

F. Inventory:

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General and Special Revenue Funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time inventory items are purchased.

G. Capital Assets:

Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

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

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

Buildings and additions	15-50 years
Buses and other vehicles	8 years
Furniture and equipment	5-20 years

COVERT PUBLIC SCHOOLS
Notes to Financial Statements
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

H. Property Tax Revenue:

Property taxes attach as an enforceable lien on property as of December 31, and are levied on the following July 1 and December 1. Property taxes become available for expenditure and are thus recognized as revenue in the fiscal year they are levied.

I. Risk Management:

The School District has joined together with other school districts in Michigan to form SET-SEG, a public entity risk pool currently operating as a common risk management and insurance program for member Michigan school districts. The District pays an annual premium to SET-SEG for its property, comprehensive general liability and workers' compensation insurance coverage. The Agreement for Formation of the SET-SEG provided that SET-SEG be self-sustained through member premiums.

The District continues to carry commercial insurance for all other risks of loss, including boiler, fleet, school board legal liability, and excess liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

J. Fund Balance Reserves:

A fund balance reserve arises from statutory requirements or actions already taken by the School District. The reserved portion of the fund balance identifies those amounts segregated for future purposes or not available to finance expenditures in the subsequent fiscal year.

K. Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

Cash and Short-term Investments - Deposits and short-term investments are stated at cost. Various state laws authorize the School District to deposit in federally insured banks, credit unions and savings and loan associations, certificates of deposit, and commercial bankers' acceptances maturing not more than 270 days after the date of purchase. All deposits are held in the name of the Covert Public Schools. The School District's cash and short-term investments are in accordance with statutory authority.

Interest Rate Risk - The District minimizes interest rate risk by investing operating funds primarily in short-term securities, money market funds, or similar investment pools to meet cash requirements for ongoing operations.

Credit Risk - ACT 217, PA 1982 authorizes the School District to deposit and invest in the accounts of federally insured banks, insured credit unions, saving and loan associations, bonds and other direct obligations of the United States. Michigan law prohibits security in the form of collateral, surety bond and other forms for deposit in financial institutions that do not have a branch location in Michigan. The School District's deposits are in accordance with statutory authority.

COVERT PUBLIC SCHOOLS
Notes to Financial Statements
June 30, 2011

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

Concentration of Credit Risk - The District minimizes credit risk by limiting cash investments to the approved investments and diversifying the investment portfolio so that the impact of potential losses from any one security or issuer will be minimized. Total investments with one issuer are not to exceed \$300,000 with the exception of United States obligations, money market funds, or authorized investment pools. The School District's funds are in accordance with statutory authority.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has not yet adopted a deposit policy for custodial credit risk.

As of June 30, 2011, the carrying value of the deposits was \$4,724,385 and respective bank balances were \$5,104,508. The bank balance in each financial institution is insured by the FDIC up to \$250,000. The custodial credit risk is as follows:

Insured by FDIC	\$ 268,257
Uninsured and uncollateralized	4,836,402

The District also has \$6,013 invested in the Michigan School District Liquid Asset Fund Plus, an investment pool comprised of Michigan school districts.

NOTE 3 - CAPITAL ASSETS

A summary of changes in governmental capital assets follows:

	Balance	Additions	Disposals	Adjustments	Balance
	July 1, 2010				June 30, 2011
Assets not being depreciated:					
Land	\$ 40,000	\$ -	\$ -	\$ -	\$ 40,000
Other capital assets:					
Buildings and additions	\$ 21,676,992	\$ -	\$ -	\$ 52,317	\$ 21,729,309
Buses and other vehicles	783,987	-	(16,776)	-	767,211
Furniture and equipment	1,409,979	-	(122,254)	-	1,287,725
Subtotal	\$ 23,870,958	\$ -	\$ (139,030)	\$ 52,317	\$ 23,784,245
Accumulated depreciation:					
Building and site improvements	\$ (7,397,628)	\$ (410,260)	\$ -	\$ (523)	\$ (7,808,411)
Buses and other vehicles	(670,579)	(39,707)	16,776	-	(693,510)
Furniture and equipment	(1,077,204)	(48,492)	75,962	-	(1,049,734)
Subtotal	\$ (9,145,411)	\$ (498,459)	\$ 92,738	\$ (523)	\$ (9,551,655)
Net other capital assets	\$ 14,725,547	\$ (498,459)	\$ (46,292)	\$ 51,794	\$ 14,232,590
Net capital assets	\$ 14,765,547	\$ (498,459)	\$ (46,292)	\$ 51,794	\$ 14,272,590

COVERT PUBLIC SCHOOLS
Notes to Financial Statements
June 30, 2011

NOTE 3 - CAPITAL ASSETS - Continued

Depreciation for the fiscal year ended June 30, 2011 amounted to \$498,982 and was allocated as follows:

Instruction and instructional support	\$ 81,485
Support services	350,965
Athletics	11,726
Food service	2,810
Multiuse, unallocated	<u>51,996</u>
Total	<u>\$ 498,982</u>

NOTE 4 - SHORT-TERM DEBT

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

Balance July 1, 2010	\$ 3,000,000
Additions	5,839,169
Retirements	<u>(3,000,000)</u>
Balance June 30, 2011	<u>\$ 5,839,169</u>

A \$4,700,000 note from Chemical Bank was obtained to cover operating expenses. The note is to be paid from property taxes yet to be collected. The note is due April 30, 2012 with an interest rate of 1.99%.

A \$1,139,169 note from Chemical Bank was obtained to cover operating expenses. The note is to be paid from state aid yet to be received. The note is due July 29, 2011 with an interest rate of 2.29%.

NOTE 5 - LONG-TERM DEBT

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

	<u>Bonds</u>	<u>Notes and Contracts</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance at July 1, 2010	\$ 11,371,150	\$ 28,788	\$ 148,247	\$ 11,548,185
Retirements and payments	<u>(406,912)</u>	<u>(24,680)</u>	<u>(18,550)</u>	<u>(450,142)</u>
Balance at June 30, 2011	\$ 10,964,238	\$ 4,108	\$ 129,697	\$ 11,098,043
Less current portion	<u>(424,302)</u>	<u>(4,108)</u>	<u>(25,939)</u>	<u>(454,349)</u>
Total due after one year	<u>\$ 10,539,936</u>	<u>\$ -</u>	<u>\$ 103,758</u>	<u>\$ 10,643,694</u>

COVERT PUBLIC SCHOOLS
Notes to Financial Statements
June 30, 2011

NOTE 5 - LONG-TERM DEBT - Continued

Bonds payable at June 30, 2011 consist of the following:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One Year</u>
School Improvement Bond (Durant) due in annual installments of \$5,004 to \$31,604 through May 15, 2013; interest is currently set at 4.76%.	\$ 42,849	\$ -	\$ (5,492)	\$ 37,357	\$ 5,753
Building and Site Bond is due in annual installments of \$75,000 to \$600,000 through May 1, 2033; interest is variable and ranges from 3.5% to 5.0%.	6,890,000	-	(110,000)	6,780,000	120,000
The 2007 QZAB is due in annual installments of \$150,346 to \$198,378 through November 30, 2022; interest is currently set at 2.0%.	2,296,301	-	(156,420)	2,139,881	159,549
The 2008 QZAB is due in annual installments of \$131,000 to \$198,000 through April 8, 2023; interest is currently set at 3.25%.	<u>2,142,000</u>	<u>-</u>	<u>(135,000)</u>	<u>2,007,000</u>	<u>139,000</u>
Total Bonds	<u>\$ 11,371,150</u>	<u>\$ -</u>	<u>\$ (406,912)</u>	<u>\$ 10,964,238</u>	<u>\$ 424,302</u>

Notes and contracts payable at June 30, 2011 consist of the following:

Lease payable due in annual installments of \$25,179 (including interest)	\$ 28,788	\$ -	\$ (24,680)	\$ 4,108	\$ 4,108
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Compensated absences payable at June 30, 2011 consist of the following:

Accumulated unused vacation days which are payable upon termination of employment and accumulated unused sick days eligible for sell back.	\$ 148,247		\$ (18,550)	\$ 129,697	\$ 25,939
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COVERT PUBLIC SCHOOLS
Notes to Financial Statements
June 30, 2011

NOTE 5 - LONG-TERM DEBT - Continued

The annual requirements to amortize all applicable debt outstanding as of June 30, 2011, including interest payments of \$5,627,366 are as follows:

Year Ending				
June 30,	Principal	Interest	Total	
2012	\$ 428,410	\$ 425,256	\$ 853,666	
2013	463,344	423,611	886,955	
2014	444,994	400,477	845,471	
2015	458,314	387,115	845,429	
2016	470,701	373,323	844,024	
2017-2021	2,589,716	1,641,972	4,231,688	
2022-2026	2,417,867	1,206,932	3,624,799	
2027-2031	2,520,000	679,930	3,199,930	
2032-2033	<u>1,175,000</u>	<u>88,750</u>	<u>1,263,750</u>	
Subtotal	\$ 10,968,346	\$ 5,627,366	\$ 16,595,712	
Compensated absences	<u>129,697</u>	<u>-</u>	<u>129,697</u>	
Total	<u>\$ 11,098,043</u>	<u>\$ 5,627,366</u>	<u>\$ 16,725,409</u>	

The compensated absences liability attributable to the governmental activities will be liquidated primarily by the General Fund.

The School District elected to participate in the bonding program in regards to the Durant Settlement. The annual State of Michigan appropriation is the only revenue source for making the annual debt service payment on the bonds. If the legislature fails to appropriate the funds, the District is under no obligation for payment. Should the legislature fail to appropriate debt service in any given year, the District will write off the debt service for that fiscal year only. On March 25, 2003, the State revised the payment schedule so that no payments were due on May 15, 2003, 2004, or 2005. Also on May 10, 2008, the State revised the payment schedule so that no payments were due on May 15, 2007 and 2008. The principal and interest payments scheduled for those dates will now be due on May 15, 2013.

NOTE 6 - OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Interfund Receivables and Payables:

Fund	Interfund Receivable	Interfund Payable
General	\$ -	\$ 11,878
Food Service	11,678	-
Student Activity Fund	<u>200</u>	<u>-</u>
Total	<u>\$ 11,878</u>	<u>\$ 11,878</u>

Purpose of receivables:

The receivables are amounts that will be transferred to cover food service salaries and other operating expenses.

COVERT PUBLIC SCHOOLS
Notes to Financial Statements
June 30, 2011

NOTE 7 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Expenditures Over Budget

Expenditures were in excess of appropriations as indicated below:

	<u>Budget</u>	<u>Actual</u>	<u>Actual Over Budget</u>
General Fund:			
Supporting Services	\$ 3,882,305	\$ 4,011,072	\$ 128,767

NOTE 8 - FUND DEFICIT

The District's General Fund had a fund deficit of \$1,478,638 at June 30, 2011. A corrective action plan has been submitted to the State of Michigan to correct the deficit.

NOTE 9 - RESTRICTED FUND BALANCE

The District's General Fund received a grant from the WK Kellogg Foundation in the amount of \$4,000, restricted to expenditures incurred to repair the existing greenhouse. No expenditures were incurred through June 30, 2011.

NOTE 10 - PENSION PLAN

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides post-employment health care benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and post-employment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members hired January 1, 1990 through June 30, 2008 contribute at the following graduated permanently fixed contribution rate: 3% for the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members hired July 1, 2008 through June 30, 2010 contribute at the following graduated permanently fixed rate: 3% for the first \$5,000; \$150 plus 3.6% from \$5,001 to \$15,000 (up to \$510); \$510 plus 6.4% over \$15,000.

COVERT PUBLIC SCHOOLS
Notes to Financial Statements
June 30, 2011

NOTE 10 - PENSION PLAN - Continued

Funding Policy - Continued

On July 1, 2010, the Pension Plus Plan was introduced. All new members who first worked on or after July 1, 2010, participate in the Pension Plan Plus. The Pension Plan Plus combines a defined benefits (DB) plan and a defined contribution (DC) plan. For DC portion of the Pension Plan, members are automatically enrolled to contribute 2% of their gross wages. The member has the option to increase or decrease this contribution. The employer matches 50% of the member's contributions up to a maximum of 1%. As of June 30, 2011, employee contributions were \$2,465 and employer contributions were \$1,233. For the DB portion of the Pension Plus Plan, members contribute at the following graduated permanently fixed contribution rate: 6% for the first \$5,000; 6.6% of \$5,001 through \$15,000; 9.4% of all wages over \$15,000.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The rate from July to September was 16.94% for members who first worked before July 1, 2010 and 15.44% for members who first worked on or after July 1, 2010 of covered payroll. The rate in October was 19.41% for members who first worked before July 1, 2010 and 17.91% for members who first worked on or after July 1, 2010 of covered payroll. The rate from November through June was 20.66% for members who first worked before July 1, 2010 and 19.16% for members who first worked on or after July 1, 2010 of covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended, 2011, 2010, and 2009 were approximately \$882,524, \$979,527, and \$1,146,184 respectively, equal to the required contributions for each year.

Other Post-Employment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries.

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

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1998 with the vested deferred benefits, are eligible for partially State of Michigan paid health benefit coverage (no payment if less than 21 years of service).

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Federal Grants

In the normal course of operations, the School receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to insure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

COVERT PUBLIC SCHOOLS
Notes to Financial Statements
June 30, 2011

NOTE 12 - RELATED PARTY TRANSACTIONS

The school district is engaged in a significant related party transaction with Mohawk Construction Company. The managed related party cost of the project is approximately \$6,200,000, which was substantially completed as of June 30, 2010. Approximately \$627,000 was paid directly to Mohawk Construction Company during the construction period.

NOTE 13 - SUBSEQUENT EVENTS

State Aid Note

The \$1,139,169 note was repaid after the year ended June 30, 2011 on its maturity date. At maturity, an interest payment was made at a rate of 2.29%. The \$1,139,169 note was issued August 5, 2010 and matured July 29, 2011.

Tax Revenue and Legal Fees

The District is involved in litigation to obtain property taxes owed to the District. As a result of the Michigan State Tax Commission ruling in September 2010, the District is to receive additional 2009 tax revenue from New Covert Generating Plant and the State of Michigan. The District will pay attorneys the amount of four-thirds of the total 2009 additional tax revenue received by the District as their fee. All additional tax revenue for 2010 and beyond will belong solely to the District.

New Covert Generating Plant has paid a portion of the additional tax revenue for 2009. The State of Michigan has paid additional tax revenue for 2009 that related to the Renaissance Zone tax credit paid to the District on behalf of New Covert Generating Plant. The District has remitted a portion of these amounts received to their attorney as partial payment of their fees.

The decision of the Michigan State Tax Commission may be appealed and ultimately reversed or modified, resulting in less or no additional tax revenue for 2009.

NOTE 14 - PRIOR PERIOD ADJUSTMENT

There is a prior period adjustment to the General Fund for \$20,712 for an adjustment related to outstanding checks that were issued in prior periods but were voided in the current year.

**COVERT PUBLIC SCHOOLS
GENERAL FUND
Budgetary Comparison Schedule
For the Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Local sources	\$ 6,478,179	\$ 7,945,247	\$ 7,951,205	\$ 5,958
State sources	1,535,127	2,941,599	2,942,979	1,380
Federal sources	<u>1,044,019</u>	<u>636,772</u>	<u>762,208</u>	<u>125,436</u>
 Total Revenues	 <u>\$ 9,057,325</u>	 <u>\$ 11,523,618</u>	 <u>\$ 11,656,392</u>	 <u>\$ 132,774</u>
Expenditures:				
Instruction	\$ 5,052,117	\$ 4,788,056	\$ 4,787,981	\$ 75
Supporting services	3,361,531	3,882,305	4,011,072	(128,767)
Community services	15,000	211,513	211,503	10
Facility improvements	<u>-</u>	<u>31,026</u>	<u>31,025</u>	<u>1</u>
 Total Expenditures	 <u>\$ 8,428,648</u>	 <u>\$ 8,912,900</u>	 <u>\$ 9,041,581</u>	 <u>\$ (128,681)</u>
 Excess (Deficiency) of Revenues Over (Under) Expenditures	 <u>\$ 628,677</u>	 <u>\$ 2,610,718</u>	 <u>\$ 2,614,811</u>	 <u>\$ 4,093</u>
Other Financing Sources (Uses):				
Transfer out	\$ (100,000)	\$ -	\$ -	\$ -
Interest on debt	(419,569)	(437,033)	(437,033)	-
Payments of debt	<u>(417,912)</u>	<u>(435,306)</u>	<u>(435,305)</u>	<u>1</u>
 Total Other Financing Sources (Uses)	 <u>\$ (937,481)</u>	 <u>\$ (872,339)</u>	 <u>\$ (872,338)</u>	 <u>\$ 1</u>
 Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	 <u>\$ (308,804)</u>	 <u>\$ 1,738,379</u>	 <u>\$ 1,742,473</u>	 <u>\$ 4,094</u>
 Fund Balance - Beginning of Year	 <u>\$ (3,241,823)</u>	 <u>\$ (3,241,823)</u>	 <u>\$ (3,241,823)</u>	 <u>\$ -</u>
Prior Period Adjustment - NOTE 14	<u>-</u>	<u>-</u>	<u>20,712</u>	<u>20,712</u>
 Adjusted Fund Balance - Beginning of Year	 <u>\$ (3,241,823)</u>	 <u>\$ (3,241,823)</u>	 <u>\$ (3,221,111)</u>	 <u>\$ 20,712</u>
 FUND BALANCE - END OF YEAR	 <u>\$ (3,550,627)</u>	 <u>\$ (1,503,444)</u>	 <u>\$ (1,478,638)</u>	 <u>\$ 24,806</u>

**COVERT PUBLIC SCHOOLS
NONMAJOR GOVERNMENTAL FUNDS
Combining Balance Sheet
June 30, 2011**

	<u>Special Revenue</u>	<u>Total Nonmajor Governmental Funds</u>
Assets		
Cash	\$ 22,773	\$ 22,773
Accounts receivable	351	351
Due from other governments	15,832	15,832
Due from other funds	11,678	11,678
Inventory	<u>7,912</u>	<u>7,912</u>
TOTAL ASSETS	<u>\$ 58,546</u>	<u>\$ 58,546</u>
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$ 3,708	\$ 3,708
Salaries payable	3,079	3,079
Employee benefits payable	<u>871</u>	<u>871</u>
Total Liabilities	<u>\$ 7,658</u>	<u>\$ 7,658</u>
Fund Balance:		
Assigned	<u>\$ 50,888</u>	<u>\$ 50,888</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 58,546</u>	<u>\$ 58,546</u>

**COVERT PUBLIC SCHOOLS
NONMAJOR GOVERNMENTAL FUNDS
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended June 30, 2011**

	<u>Special Revenue</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues:		
Local sources:		
Charges for services	\$ 41,406	\$ 41,406
Investment income	56	56
State sources	971	971
Federal sources	<u>414,248</u>	<u>414,248</u>
 Total Revenues	 <u>\$ 456,681</u>	 <u>\$ 456,681</u>
Expenditures:		
Lunch activities	<u>\$ 466,241</u>	<u>\$ 466,241</u>
 Total Expenditures	 <u>\$ 466,241</u>	 <u>\$ 466,241</u>
 Net Change in Fund Balance	 \$ (9,560)	 \$ (9,560)
Fund Balance, Beginning of Year	<u>60,448</u>	<u>60,448</u>
 FUND BALANCE, END OF YEAR	 <u><u>\$ 50,888</u></u>	 <u><u>\$ 50,888</u></u>

**COVERT PUBLIC SCHOOLS
GENERAL FUND
Statement of Revenues - Budget and Actual
For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010**

	<u>2011</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2010 Actual</u>
Local Sources:				
Property taxes		\$ 7,722,384		\$ 6,323,763
Interest on taxes		1,092		1,254
Investment income		4,620		2,292
Transportation fees		11,550		8,074
Student activities		17,603		-
Community service revenue		29,481		11,344
Other		<u>164,475</u>		<u>263,181</u>
Total Local Sources	\$ 7,945,247	\$ <u>7,951,205</u>	\$ 5,958	\$ <u>6,609,908</u>
State Sources:				
Unrestricted		\$ 2,588,627		\$ 1,127,642
Special education		207,655		193,186
Early childhood		108,800		210,800
Vocational education		-		10
Durant		6,315		6,316
Department of social services		16,154		-
Other		<u>15,428</u>		<u>1,793</u>
Total State Sources	2,941,599	\$ <u>2,942,979</u>	1,380	\$ <u>1,539,747</u>
Federal Sources:				
Title I		\$ 572,526		\$ 1,277,008
Title II A		29,281		120,890
Title II D		2,999		11,713
Title VI B Rural		-		18,866
Title VII B		-		1,750
ARRA education stabilization		18,428		-
JROTC		44,938		52,586
Medicare outreach		-		11,379
ARRA idea grant		<u>94,036</u>		<u>89,084</u>
Total Federal Sources	<u>636,772</u>	\$ <u>762,208</u>	<u>125,436</u>	\$ <u>1,583,276</u>
TOTAL REVENUES	<u>\$ 11,523,618</u>	<u>\$ 11,656,392</u>	<u>\$ 132,774</u>	<u>\$ 9,732,931</u>

**COVERT PUBLIC SCHOOLS
GENERAL FUND
Statement of Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010**

	<u>2011</u>		Variance Positive (Negative)	2010 Actual
	<u>Budget</u>	<u>Actual</u>		
Instruction:				
Basic programs:				
Elementary:				
Salaries		\$ 997,529		\$ 1,079,414
Employee benefits		568,499		631,500
Purchased services		29,233		24,556
Supplies and materials		<u>44,322</u>		<u>61,847</u>
Total Elementary		<u>\$ 1,639,583</u>		<u>\$ 1,797,317</u>
Middle School:				
Salaries		\$ 584,500		\$ 474,895
Employee benefits		315,157		286,888
Purchased services		29,914		17,067
Supplies and materials		<u>13,446</u>		<u>28,116</u>
Total Middle School		<u>\$ 943,017</u>		<u>\$ 806,966</u>
High School:				
Salaries		\$ 555,174		\$ 703,670
Employee benefits		299,539		420,509
Purchased services		11,616		18,960
Supplies and materials		47,803		84,834
Payments to other districts		<u>4,445</u>		<u>-</u>
Total High School		<u>\$ 918,577</u>		<u>\$ 1,227,973</u>
Preschool:				
Salaries		\$ 101,289		\$ 98,393
Employee benefits		53,243		51,085
Supplies and materials		<u>1,848</u>		<u>384</u>
Total Preschool		<u>\$ 156,380</u>		<u>\$ 149,862</u>

**COVERT PUBLIC SCHOOLS
GENERAL FUND
Statement of Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010**

	2011			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2010 Actual</u>
Instruction - Continued				
Basic programs - Continued:				
Summer School:				
Salaries		\$ 17,607		\$ 18,283
Employee benefits		4,652		4,268
Supplies and materials		-		1,505
Total Summer School		\$ 22,259		\$ 24,056
Total Basic Programs		\$ 3,679,816		\$ 4,006,174
Added Needs:				
Special Education:				
Salaries		\$ 358,767		\$ 406,847
Employee benefits		191,852		211,523
Supplies and materials		396		2,080
Total Special Education		\$ 551,015		\$ 620,450
Compensatory Education:				
Salaries		\$ 167,748		\$ 724,941
Employee benefits		63,008		391,490
Purchased services		155,252		47,791
Supplies and materials		1,088		11,204
Total Compensatory Education		\$ 387,096		\$ 1,175,426
Vocational Education:				
Salaries		\$ 106,775		\$ 121,246
Employee benefits		62,441		66,676
Supplies and materials		838		8,021
Total Vocational Education		\$ 170,054		\$ 195,943
Total Added Needs		\$ 1,108,165		\$ 1,991,819
Total Instruction	\$ 4,788,056	\$ 4,787,981	\$ 75	\$ 5,997,993

**COVERT PUBLIC SCHOOLS
GENERAL FUND
Statement of Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010**

	2011			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2010 Actual</u>
Supporting Services				
Pupil Services:				
Truancy/Absenteeism:				
Salaries		\$ -		\$ 73,270
Employee benefits		-		31,995
		-		105,265
Total Truancy/Absenteeism		\$ -		\$ 105,265
Guidance:				
Salaries		\$ 77,190		\$ 94,923
Employee benefits		31,499		47,262
Supplies and materials		1,000		173
		109,689		142,358
Total Guidance		\$ 109,689		\$ 142,358
Health:				
Salaries		\$ 20,064		\$ 44,124
Employee benefits		10,374		16,030
Supplies and materials		527		446
		30,965		60,600
Total Health		\$ 30,965		\$ 60,600
Other Pupil Services:				
Salaries		\$ 85,657		\$ 82,186
Employee benefits		50,829		59,025
Purchased services		1,153		80
		137,639		141,291
Total Other Pupil Services		\$ 137,639		\$ 141,291
Total Pupil Services	\$ 278,301	\$ 278,293	\$ 8	\$ 449,514
Instructional Staff:				
Staff Improvement:				
Salaries		\$ 28,081		\$ -
Employee benefits		7,896		-
Purchased services		62,549		22,910
Supplies and materials		-		6,784
		98,526		29,694
Total Staff Improvement		\$ 98,526		\$ 29,694

**COVERT PUBLIC SCHOOLS
GENERAL FUND
Statement of Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010**

	2011			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2010 Actual</u>
Supporting Services - Continued:				
Instructional Staff - Continued:				
Educational Media Service:				
Salaries		\$ 2,241		\$ 34,721
Employee benefits		611		19,775
Supplies and materials		<u>-</u>		<u>8,375</u>
Total Educational Media Services		<u>\$ 2,852</u>		<u>\$ 62,871</u>
Instruction Related Technology:				
Purchased services		\$ 1,003		\$ -
Supplies and materials		<u>29,821</u>		<u>-</u>
Total Instruction Related Technology		<u>\$ 30,824</u>		<u>\$ -</u>
Academic Student Assessment:				
Purchased services		<u>\$ 250</u>		<u>\$ -</u>
Total Academic Student Assessment		<u>\$ 250</u>		<u>\$ -</u>
Other Instructional Staff:				
Purchased services		\$ 8,214		\$ 7,225
Supplies and materials		<u>906</u>		<u>1,540</u>
Total Other Instructional Staff		<u>\$ 9,120</u>		<u>\$ 8,765</u>
Total Instructional Staff	141,577	<u>\$ 141,572</u>	5	<u>\$ 101,330</u>
General Administration:				
Executive administration				
Salaries		\$ 319,299		\$ 405,742
Employee benefits		253,339		233,466
Purchased services		824,355		164,799
Supplies and materials		<u>42,522</u>		<u>38,612</u>
Total General Administration	1,310,576	<u>\$ 1,439,515</u>	(128,939)	<u>\$ 842,619</u>

**COVERT PUBLIC SCHOOLS
GENERAL FUND
Statement of Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010**

	<u>2011</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2010 Actual</u>
Supporting Services - Continued:				
School Administration:				
Office of the Principal:				
Salaries		\$ 215,648		\$ 332,522
Employee benefits		107,953		154,002
Other		<u>574</u>		<u>-</u>
Total School Administration	324,193	\$ <u>324,175</u>	18	\$ <u>486,524</u>
Business Services:				
Employee benefits		\$ 40,643		\$ -
Purchased services		56,268		125,311
Other		<u>78,352</u>		<u>76,062</u>
Total Business Services	175,265	\$ <u>175,263</u>	2	\$ <u>201,373</u>
Operations and Maintenance:				
Salaries		\$ 332,440		\$ 371,087
Employee benefits		205,631		202,969
Purchased services		91,643		62,257
Supplies and materials		289,610		354,676
Capital outlay		201		4,356
Other		<u>3,045</u>		<u>12,276</u>
Total Operations and Maintenance	922,585	\$ <u>922,570</u>	15	\$ <u>1,007,621</u>
Pupil Transportation:				
Salaries		\$ 184,722		\$ 198,303
Employee benefits		137,540		134,197
Purchased services		34,741		123,181
Supplies and materials		<u>68,995</u>		<u>69,758</u>
Total Pupil Transportation	426,003	\$ <u>425,998</u>	5	\$ <u>525,439</u>

**COVERT PUBLIC SCHOOLS
GENERAL FUND
Statement of Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010**

	2011			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2010 Actual</u>
Supporting Services - Continued:				
Central Services:				
Planning, R&D:				
Purchased services		\$ 11,416		\$ -
Total Planning, R&D		\$ 11,416		\$ -
Technology:				
Salaries		\$ 62,022		\$ 107,212
Employee benefits		31,263		47,323
Purchased services		82,406		216,815
Supplies and materials		19,333		18,045
Total Technology		\$ 195,024		\$ 389,395
Total Central Services	206,443	\$ 206,440	3	\$ 389,395
Other Supporting Services:				
Athletic Activities:				
Salaries		\$ 54,628		\$ -
Employee benefits		16,591		-
Purchased services		8,874		-
Supplies and materials		17,153		-
Total Other Supporting Services	97,362	\$ 97,246	116	\$ -
Total Supporting Services	\$ 3,882,305	\$ 4,011,072	\$ (128,767)	\$ 4,003,815

**COVERT PUBLIC SCHOOLS
GENERAL FUND
Statement of Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010**

	<u>2011</u>		Variance Positive (Negative)	2010 Actual
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Community Services:				
Community Recreation:				
Salaries		\$ 33,958		\$ 41,178
Employee benefits		19,200		18,523
Purchased services		274		-
Supplies and materials		<u>919</u>		<u>592</u>
Total Community Recreation		<u>\$ 54,351</u>		<u>\$ 60,293</u>
Community Activities:				
Salaries		\$ 42,475		\$ 8,930
Employee benefits		22,528		4,850
Purchased services		<u>-</u>		<u>494</u>
Total Community Activities		<u>\$ 65,003</u>		<u>\$ 14,274</u>
Custody and Care of Children:				
Salaries		\$ 65,002		\$ -
Employee benefits		25,758		-
Purchased services		730		-
Supplies and materials		<u>659</u>		<u>-</u>
Total Custody and Care of Children		<u>\$ 92,149</u>		<u>\$ -</u>
Total Community Services	<u>\$ 211,513</u>	<u>\$ 211,503</u>	<u>\$ 10</u>	<u>\$ 74,567</u>
Facility Improvements				
Capital outlay	<u>\$ 31,026</u>	<u>\$ 31,025</u>	<u>\$ 1</u>	<u>\$ 353,327</u>
TOTAL EXPENDITURES	<u>\$ 8,912,900</u>	<u>\$ 9,041,581</u>	<u>\$ (128,681)</u>	<u>\$ 10,429,702</u>

**COVERT PUBLIC SCHOOLS
NONMAJOR SPECIAL REVENUE FUNDS
Combining Balance Sheet
June 30, 2011**

	<u>Lunch Fund</u>	<u>Bookstore Fund</u>	<u>Total</u>
Assets			
Cash	\$ 10,756	\$ 12,017	\$ 22,773
Accounts receivable	351	-	351
Due from other governments	15,832	-	15,832
Due from other funds	11,678	-	11,678
Inventory	<u>7,912</u>	<u>-</u>	<u>7,912</u>
 TOTAL ASSETS	 <u>\$ 46,529</u>	 <u>\$ 12,017</u>	 <u>\$ 58,546</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 3,708	\$ -	\$ 3,708
Salaries payable	3,079	-	3,079
Employee benefits payable	<u>871</u>	<u>-</u>	<u>871</u>
 Total Liabilities	 \$ 7,658	 \$ -	 \$ 7,658
Fund Balances:			
Assigned	<u>38,871</u>	<u>12,017</u>	<u>50,888</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 46,529</u>	 <u>\$ 12,017</u>	 <u>\$ 58,546</u>

COVERT PUBLIC SCHOOLS
NONMAJOR SPECIAL REVENUE FUNDS
Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

	<u>2011</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2010 Actual</u>
Revenues:				
Local sources:				
Food sales		\$ 41,406		\$ 58,449
Childcare activities		-		47,028
Athletic activities		-		29,166
Investment income		<u>56</u>		<u>159</u>
Total Local Sources	\$ 39,971	\$ <u>41,462</u>	\$ 1,491	\$ <u>134,802</u>
State sources:				
State aid		\$ 971		\$ 21,480
Department of Social Services		<u>-</u>		<u>21,299</u>
Total State Sources	965	\$ <u>971</u>	6	\$ <u>42,779</u>
Federal sources:				
Federal aid	<u>404,105</u>	\$ <u>414,248</u>	<u>10,143</u>	\$ <u>558,660</u>
Total Revenues	\$ <u>445,041</u>	\$ <u>456,681</u>	\$ <u>11,640</u>	\$ <u>736,241</u>
Expenditures:				
Salaries		\$ 137,169		\$ 436,404
Employee benefits		87,079		172,620
Purchased services		790		4,262
Food costs		216,464		257,784
Supplies and materials		24,739		74,824
Capital outlay		<u>-</u>		<u>32,438</u>
Total Expenditures	\$ <u>466,542</u>	\$ <u>466,241</u>	\$ 301	\$ <u>978,332</u>
Deficiency of Revenues Under Expenditures	\$ (21,501)	\$ (9,560)	\$ 11,941	\$ (242,091)
Other Financing Sources:				
Transfer in	<u>-</u>	<u>-</u>	<u>-</u>	<u>323,212</u>
Net Change in Fund Balances	\$ (21,501)	\$ (9,560)	\$ 11,941	\$ 81,121
Fund Balances - Beginning of Year	<u>60,448</u>	<u>60,448</u>	<u>-</u>	<u>(20,673)</u>
FUND BALANCES - END OF YEAR	\$ <u><u>38,947</u></u>	\$ <u><u>50,888</u></u>	\$ <u><u>11,941</u></u>	\$ <u><u>60,448</u></u>

COVERT PUBLIC SCHOOLS
NONMAJOR SPECIAL REVENUE FUNDS
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual - Lunch Fund
For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

	2011			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2010 Actual</u>
Revenues:				
Local sources:				
Food sales		\$ 41,406		\$ 58,449
Investment income		<u>33</u>		<u>79</u>
Total Local Sources	\$ 39,971	\$ 41,439	\$ 1,468	\$ 58,528
State sources:				
State aid	965	971	6	21,480
Federal sources:				
Federal aid	<u>404,105</u>	<u>414,248</u>	<u>10,143</u>	<u>558,660</u>
Total Revenues	<u>\$ 445,041</u>	<u>\$ 456,658</u>	<u>\$ 11,617</u>	<u>\$ 638,668</u>
Expenditures:				
Salaries		\$ 137,169		\$ 147,753
Employee benefits		87,079		97,106
Purchased services		790		1,632
Food costs		216,464		257,784
Supplies and materials		24,739		20,856
Capital outlay		<u>-</u>		<u>32,438</u>
Total Expenditures	<u>\$ 466,542</u>	<u>\$ 466,241</u>	<u>\$ 301</u>	<u>\$ 557,569</u>
Net Change in Fund Balance	\$ (21,501)	\$ (9,583)	\$ 11,918	\$ 81,099
Fund Balance - Beginning of Year	<u>48,454</u>	<u>48,454</u>	<u>-</u>	<u>(32,645)</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 26,953</u></u>	<u><u>\$ 38,871</u></u>	<u><u>\$ 11,918</u></u>	<u><u>\$ 48,454</u></u>

**COVERT PUBLIC SCHOOLS
NONMAJOR SPECIAL REVENUE FUNDS
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual - Childcare Fund
For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010**

	2011		Variance Positive (Negative)	2010 Actual
	<u>Budget</u>	<u>Actual</u>		
Revenues:				
Local sources:				
Childcare fees		\$ -		\$ 47,028
Investment income		-		43
		-		43
Total Local Sources	\$ -	\$ -	\$ -	\$ 47,071
State sources:				
Department of Social Services	-	-	-	21,299
	-	-	-	21,299
Total Revenues	\$ -	\$ -	\$ -	\$ 68,370
Expenditures:				
Salaries		\$ -		\$ 200,785
Employee benefits		-		54,622
Purchased services		-		2,600
Supplies and materials		-		6,967
		-		6,967
Total Expenditures	\$ -	\$ -	\$ -	\$ 264,974
Deficiency of Revenues Under Expenditures	\$ -	\$ -	\$ -	\$ (196,604)
Other Financing Sources (Uses):				
Transfer in	-	-	-	196,604
	-	-	-	196,604
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Fund Balance - Beginning of Year	-	-	-	-
FUND BALANCE - END OF YEAR	\$ -	\$ -	\$ -	\$ -

COVERT PUBLIC SCHOOLS
NONMAJOR SPECIAL REVENUE FUNDS
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual - Bookstore Fund
For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

	<u>2011</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2010 Actual</u>
Revenues:				
Local sources:				
Bookstore sales		\$ -		\$ -
Investment income		<u>23</u>		<u>22</u>
Total Revenues	\$ -	\$ <u>23</u>	\$ 23	\$ <u>22</u>
Expenditures:				
Supplies and materials		\$ -		\$ -
Total Expenditures	\$ -	\$ -	\$ -	\$ -
Net Change in Fund Balance	\$ -	\$ 23	\$ 23	\$ 22
Fund Balance - Beginning of Year	<u>11,994</u>	<u>11,994</u>	-	<u>11,972</u>
FUND BALANCE - END OF YEAR	<u>\$ 11,994</u>	<u>\$ 12,017</u>	<u>\$ 23</u>	<u>\$ 11,994</u>

COVERT PUBLIC SCHOOLS
NONMAJOR SPECIAL REVENUE FUNDS
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual - Athletic Fund
For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

	2011			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2010 Actual</u>
Revenues:				
Local sources:				
Athletic activities		\$ -		\$ 29,166
Investment income		-		15
		_____		_____
Total Revenues	\$ -	\$ -	\$ -	\$ 29,181
	_____	_____	_____	_____
Expenditures:				
Salaries		\$ -		\$ 87,866
Employee benefits		-		20,892
Purchased services		-		30
Supplies and materials		-		47,001
		_____		_____
Total Expenditures	\$ -	\$ -	\$ -	\$ 155,789
	_____	_____	_____	_____
Deficiency of Revenues Under Expenditures	\$ -	\$ -	\$ -	\$ (126,608)
	_____	_____	_____	_____
Other Financing Sources:				
Transfer in	-	-	-	126,608
	_____	_____	_____	_____
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
	_____	_____	_____	_____
Fund Balance - Beginning of Year	-	-	-	-
	_____	_____	_____	_____
FUND BALANCE - END OF YEAR	\$ -	\$ -	\$ -	\$ -
	_____	_____	_____	_____

**COVERT PUBLIC SCHOOLS
NONMAJOR CAPITAL PROJECTS FUNDS
Balance Sheet
June 30, 2011
With Comparative Totals from June 30, 2010**

	<u>2007 QZAB</u> <u>Fund</u>	<u>2008 QZAB</u> <u>Fund</u>	<u>2008</u> <u>Building</u> <u>& Site</u>	<u>Total</u>	<u>2010</u> <u>Totals</u>
Assets					
Cash	\$ -	\$ -	\$ -	\$ -	\$ (36,221)
Due from other funds	-	-	-	-	41,296
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,075</u>
Liabilities and Fund Balance					
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ 5,075
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	\$ -	\$ -	\$ -	\$ -	\$ 5,075
Fund balance:					
Assigned	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,075</u>

**COVERT PUBLIC SCHOOLS
NONMAJOR CAPITAL PROJECTS FUNDS
Statement of Revenues, Expenditures, and
Changes in Fund Balances
For the Year Ended June 30, 2011
With Comparative Totals from June 30, 2010**

	<u>2007 QZAB</u> <u>Fund</u>	<u>2008 QZAB</u> <u>Fund</u>	<u>2008</u> <u>Building</u> <u>& Site</u>	<u>Total</u>	<u>2010</u> <u>Totals</u>
Revenues:					
Local sources:					
Interest earned	\$ -	\$ -	\$ -	\$ -	\$ 5
Total Revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5</u>
Expenditures:					
Supporting services	\$ -	\$ -	\$ -	\$ -	\$ -
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,546,834</u>
Total Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,546,834</u>
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ (1,546,829)
Fund Balances, July 1, 2010	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,546,829</u>
FUND BALANCES, June 30, 2011	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

COVERT PUBLIC SCHOOLS
Detail of Bonded Debt
2008 Building & Site Bonds
June 30, 2011

<u>Due May 1</u>	<u>Interest Rate</u>	<u>Maturing Per Year</u>	<u>Bonds Outstanding July 1, 2010</u>	<u>Bonds Retired This Year</u>	<u>Bonds Outstanding June 30, 2011</u>
2011	3.50%	\$ 110,000	\$ 110,000	\$ 110,000	\$ -
2012	3.50%	120,000	120,000	-	120,000
2013	3.50%	125,000	125,000	-	125,000
2014	4.00%	130,000	130,000	-	130,000
2015	4.00%	135,000	135,000	-	135,000
2016	4.00%	140,000	140,000	-	140,000
2017	4.00%	145,000	145,000	-	145,000
2018	4.10%	155,000	155,000	-	155,000
2019	4.20%	160,000	160,000	-	160,000
2020	4.30%	165,000	165,000	-	165,000
2021	4.40%	175,000	175,000	-	175,000
2022	4.50%	180,000	180,000	-	180,000
2023	4.55%	190,000	190,000	-	190,000
2024	4.60%	405,000	405,000	-	405,000
2025	5.00%	420,000	420,000	-	420,000
2026	4.70%	440,000	440,000	-	440,000
2027	4.75%	460,000	460,000	-	460,000
2028	4.80%	480,000	480,000	-	480,000
2029	5.00%	505,000	505,000	-	505,000
2030	5.00%	525,000	525,000	-	525,000
2031	5.00%	550,000	550,000	-	550,000
2032	5.00%	575,000	575,000	-	575,000
2033	5.00%	600,000	600,000	-	600,000
TOTAL 2008 DEBT ISSUE		<u>\$ 6,890,000</u>	<u>\$ 6,890,000</u>	<u>\$ 110,000</u>	<u>\$ 6,780,000</u>

COVERT PUBLIC SCHOOLS
Detail of Bonded Debt
2008 General Obligation Limited Tax Qualified Zone Academy Bonds
June 30, 2011

<u>Due April 1</u>	<u>Interest Rate</u>	<u>Maturing Per Year</u>	<u>Bonds Outstanding July 1, 2010</u>	<u>Bonds Retired This Year</u>	<u>Bonds Outstanding June 30, 2011</u>
2011	3.25%	\$ 135,000	\$ 135,000	\$ 135,000	\$ -
2012	3.25%	139,000	139,000	-	139,000
2013	3.25%	144,000	144,000	-	144,000
2014	3.25%	149,000	149,000	-	149,000
2015	3.25%	154,000	154,000	-	154,000
2016	3.25%	158,000	158,000	-	158,000
2017	3.25%	164,000	164,000	-	164,000
2018	3.25%	169,000	169,000	-	169,000
2019	3.25%	174,000	174,000	-	174,000
2020	3.25%	180,000	180,000	-	180,000
2021	3.25%	186,000	186,000	-	186,000
2022	3.25%	192,000	192,000	-	192,000
2023	3.25%	198,000	198,000	-	198,000
TOTAL 2008 QZAB		<u>\$ 2,142,000</u>	<u>\$ 2,142,000</u>	<u>\$ 135,000</u>	<u>\$ 2,007,000</u>

COVERT PUBLIC SCHOOLS
Detail of Bonded Debt
2007 General Obligation Limited Tax Qualified Zone Academy Bonds
June 30, 2011

<u>Due November 30,</u>	<u>Interest Rate</u>	<u>Maturing Per Year</u>	<u>Bonds Outstanding July 1, 2010</u>	<u>Bonds Retired This Year</u>	<u>Bonds Outstanding June 30, 2011</u>
2010	2.00%	\$ 156,420	\$ 156,420	\$ 156,420	\$ -
2011	2.00%	159,549	159,549	-	159,549
2012	2.00%	162,740	162,740	-	162,740
2013	2.00%	165,994	165,994	-	165,994
2014	2.00%	169,314	169,314	-	169,314
2015	2.00%	172,701	172,701	-	172,701
2016	2.00%	176,155	176,155	-	176,155
2017	2.00%	179,678	179,678	-	179,678
2018	2.00%	183,271	183,271	-	183,271
2019	2.00%	186,937	186,937	-	186,937
2020	2.00%	190,675	190,675	-	190,675
2021	2.00%	194,489	194,489	-	194,489
2022	2.00%	198,378	198,378	-	198,378
TOTAL 2007 QZAB		<u>\$ 2,296,301</u>	<u>\$ 2,296,301</u>	<u>\$ 156,420</u>	<u>\$ 2,139,881</u>

COVERT PUBLIC SCHOOLS
Detail of Bonded Debt
Durant Issue
June 30, 2011

<u>Due May 15</u>	<u>Interest Rate</u>	<u>Maturing Per Year</u>	<u>Bonds Outstanding July 1, 2010</u>	<u>Bonds Retired This Year</u>	<u>Total Requirements</u>
2011	4.76%	\$ 5,492	\$ 5,492	\$ 5,492	\$ -
2012	4.76%	5,753	5,753	-	5,753
2013	4.76%	<u>31,604</u>	<u>31,604</u>	-	<u>31,604</u>
		<u>\$ 42,849</u>	<u>\$ 42,849</u>	<u>\$ 5,492</u>	<u>\$ 37,357</u>

COVERT PUBLIC SCHOOLS
Summary of Principal and Interest
Requirements to Maturity
2008 Building & Site Bonds
June 30, 2011

Year Ending <u>June 30</u>	Interest Due			<u>Total</u>
	<u>Principal</u>	<u>November 1</u>	<u>May 1</u>	
2012	\$ 120,000	\$ 158,335	\$ 158,335	\$ 436,670
2013	125,000	156,235	156,235	437,470
2014	130,000	154,047	154,048	438,095
2015	135,000	151,448	151,447	437,895
2016	140,000	148,747	148,748	437,495
2017	145,000	145,948	145,947	436,895
2018	155,000	143,047	143,048	441,095
2019	160,000	139,870	139,870	439,740
2020	165,000	136,510	136,510	438,020
2021	175,000	132,962	132,963	440,925
2022	180,000	129,113	129,112	438,225
2023	190,000	125,062	125,063	440,125
2024	405,000	120,740	120,740	646,480
2025	420,000	111,425	111,425	642,850
2026	440,000	101,660	101,660	643,320
2027	460,000	91,320	91,320	642,640
2028	480,000	80,395	80,395	640,790
2029	505,000	68,875	68,875	642,750
2030	525,000	56,250	56,250	637,500
2031	550,000	43,125	43,125	636,250
2032	575,000	29,375	29,375	633,750
2033	600,000	15,000	15,000	630,000
	<u>\$ 6,780,000</u>	<u>\$ 2,439,489</u>	<u>\$ 2,439,491</u>	<u>\$ 11,658,980</u>

COVERT PUBLIC SCHOOLS
Summary of Principal and Interest Requirements to Maturity
2008 General Obligation Limited Tax Qualified Zone Academy Bonds
June 30, 2011

Year Ending			Interest Due		
<u>June 30</u>	<u>Principal</u>		<u>April 8</u>		<u>Total Due</u>
2012	\$ 139,000	\$	65,227	\$	204,227
2013	144,000		60,710		204,710
2014	149,000		56,030		205,030
2015	154,000		51,188		205,188
2016	158,000		46,182		204,182
2017	164,000		41,047		205,047
2018	169,000		35,718		204,718
2019	174,000		30,225		204,225
2020	180,000		24,570		204,570
2021	186,000		18,720		204,720
2022	192,000		12,675		204,675
2023	198,000		6,435		204,435
	<u>2,007,000</u>		<u>448,727</u>		<u>2,455,727</u>
Total	\$ 2,007,000	\$	448,727	\$	2,455,727

COVERT PUBLIC SCHOOLS
Summary of Principal and Interest Requirements to Maturity
2007 General Obligation Limited Tax Qualified Zone Academy Bonds
June 30, 2011

Year Ending June 30	Principal	Interest Due November 30	Total Due
2012	\$ 159,549	\$ 42,798	\$ 202,347
2013	162,740	39,607	202,347
2014	165,994	36,352	202,346
2015	169,314	33,032	202,346
2016	172,701	29,646	202,347
2017	176,155	26,192	202,347
2018	179,678	22,669	202,347
2019	183,271	19,075	202,346
2020	186,937	15,410	202,347
2021	190,675	11,671	202,346
2022	194,489	7,857	202,346
2023	<u>198,378</u>	<u>3,965</u>	<u>202,343</u>
Total	\$ <u>2,139,881</u>	\$ <u>288,274</u>	\$ <u>2,428,155</u>

COVERT PUBLIC SCHOOLS
Summary of Principal and Interest Requirements to Maturity
Durant Issue
June 30, 2011

<u>June 30,</u>	<u>Principal</u> <u>Requirements</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2012	\$ 5,753	\$ 561	\$ 6,314
2013	<u>31,604</u>	<u>10,824</u>	<u>42,428</u>
	<u>\$ 37,357</u>	<u>\$ 11,385</u>	<u>\$ 48,742</u>

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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October 31, 2011

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
Covert Public Schools
Covert, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Covert Public Schools as of and for the year ended June 30, 2011, which collectively comprise Covert Public Schools' basic financial statements and have issued our report thereon dated October 31, 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 Covert Public Schools' internal control over financial reporting as a basis for designing our audit 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 Covert Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Covert Public Schools' internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified these as finding numbers 2011-01 through 2011-02.

Right. On time.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Covert Public Schools' 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2011-04.

We noted certain matters that we reported to management of Covert Public Schools in a separate letter dated October 31, 2011.

Covert Public Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Covert Public Schools' response and, accordingly, we express no opinion on it.

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

Seibel & Company, P.C.

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

October 31, 2011

INDEPENDENT AUDITOR'S 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

To the Board of Education
Covert Public Schools
Covert, Michigan

Compliance

We have audited Covert Public Schools' 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 Covert Public Schools' major federal programs for the year ended June 30, 2011. Covert Public Schools' major federal programs are identified in the summary of auditor's 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 Covert Public Schools' management. Our responsibility is to express an opinion on Covert Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Covert Public Schools' 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 Covert Public Schools' compliance with those requirements.

In our opinion, Covert Public Schools 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. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-04.

Internal Control Over Compliance

The management of Covert Public Schools 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 Covert Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 Covert Public Schools' internal control over compliance.

Right. On time.

**INDEPENDENT AUDITOR'S 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 - Continued**

Internal Control Over Compliance - Continued

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 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2011-03. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Covert Public Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Covert Public Schools' responses and, accordingly, we express no opinion on the responses.

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

Seibel & Company, P.C.

COVERT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Grantor Pass Through Grantor Federal Grantor Program Title	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through M.D.E			
Child Nutrition Cluster:			
National School Lunch Program			
Cash Assistance			
101950 SECT 4 All Lunches	10.555	\$ 29,749	\$ 24,968
111950 SECT 4 All Lunches	10.555	20,950	-
101960 SECT 11 Free and Reduced	10.555	240,958	212,897
111960 SECT 11 Free and Reduced	10.555	<u>176,596</u>	<u>-</u>
Cash Assistance Subtotal		<u>\$ 468,253</u>	<u>\$ 237,865</u>
Noncash Assistance:			
National School Lunch - Entitlement	10.555	\$ 22,385	\$ 21,405
National School Lunch - Bonus	10.555	<u>142</u>	<u>1,730</u>
Noncash Assistance Subtotal		<u>\$ 22,527</u>	<u>\$ 23,135</u>
Total National School Lunch Program		<u>\$ 490,780</u>	<u>\$ 261,000</u>
School Breakfast Program			
101970 Breakfast	10.553	\$ 141,350	\$ 130,101
111970 Breakfast	10.553	<u>105,794</u>	<u>-</u>
Total School Breakfast Program		<u>\$ 247,144</u>	<u>\$ 130,101</u>
Summer Food Service Program for Children			
101900 Summer Food Meals	10.559	\$ 6,046	\$ 2,178
100900 Summer Food Meals	10.559	<u>10,564</u>	<u>-</u>
Total Summer Food Service Program for Children		<u>\$ 16,610</u>	<u>\$ 2,178</u>
Total Child Nutrition Cluster		<u>\$ 754,534</u>	<u>\$ 393,279</u>
Child and Adult Care Food Program			
101920 Child and Adult Care Food Program	10.558	\$ 60,614	\$ 60,614
111920 Child and Adult Care Food Program	10.558	21,178	-
112010 Child and Adult Care Food Program	10.558	<u>1,577</u>	<u>-</u>
Total Child Care Food Program		<u>\$ 83,369</u>	<u>\$ 60,614</u>

<u>Accrued (Deferred) Revenue July 1, 2010</u>	<u>Adjustments</u>	<u>Current Year Expenditures</u>	<u>Current Year Cash Receipts</u>	<u>Accrued (Deferred) Revenue June 30, 2011</u>
\$ -	\$ -	\$ 2,328	\$ 2,328	\$ -
-	-	20,950	20,950	-
-	-	19,661	19,661	-
-	-	176,596	176,596	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 219,535</u>	<u>\$ 219,535</u>	<u>\$ -</u>
\$ -	\$ -	\$ 22,385	\$ 22,385	\$ -
-	-	142	142	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,527</u>	<u>\$ 22,527</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 242,062</u>	<u>\$ 242,062</u>	<u>\$ -</u>
\$ -	\$ -	\$ 11,249	\$ 11,249	\$ -
-	-	105,794	105,794	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 117,043</u>	<u>\$ 117,043</u>	<u>\$ -</u>
\$ 204	\$ -	\$ 5,842	\$ 1,092	\$ 4,954
<u>1,974</u>	<u>-</u>	<u>8,590</u>	<u>10,564</u>	<u>-</u>
<u>\$ 2,178</u>	<u>\$ -</u>	<u>\$ 14,432</u>	<u>\$ 11,656</u>	<u>\$ 4,954</u>
<u>\$ 2,178</u>	<u>\$ -</u>	<u>\$ 373,537</u>	<u>\$ 370,761</u>	<u>\$ 4,954</u>
\$ 12,202	\$ -	\$ -	\$ 12,202	\$ -
-	-	21,178	21,178	-
-	-	1,577	1,577	-
<u>\$ 12,202</u>	<u>\$ -</u>	<u>\$ 22,755</u>	<u>\$ 34,957</u>	<u>\$ -</u>

COVERT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Grantor Pass Through Grantor <u>Federal Grantor Program Title</u>	Federal CFDA <u>Number</u>	Approved Grant Award <u>Amount</u>	(Memo Only) Prior Year <u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE - Continued			
Passed Through M.D.E. - Continued			
Fresh Fruit and Vegetable Program			
100950 Fresh Fruit and Vegetable Program	10.582	\$ 14,482	\$ 14,482
110950 Fresh Fruit and Vegetable Program	10.582	<u>17,956</u>	<u>-</u>
Total Child Care Food Program		<u>\$ 32,438</u>	<u>\$ 14,482</u>
Total Passed Through M.D.E.		<u>\$ 870,341</u>	<u>\$ 468,375</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>\$ 870,341</u>	<u>\$ 468,375</u>

<u>Accrued (Deferred) Revenue July 1, 2010</u>	<u>Adjustments</u>	<u>Current Year Expenditures</u>	<u>Current Year Cash Receipts</u>	<u>Accrued (Deferred) Revenue June 30, 2011</u>
\$ 519	\$ -	\$ -	\$ 519	\$ -
<u>-</u>	<u>-</u>	<u>17,956</u>	<u>10,985</u>	<u>6,971</u>
\$ 519	\$ -	\$ 17,956	\$ 11,504	\$ 6,971
<u>14,899</u>	<u>-</u>	<u>414,248</u>	<u>417,222</u>	<u>11,925</u>
<u>14,899</u>	<u>-</u>	<u>414,248</u>	<u>417,222</u>	<u>11,925</u>

COVERT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

<u>Federal Grantor Pass Through Grantor Federal Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>
U.S. DEPARTMENT OF EDUCATION			
Passed Through M.D.E.			
Title I Cluster:			
101530-0910 Title I, Part A	84.010	\$ 735,950	\$ 735,950
111530-1011 Title I, Part A	84.010	687,014	-
Total Title I, Part A		<u>\$ 1,422,964</u>	<u>\$ 735,950</u>
101535-0910 ARRA Title I, Part A	84.389	\$ 606,416	\$ 541,058
111535-1011 ARRA Title I, Part A	84.389	65,358	-
Total ARRA Title I, Part A		<u>\$ 671,774</u>	<u>\$ 541,058</u>
101555-0910 ARRA Title I, School Improvement	84.389A	\$ 179,150	\$ -
Total Title I Cluster		<u>\$ 2,273,888</u>	<u>\$ 1,277,008</u>
100520-0910 Title II, Part A	84.367	\$ 120,890	\$ 120,890
110520-1011 Title II, Part A	84.367	118,670	-
Total Title II, Part A		<u>\$ 239,560</u>	<u>\$ 120,890</u>
104295-0910 ARRA Title II, Part D	84.386A	\$ 17,570	\$ 11,713
114295-1011 ARRA Title II, Part D	84.386A	5,857	-
Total ARRA Title II, Part D		<u>\$ 23,427</u>	<u>\$ 11,713</u>
100660-0910 Title VI, Part B, Subpart 2	84.358B	\$ 18,866	\$ 18,866
112525-1011 ARRA Education Stabilization	84.394	\$ 18,428	\$ -
Total Passed Through M.D.E.		<u>\$ 2,574,169</u>	<u>\$ 1,428,477</u>
Passed through from Van Buren I.S.D.			
ARRA IDEA	94.391A	\$ 183,120	\$ 89,084
Total Passed Through Van Buren I.S.D.		<u>\$ 183,120</u>	<u>\$ 89,084</u>
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>\$ 2,757,289</u>	<u>\$ 1,517,561</u>
DEPARTMENT OF DEFENSE			
JROTC			
JROTC - 2010	12.401	\$ 52,586	\$ 52,586
JROTC - 2011	12.401	44,938	-
TOTAL DEPARTMENT OF DEFENSE		<u>\$ 97,524</u>	<u>\$ 52,586</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$ 3,725,154</u>	<u>\$ 2,038,522</u>

<u>Accrued (Deferred) Revenue July 1, 2010</u>	<u>Adjustments</u>	<u>Current Year Expenditures</u>	<u>Current Year Cash Receipts</u>	<u>Accrued (Deferred) Revenue June 30, 2011</u>
\$ 65,720	\$ -	\$ -	\$ 65,720	\$ -
-	-	415,433	256,000	159,433
<u>\$ 65,720</u>	<u>\$ -</u>	<u>\$ 415,433</u>	<u>\$ 321,720</u>	<u>\$ 159,433</u>
\$ (24,767)	\$ -	\$ -	\$ (24,767)	\$ -
-	-	43,367	-	43,367
<u>\$ (24,767)</u>	<u>\$ -</u>	<u>\$ 43,367</u>	<u>\$ (24,767)</u>	<u>\$ 43,367</u>
\$ -	\$ -	\$ 113,726	\$ 5,000	\$ 108,726
\$ 40,953	\$ -	\$ 572,526	\$ 301,953	\$ 311,526
\$ 10,580	\$ -	\$ -	\$ 10,580	\$ -
-	-	29,281	5,000	24,281
<u>\$ 10,580</u>	<u>\$ -</u>	<u>\$ 29,281</u>	<u>\$ 15,580</u>	<u>\$ 24,281</u>
\$ 11,713	\$ -	\$ -	\$ 11,713	\$ -
-	-	2,999	-	2,999
<u>\$ 11,713</u>	<u>\$ -</u>	<u>\$ 2,999</u>	<u>\$ 11,713</u>	<u>\$ 2,999</u>
\$ 5,553	\$ -	\$ -	\$ 5,553	\$ -
\$ -	\$ -	\$ 18,428	\$ 5,000	\$ 13,428
<u>\$ 68,799</u>	<u>\$ -</u>	<u>\$ 623,234</u>	<u>\$ 339,799</u>	<u>\$ 352,234</u>
\$ 18,257	\$ -	\$ 94,036	\$ 73,596	\$ 38,697
<u>\$ 18,257</u>	<u>\$ -</u>	<u>\$ 94,036</u>	<u>\$ 73,596</u>	<u>\$ 38,697</u>
\$ 87,056	\$ -	\$ 717,270	\$ 413,395	\$ 390,931
\$ 3,476	\$ -	\$ -	\$ 3,476	\$ -
-	-	44,938	42,296	2,642
<u>\$ 3,476</u>	<u>\$ -</u>	<u>\$ 44,938</u>	<u>\$ 45,772</u>	<u>\$ 2,642</u>
<u>\$ 105,431</u>	<u>\$ -</u>	<u>\$ 1,176,456</u>	<u>\$ 876,389</u>	<u>\$ 405,498</u>

COVERT PUBLIC SCHOOLS
Notes to Schedule of Expenditures of Federal Awards
June 30, 2011

- Note 1** The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting. Type A programs were identified using a \$300,000 threshold.
- Note 2** Management has reported that expenditures in this Schedule of Expenditures of Federal Awards are equal to those amounts reported in the annual or final cost reports.
- Note 3** Management has utilized the Grants Section Auditor's Report (Form R7120) and the Client Management System (CMS) in preparing the Schedule of Expenditures of Federal Awards.
- Note 4** Reported commodity receipt values were computed using the Recipient Entitlement Balance Report and other District records. Spoilage or pilferage, if any, is included in expenditures.

COVERT PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? X Yes None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

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

Identification of Major Programs

CFDA Number	Name of Federal Program or Cluster
10.553, 10.555, 10.559 84.010, 84.389, 84.389A	Child Nutrition Cluster Title I, Title I ARRA

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

Auditee qualified as low-risk auditee? Yes X No

COVERT PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Section II - Financial Statement Findings

2011-01 Segregation of Duties (Repeat)

Finding Type:

Significant deficiency in internal controls over financial reporting

Criteria:

Per Michigan Public School Accounting Manual, Section V - Internal Controls, Paragraph A.3, the District must have a system that provides for the design, implementation and maintenance of effective control-related policies and procedures. In practice, three types of functions are commonly considered to be mutually incompatible: Authorization of Transactions, Recordkeeping, and Custody of Assets.

Condition:

There is inadequate segregation of duties over the bank reconciliation and journal entry posting functions due to certain individuals being authorized to perform these incompatible functions.

Cause:

Internal control is not properly assigned to provide for adequate segregation of duties over the bank reconciliation process.

Effect:

Significant misstatements could occur within the accounting data and not be detected on a timely basis.

Recommendation:

We recommend the District reevaluate job functions and increase review and approval over data entered into the financial accounting system.

Corrective Action Plan:

Management agrees with the finding. However, given our District's size and funding level, it is not a realistic expectation to be able to employ the number of staff it would require to ensure proper segregation of duties. We will continue to strive for as many checks and balances as possible given the constraints of our staff size.

COVERT PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Section II - Financial Statement Findings - Continued

2011-02 Budgeting in Excess of Expenditures

Finding Type:

Significant deficiency in internal controls over financial reporting

Criteria:

The State of Michigan Uniform Budgeting and Accounting Act prohibits school districts from having expenditures in excess of the adopted budget and prohibits school districts from depleting fund balances beyond that which has been approved by the Board.

Condition:

The District has incurred expenditures in excess of the budget adopted by the Board and has depleted the General Fund balance beyond the amount approved by the Board.

Effect:

The District has a General Fund fund balance deficit of approximately \$1,478,638 at June 30, 2011.

Recommendation:

We recommend the District reviews its budgeting policies and procedures to ensure compliance with the Michigan Uniform Budgeting and Accounting Act.

Corrective Action Plan:

Management agrees with the finding. Management is working to ensure the District is in compliance with the Michigan Uniform Budgeting and Accounting Act.

COVERT PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Section III - Federal Program Audit Findings

2011-03 Drawdown Requests

Federal Program:

Title I, Part A (CFDA # 84.010); ARRA Title I, Part A (CFDA #84.389) and ARRA Title I, School Improvement Grant (CFDA #84.389A)

Finding Type:

Deficiency in internal controls over financial reporting

Criteria:

In accordance with grant requirements, the District can only request funds to meet its immediate cash needs.

Condition:

For Title I, Part A cash was requested prior to funds being expended. Cash management requirements state that payments to Districts will be on a reimbursement basis only.

Cause:

Due to immediate financial needs, the District chose to request more funds than what had actually been expended for Title I, Part A. In total, as of June 30, 2011, all amounts requested were fully expended, but the first cash request was made prematurely.

Effect:

The drawdown of funds was not in compliance with grant requirements.

Recommendation:

The District should request federal funds equal to amounts actually expended at the time of the cash request.

Corrective Action Plan:

Management agrees with the finding. The District is aware of why they drew down money in excess of expenditures to date and have worked to ensure it does not occur again.

COVERT PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Section III - Federal Program Audit Findings - Continued

2011-04 Documentation of Employee Time and Effort

Federal Program:

Title I, Part A (CFDA # 84.010); ARRA Title I, Part A (CFDA #84.389) and ARRA Title I, School Improvement Grant (CFDA #84.389A)

Finding Type:

Noncompliance, internal controls over compliance

Criteria:

The District must maintain time and effort distribution records in accordance with OMB Circular A-87, Attachment B.

Condition:

The District did not have personnel activity reports for employees who worked on multiple federal awards or semi-annual certifications for employees who worked on a single federal award.

Cause:

The District was not aware of proper time reporting documentation requirements.

Effect:

The District did not meet federal standards on time reporting for federal awards.

Recommendation:

We recommend the District adopt time reporting documentation policies for employees working on federal award programs.

Corrective Action Plan:

The District will adopt time reporting documentation policies for employees working on federal award programs.

COVERT PUBLIC SCHOOLS
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2011

Section II - Financial Statement Findings

2010-01 Segregation of Duties (Repeat)

Finding Type:

Significant deficiency in internal controls over financial reporting

Criteria:

Per Michigan Public School Accounting Manual, Section V - Internal Controls, Paragraph A.3, the District must have a system that provides for the design, implementation and maintenance of effective control-related policies and procedures. In practice, three types of functions are commonly considered to be mutually incompatible: Authorization of Transactions, Recordkeeping, and Custody of Assets.

Condition:

There is inadequate segregation of duties over the bank reconciliation and journal entry posting functions due to certain individuals being authorized to perform these incompatible functions.

Cause:

Internal control is not properly assigned to provide for adequate segregation of duties over the bank reconciliation process.

Effect:

Significant misstatements could occur within the accounting data and not be detected on a timely basis.

Recommendation:

We recommend the District reevaluate job functions and increase review and approval over data entered into the financial accounting system.

Corrective Action Plan:

Management agrees with the finding. However, given our District's size and funding level, it is not a realistic expectation to be able to employ the number of staff it would require to ensure proper segregation of duties. We will continue to strive for as many checks and balances as possible given the constraints of our staff size.

COVERT PUBLIC SCHOOLS
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2011

Section II - Financial Statement Findings - Continued

2010-02 Budgeting in Excess of Expenditures

Finding Type:

Significant deficiency in internal controls over financial reporting

Criteria:

The State of Michigan Uniform Budgeting and Accounting Act prohibits school districts from having expenditures in excess of the adopted budget and prohibits school districts from depleting fund balances beyond that which has been approved by the Board.

Condition:

The District has incurred expenditures in excess of the budget adopted by the Board and has depleted the General Fund balance beyond the amount approved by the Board.

Effect:

The District has a General Fund fund balance deficit of approximately \$3,241,823 at June 30, 2010.

Recommendation:

We recommend the District reviews its budgeting policies and procedures to ensure compliance with the Michigan Uniform Budgeting and Accounting Act.

Corrective Action Plan:

Management agrees with the finding. Management is working to ensure the District is in compliance with the Michigan Uniform Budgeting and Accounting Act.

COVERT PUBLIC SCHOOLS
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2011

Section II - Financial Statement Findings - Continued

2010-03 Budget Preparation

Finding Type:

Significant deficiency in internal controls over financial reporting

Criteria:

The Michigan Public School Accounting Manual, Section IV, indicates that, when used appropriately, a budget provides the school board and administration with the ability to control and evaluate the use of the District's funds.

Condition:

During our review of original, amended and final budgets, we noted the final budget was not budgeted by function.

Cause:

Internal controls are not properly designed to address budget requirements and to monitor budgetary requirements throughout the year.

Effect:

Budget overruns may not be identified and amended resulting in an increased budget deficit.

Recommendation:

We recommend management implements detailed budgetary procedures to ensure anticipated overruns are identified and included in the budget. We further recommend management implement a budgetary monitoring system whereby unexpected overruns are identified timely and appropriate budget amendments are made.

Corrective Action Plan:

Management agrees with the finding. Given the financial condition and administration turnover in the last quarter of the year, a detailed final budget was not prepared. Detailed budgets will be prepared in the future.

COVERT PUBLIC SCHOOLS
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2011

Section II - Financial Statement Findings - Continued

2010-04 Payroll System

Finding Type:

Significant deficiency in internal controls over financial reporting

Criteria:

Payroll documentation should be reviewed for proper fund classification.

Condition:

We identified instances where the documentation of timecards indicated another function than the function the expenditures were charged to.

Cause:

Review procedures were not being followed to ensure proper fund classification.

Effect:

The fund classification of payroll expenditures was inappropriate.

Recommendation:

The payroll process should include a review of the payroll documentation to ensure proper fund classification.

Corrective Action Plan:

Management agrees with the finding. All necessary corrective actions will be identified, implemented and monitored in accordance with applicable policies and procedures.

COVERT PUBLIC SCHOOLS
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2011

Section III - Federal Program Audit Findings

2010-05 Special Test and Provisions - Highly Qualified Staff

Federal Program:

Title 1, Part A (CFDA # 84.010)

Finding Type:

Deficiency in internal controls over financial reporting

Criteria:

34 CFR section 200.58 requires each paraprofessional hired by the District who works in a program supported with Title 1, Part A funds meet specific qualification requirements. A paraprofessional must hold a high school diploma or its recognized equivalent and meet one of the following requirements: 1. Have completed at least two years of study at an institution of higher education, 2. have obtained an associate's or higher degree and 3. Have met a rigorous standard of quality and can demonstrate through a formal academic assessment knowledge of, and ability to assist in instructing, reading/language arts, writing, and mathematics, or reading readiness, writing readiness and mathematics readiness.

Condition:

We identified two instances where the District did not have documentation to support staff being highly qualified.

Cause:

The District did not have procedures in place to ensure that documentation for existing employees was obtained to support the highly qualified status required in 34 CFR section 200.58.

Effect:

Of the 40 teachers and paraprofessionals selected for testing, two did not have evidence in their personnel file that they met the above mentioned requirements.

Recommendation:

We recommend the District implement procedures to ensure that all employees who are charged to programs supported by Title 1, Part A, have documentation in their personnel file to support that they are highly qualified.

Corrective Action Plan:

The District agrees with the finding. They are working to ensure they maintain adequate supporting documentation to demonstrate compliance with federal requirements. The District will review its current procedures to ensure its records include sufficient documentation to verify paraprofessionals meet qualification requirements. The District received proper documentation within a week of being notified of the issue.

COVERT PUBLIC SCHOOLS
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2011

Section III - Federal Program Audit Findings - Continued

2010-06 Drawdown Requests

Federal Program:

Title 1, Part A (CFDA # 84.010); ARRA Title 1, Part A (CFDA #84.389) and ARRA Title II, Part D (CFDA #84.386A)

Finding Type:

Deficiency in internal controls over financial reporting

Criteria:

In accordance with grant requirements, the District can only request funds to meet its immediate cash needs.

Condition:

Amounts were drawn down in excess of the District's immediate cash needs. For Title 1, Part A at June 30, 2010, all amounts requested were fully expended. For ARRA Title 1, Part A and ARRA Title II, Part D, the funds were not fully spent at June 30, 2010.

Cause:

For Title 1, Part A, the District was experiencing financial hardship and made the decision to request 90% of their Title 1, Part A funding in November 2009. For ARRA Title 1, Part A and ARRA Title II, Part D, the business office was led to believe the products were ordered when in fact they were not.

Effect:

The drawdown of funds was not in compliance with grant requirements.

Recommendation:

The District should request federal funds equal to their immediate cash needs.

Corrective Action Plan:

Management agrees with the finding. The District is aware of why they drew down money in excess of expenditures to date and have worked at budget cuts to ensure it does not occur again.