

EAST JACKSON COMMUNITY SCHOOLS
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
JUNE 30, 2012

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INDEPENDENT AUDITORS' REPORT

Board of Education
East Jackson Community Schools
Jackson, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the East Jackson Community Schools as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the East Jackson Community Schools. Our responsibility is to express an opinion 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 government activities, each major fund, and the aggregate remaining fund information of the East Jackson Community Schools as of June 30, 2012, and the respective changes in financial position 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 November 1, 2012 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

Board of Education
East Jackson Community Schools
Jackson, Michigan

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Jackson Community Schools' basic financial statements. The accompanying supplemental information, identified in the table of contents as Other Supplemental Information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards, identified in the table of contents as Federal Awards Supplemental Information, 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 basic financial statements of East Jackson Community Schools. This supplemental information is the responsibility of management and was derived from and relates 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 basic 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 basic financial statements as a whole.

Drake, Watters & Associates, PLLC

Jackson, Michigan
November 1, 2012

EAST JACKSON COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2012

This section of East Jackson Community Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2012. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand East Jackson Community Schools' financial operations. The government-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds - the General Fund, Capital Projects Fund, Debt Retirement Fund - with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Budgetary Information for Major Funds
(Required Supplemental Information)

Other Supplemental Information

Federal Awards Supplemental Information

EAST JACKSON COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2012

Reporting the School District as a Whole - Government-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, food services, enrichment, debt retirement, and internal services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District may establish many other funds to help it control and manage money for particular purposes (the Food Services and Capital Projects Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

EAST JACKSON COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2012

- **Governmental Funds** - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

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

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2012 and 2011:

(See next page)

EAST JACKSON COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2012

TABLE I

	Governmental Activities	
	June 30	
	2012	2011
	(in millions)	
Assets		
Current and other assets	\$ 3.5	\$ 3.4
Capital assets	14.1	14.6
Total assets	17.6	18.0
Liabilities		
Current liabilities	3.7	3.3
Long-term liabilities	11.8	12.7
Total liabilities	15.5	16.0
Net Assets		
Invested in capital assets - Net of related debt	1.5	1.0
Restricted	0.2	0.3
Unrestricted	0.4	0.7
Total net assets	\$ 2.1	\$ 2.0

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$2.1 million at June 30, 2012. The investment in capital assets, net of related debt, reflects a balance of \$1.5 million. This figure compares the original cost less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$0.4 million, was unrestricted.

The \$0.4 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for the fiscal years ended June 30, 2012 and 2011.

EAST JACKSON COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2012

TABLE 2

	Governmental Activities	
	2012	2011
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.2	\$ 0.2
Operating grants and contributions	1.2	2.0
General revenue:		
Property taxes	3.1	3.1
State foundation allowance	7.6	7.8
Other	0.1	0.1
Total revenue	<u>12.2</u>	<u>13.2</u>
Functions/Program Expenses		
Instruction	7.3	8.1
Support services	2.7	2.9
Food services	0.5	0.5
Athletics	0.3	0.3
Interest on long-term debt	0.6	0.6
Impairment	0.0	2.2
Depreciation (unallocated)	0.7	0.7
Total functions/program expenses	<u>12.1</u>	<u>15.3</u>
(Decrease) Increase in Net Assets	0.1	-2.1
Net Assets - Beginning of year	<u>2.0</u>	<u>4.1</u>
Net Assets - End of year	<u>\$ 2.1</u>	<u>\$ 2.0</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$12.1 million. Certain activities were partially funded from those who paid for goods and services from those programs, \$0.2 million, or by other governments and organizations that subsidized certain programs with grants and contributions, \$1.2 million. We paid for the remaining "public benefit" portion of our governmental activities with \$3.1 million in taxes, \$7.6 million in state foundation allowance, and with our other revenue (i.e., interest and general entitlements) of \$0.1 million. Overall, revenue from funding sources exceeded the cost of activities by \$0.1 million, resulting in a corresponding increase in net assets.

EAST JACKSON COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2012

As discussed above, the net cost shows the financial burden that was placed on the state and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with available funding resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being held accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As of June 30, 2012, the governmental funds reported a combined fund balance of \$0.6 million, which is a decrease of \$0.2 million from last year. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, the fund balance increased by \$0.05 million to \$2.2 million. This amount helps to provide for cash flow needs during the months when state aid isn't received from the state. The change was mainly due to:

- An increase in student enrollment
- One-time Best Practices Incentive funds from the state
- Prudent staffing across the District including support and certified employee levels

The General Fund balance is available to fund costs related to allowable school operating purposes.

Our Other Nonmajor Fund, when compared to the prior year, shows a net decrease of approximately \$30,000 due to a transfer of indirect expenses from the general fund.

The Debt Service Funds showed a fund balance decrease of approximately \$58,000. This decrease is due primarily to the shortfall in property tax revenue to cover debt principal and interest payments. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service fund balances are reserved since they can only be used to pay debt service obligations.

The Capital Projects Fund reflected the final expenditures for the project.

EAST JACKSON COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2012

General Fund Budgetary Highlights

By state law, the East Jackson Community Schools' Board of Education must approve a balanced budget, effective July 1 of each year. At the same time, the State Legislature's fiscal year does not begin until October 1 of the same year.

Over the course of the year, the School District must revise its budget as additional information ranging from student enrollment counts to unanticipated changes in costs and state funding becomes available. These revisions, known as budget adjustments, are again required by state law to ensure that expenditures do not exceed the board's authorized budget.

The School District made budget amendments during the 2011-2012 year, the final of which was approved by the Board of Education on June 25, 2012. A schedule showing the School District's original and final budget amounts compared to actual amounts is provided in the required supplemental information in these financial statements.

Budgeted revenue was increased \$.72 million resulting from an unanticipated increase in foundation allowance payments due to actual student enrollment greater than original estimates, the addition of Best Practice Incentive Funds, and an increase in federal grant awards.

Budgeted expenditures were also increased \$.19 million to account for changes in costs of supporting services.

The School District's final actual fund balance was approximately \$83,000 lower than the final budget.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2012, the School District had \$14.1 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$0.5 million from last year.

EAST JACKSON COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2012

	<u>2012</u>	<u>2011</u>
Land	\$ 328,009	\$ 328,009
Buildings and building improvements	19,439,602	19,417,946
Buses and other vehicles	987,119	1,014,119
Furniture and equipment	4,449,206	4,789,564
Total capital assets	<u>25,203,936</u>	<u>25,549,638</u>
Less: accumulated depreciation	<u>11,110,633</u>	<u>10,953,995</u>
Net capital assets	<u>\$ 14,093,303</u>	<u>\$ 14,595,643</u>

This year's additions of \$0.16 million included a pole barn to be used for storage for the food service department as well as kitchen and electronic/computer equipment. No new debt was issued for these additions.

We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$12.6 million in bonds outstanding versus \$13.5 million in the previous year - a decrease of 7 percent. Those bonds consisted of the following:

Total bonds	<u>\$ 12,635,000</u>	<u>\$ 13,585,000</u>
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The School District's general obligation bond rating continues to be A+. The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. The School District's outstanding unqualified general obligation debt of \$12.6 million is below this statutorily imposed limit of 15 percent (\$32.4 million) of the assessed value of all taxable property within the School District's boundaries.

Other obligations include accrued vacation pay and sick leave. We present more detailed information about our long-term liabilities in the notes to the financial statements.

EAST JACKSON COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2012

Economic Factors and Next Year's Budgets and Rates

The following factors will affect the School District in the future and were considered in preparing the School District's budget for the 2013 fiscal year budget:

One of the most important factors affecting the budget is our student count. The other is the state foundation revenue determined by multiplying the blended student count by the foundation allowance per pupil. The 2012-2013 budget was adopted in June 2012, based on an estimated number of students who will be enrolled in September 2012. Based on early enrollment projections at the end of the 2011-2012 school year, we anticipate that the fall student count will be slightly lower than what was used in creating the 2013 budget. In an effort to sustain student enrollment and maximize funding from the state, East Jackson Community Schools continues to provide opportunities to students through Schools of Choice.

The State School Aid Act for 2012-2013 established the foundation grant for each student at \$6,966 for East Jackson Community Schools, with a reduction of \$350 per student from the foundation level during the 2010-2011 fiscal year remaining in place. Due to the state's own overall economic decline, Michigan school districts have been allocated funding at less than inflationary increases over the past nine years. This is due to job losses, reductions in consumer spending, and reductions in property values which, in turn, resulted in lower revenue from income, sales, and property taxes. Consequently, this limits funding available to public schools from its primary revenue source, the State of Michigan. Additionally, the School District has been challenged by increased fixed costs such as retirement and health care.

Prudent fiscal responsibility and cost containment remain critical to the School District's ability to effectively operate in this volatile and difficult economic climate. Over the past five years, the School District has made a series of budget adjustments to protect its financial future. The School District continues to explore avenues that allow it to reduce costs by restructuring its delivery of services.

Contacting the School District's Management

This financial report is intended to provide the School District's citizens, parents, and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Superintendent's office at East Jackson Community Schools.

EAST JACKSON COMMUNITY SCHOOLS

STATEMENT OF NET ASSETS June 30, 2012

ASSETS	Governmental Activities
CURRENT ASSETS:	
Cash and cash equivalents (Note 3)	\$ 1,558,787
Due from other governmental units (Note 4)	1,518,112
Deferred expenditures and expenses	309,466
Inventories	95,740
TOTAL CURRENT ASSETS	3,482,105
NONCURRENT ASSETS	
Capital assets (Note 5)	25,203,936
Less: Accumulated depreciation	(11,110,633)
TOTAL NONCURRENT ASSETS	14,093,303
TOTAL ASSETS	\$ 17,575,408
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	\$ 81,080
Due to other governmental units	2,448
Accrued expenses	2,957
Accrued salaries and withholding	983,027
Accrued Interest	93,496
Bonds payable, Due within one year (Note 8)	980,000
Note payable - Tax Anticipation Loan, Due within one year (Note 7)	1,504,639
Compensated absences and severance pay, Due within one year (Note 8)	30,812
TOTAL CURRENT LIABILITIES	3,678,459
NONCURRENT LIABILITIES	
Bonds Payable (Note 8)	11,655,000
Compensated absences and severance pay (Note 8)	123,248
TOTAL NONCURRENT LIABILITIES	11,778,248
TOTAL LIABILITIES	15,456,707
NET ASSETS	
Invested in capital assets, net of related debt	1,458,303
Nonspendable, inventories	95,740
Restricted for debt service	147,793
Unassigned	416,865
TOTAL NET ASSETS	2,118,701
TOTAL LIABILITIES AND NET ASSETS	\$ 17,575,408

See auditors' report and accompanying notes to financial statements.

EAST JACKSON COMMUNITY SCHOOLS

STATEMENT OF ACTIVITIES Year Ended June 30, 2012

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Governmental
		Charges for Services	Operating Grants	Activities
				Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:				
Instruction and instructional support	\$ 7,326,788	\$ -	\$ 718,654	\$ (6,608,134)
Support services	2,653,896	-	-	(2,653,896)
Food services	548,227	84,829	458,854	(4,544)
Athletics	314,124	90,936	-	(223,188)
Interest on long-term debt	570,043	-	-	(570,043)
Other	31,648	-	-	(31,648)
Depreciation (Unallocated)	658,813	-	-	(658,813)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 12,103,539	\$ 175,765	\$ 1,177,508	(10,750,266)

GENERAL REVENUES:

Taxes	
Property taxes, levied for general operations	1,688,740
Property taxes, levied for debt service	1,448,005
State of Michigan aid, unrestricted	7,600,076
State of Michigan aid, restricted	13,866
Interest and investment earnings	665
Other	113,196
Total general revenues	10,864,548

CHANGE IN NET ASSETS

Net assets:	
Beginning of year	2,004,419
End of year	\$ 2,118,701

See auditors' report and accompanying notes to financial statements.

EAST JACKSON COMMUNITY SCHOOLS

BALANCE SHEET GOVERNMENTAL FUNDS June 30, 2012

	General	Capital Projects	Debt Retirement Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 1,420,723	\$ -	\$ 55,088	\$ 82,976	\$ 1,558,787
Due from other governmental units (Note 4)	1,514,566	-	-	3,546	1,518,112
Due from other funds (Note 6)	-	-	156,623	1,218	157,841
Inventories	11,446	-	-	84,294	95,740
TOTAL ASSETS	\$ 2,946,735	\$ -	\$ 211,711	\$ 172,034	\$ 3,330,480
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 81,080	\$ -	\$ -	\$ -	\$ 81,080
Due to other funds	93,923	-	63,918	-	157,841
Due to other governmental units	2,448	-	-	-	2,448
Accrued expenses	7,596	-	-	-	7,596
Salaries payable	983,027	-	-	-	983,027
Notes payable	1,504,639	-	-	-	1,504,639
TOTAL LIABILITIES	2,672,713	-	63,918	-	2,736,631
Fund Balances					
Nonspendable, inventory	11,446	-	-	84,294	95,740
Restricted, debt retirement	-	-	147,793	-	147,793
Unassigned	262,576	-	-	-	262,576
Restricted, food services	-	-	-	87,740	87,740
TOTAL FUND BALANCES	274,022	-	147,793	172,034	593,849
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,946,735	\$ -	\$ 211,711	\$ 172,034	\$ 3,330,480

See auditors' report and accompanying notes to financial statements.

EAST JACKSON COMMUNITY SCHOOLS

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES June 30, 2012

Total Governmental Fund Balances		\$	593,849
Amounts reported for governmental activities in the statements of net assets are different because:			
Capital assets used in governmental activities are not financial resources, and are not reported in the funds.			
The cost of the capital assets is	\$	25,203,936	
Accumulated depreciation is		<u>(11,110,633)</u>	14,093,303
Bond issuance costs reported as an expenditure in the governmental fund financial statements are capitalized in the government-wide statements			
2005 Bond Refunding	\$	173,250	
2005 Building and Site Issue		101,354	
2009 School Building & Equipment		<u>34,862</u>	309,466
Long-term liabilities are not due and payable in the current period and are not reported in the fund			
Bonds payable			(12,635,000)
Compensated absences			<u>(154,060)</u>
Accrued Interest is not included as a liability in governmental funds			<u>(88,857)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$	<u>2,118,701</u>

See auditors' report and accompanying notes to financial statements.

EAST JACKSON COMMUNITY SCHOOLS

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS Year Ended June 30, 2012

	General	Capital Projects	Debt Retirement Fund	Other Nonmajor Governmental Fund	Totals
Revenues					
Local sources	\$ 1,927,524	\$ -	\$ 1,453,785	\$ 100,425	\$ 3,481,734
State sources	7,600,076	-	8,751	22,039	7,630,866
Federal sources	323,854	-	-	436,815	760,669
Interdistrict sources	394,800	-	-	-	394,800
TOTAL REVENUES	10,246,254	-	1,462,536	559,279	12,268,069
Expenditures					
Current:					
Instruction and instructional support services	7,476,998	-	-	-	7,476,998
Supporting services	2,968,020	-	-	548,227	3,516,247
Capital outlay	-	86	-	-	86
Debt Service:					
Principal repayment	-	-	950,000	-	950,000
Interest and other expenses	-	-	539,085	-	539,085
Other	-	185	31,463	-	31,648
TOTAL EXPENDITURES	10,445,018	271	1,520,548	548,227	12,514,064
Excess (Deficiency) of Revenues Over Expenditures	(198,764)	(271)	(58,012)	11,052	(245,995)
Other Financing Sources (Uses)					
Operating transfers in	41,000	-	641,675	-	682,675
Operating transfers out	-	-	(641,675)	(41,000)	(682,675)
TOTAL OTHER FINANCING SOURCES (USES)	41,000	-	-	(41,000)	-
Net Change in Fund Balances	(157,764)	(271)	(58,012)	(29,948)	(245,995)
Fund Balances - Beginning of year	431,786	271	205,805	201,982	839,844
Fund Balances - End of year	\$ 274,022	\$ -	\$ 147,793	\$ 172,034	\$ 593,849

See auditors' report and accompanying notes to financial statements.

EAST JACKSON COMMUNITY SCHOOLS

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds	\$ (245,995)
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. Impairment expenses in the statement of activities would have been expended in prior years in the governmental funds.	
Depreciation expense	(658,813)
Capital outlay	156,473
Decrease in accrued interest payable is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	992
Decrease in accrued taxes receivable is recorded in the statement of activities when incurred; it is not reported in governmental funds until received	(50,248)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	950,000
Amortization of bond issuance costs is not reported in the governmental funds.	(31,950)
Increase in compensated absences are not reported in the governmental funds	<u>(6,177)</u>
Change in Net Assets of Governmental Activities	\$ <u>114,282</u>

See auditors' report and accompanying notes to financial statements.

EAST JACKSON COMMUNITY SCHOOLS

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
June 30, 2012**

	<u>Agency Fund Student Activities</u>
Assets	
Cash and cash equivalents	\$ <u>95,679</u>
Liabilities	
Due to student groups	\$ <u>95,679</u>

See auditors' report and accompanying notes to financial statements.

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of East Jackson Community Schools (the District) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the District.

REPORTING ENTITY

An elected seven member Board of Education governs the District. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the District's reporting entity, and which organizations are legally separate, component units of the District. Based on application of the criteria, the entity does not contain any component units.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. Substantially all inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the District's government-wide activities are considered governmental activities.

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

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

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

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

The effect of inter-fund activity has been substantially eliminated from the government wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State Aid.

Fund Financial 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:

GOVERNMENTAL FUNDS

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

School Service Funds - The School Service Funds are used to segregate the activity of Food Service and Athletics. For reporting purposes this activity is combined under the caption "GENERAL" in the general-purpose financial statements. Specific detail for these activities can be seen presented in the Supplemental Financial Information.

Debt Retirement Funds - Debt Retirement Funds are used to account for the accumulation of resources for and the payment of general long-term principal, interest, and related costs.

Capital Projects Fund – The Capital Projects Fund is used to account for all resources for the acquisitions of capital facilities and equipment. The District has complied with the applicable provisions of Section 1212 (1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**FIDUCIARY FUNDS**

Agency Fund - Agency Funds are used to account for assets held by the District as an agent for student clubs, organizations, and classes. Agency Funds are custodial in nature and do not involve measurement of results of operations.

ACCOUNT GROUPS

Account groups are not funds. They do not reflect available financial resources and related liabilities or the measurement of results of operations. They are the District's accounting records of general long-term debt. The General Long-Term Debt Account Group is used to record the outstanding bonded debt, long-term notes payable and any other non-current obligation of the District.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The modified accrual or accrual basis of accounting, as appropriate, is used in measuring financial position and operating results:

Governmental Funds are accounted for using the current financial resources measurement focus. Accordingly, only current assets and liabilities are included on the balance sheets and the fund balances report only spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net assets. These funds use the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized when they are available and measurable and expenditures are recorded when the fund liability is incurred, if measurable.

Fiduciary Fund revenues and expenses or expenditures as appropriate are recognized in the basis consistent with the fund's accounting measurement objective. Nonexpendable Trust Funds are accounted for on the modified accrual basis. Agency Fund assets and liabilities are accounted for on the modified accrual basis.

The term "Fund Modification" is used to refer to transfers that are recognized in the accounting period in which the inter-fund receivable and payable arise.

Governmental Funds, Agency Funds and the Expendable Trust Funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received. Properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 for the property taxes that are due on February 14. The final collection date is February 28 after which they are added to the county tax rolls.

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**BASIS OF ACCOUNTING Continued**

- b. Principal and interest on general long-term debt are not recorded as expenditures until their due dates.
- c. The non-current portion of vested sick days is reflected in the General Long-term Debt Account Group.

Cash and Cash Equivalents - The District considers investments with an original maturity date of three months or less from the date of acquisition to be cash equivalents.

Inventories - Inventories in governmental funds consist of expendable supplies held for consumption. They are stated at cost, on a first-in, first-out basis, which approximates market value except for USDA commodities, which are stated at a value established by the USDA. Inventory items recorded in the General Fund consist of operating supplies for the District. The School Service Fund inventory consists of food and paper supplies.

Deferred Revenue - An account that represents funds due the State of Michigan for excess tax revenue received from the township.

Fund Balance Reporting – The Governmental Accounting Standards Board (GASB) has issued Statement No. 54. This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

Nonspendable – Fund balances associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned).

Restricted – Fund balances including amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed – Fund balance reporting required by the School Board, either because of a School Board Policy in the School Board Policy Manual, or because of motions that passed at School Board meetings.

Assigned – Fund balance reporting occurring by School Board Administration authority, under the direction of the Chief Business Officer.

Unassigned – Fund balance representing the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications.

Order of Fund Balance Spending Policy – The District's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entry.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued

Order of Fund Balance Spending Policy Continued

First non-spendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including non-spendable amounts). Then any remaining fund balance amounts for the non-general funds are classified as restricted fund balances.

It is possible for the non-general funds to have negative unassigned fund balances when non-spendable amounts plus the restricted fund balances for specific purposes amounts exceed the positive fund balance for the non-general fund.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. The Government defines capital assets as individual assets with an estimated useful life in excess of one year, which satisfies the following cost criteria.

- New purchases costing more than \$5,000
- Computer and associated computer equipment costing more than \$1,000
- Electronic equipment costing more than \$500

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

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

Compensated Absences – The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond proceeds, premiums and discounts, as well as bond issuance costs, during the current period. The

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**Long-term Obligations Continued**

face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Comparative Data – Comparative data is not included in the District's financial statements.

Accounting Change – The Michigan Department of Treasury restructured the chart of accounts used by school districts. As a result some accounts may have been reclassified from the prior year.

Note 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - The District formally adopted General, Capital Project and School Services Fund budgets for the fiscal year ended June 30, 2011; expenditures in excess of amounts budgeted is a violation of Michigan law. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with generally accepted accounting principles.

The budget statement (combined statement of revenue, expenditures and changes in fund balances - budget and actual – general, capital project and school service fund types) is presented on the same basis of accounting used in preparing the adopted budget.

Note 3 – DEPOSITS AND INVESTMENTS

State statutes authorize the District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The District is allowed to invest in U.S. Treasury or agency obligations. U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The District's deposits are in accordance with statutory authority.

The District has designated two banks for the deposit of its funds.

The investment policy adopted by the board has authorized investments as listed in the state statutory authority as listed above.

The District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. At year end, the District's deposit balance of \$1,903,734 had \$1,534,206 of bank deposits that were uninsured and uncollateralized. The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the District

Note 3 - CASH DEPOSITS AND INVESTMENTS Continued

evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District will minimize custodial credit risk by limiting investments to the types of securities allowed by state law; and by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District will do business.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer. The District minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign Currency Risk – Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law prohibits investment in foreign currency.

Cash deposits of the District consist of the following items at June 30, 2012:

	<u>MATURITY</u> <u>DATES</u>	<u>INTEREST</u> <u>RATES</u>	<u>CARRYING</u> <u>AMOUNT</u>	<u>BANK</u> <u>BALANCE</u>
General Fund:				
Comerica Bank	N/A	VAR	\$ 548,656	\$ 548,687
Comerica Bank	N/A	0.10%	257,403	494,752
Comerica Bank	N/A	VAR	15,086	15,087
Comerica Bank	N/A	0.01%	1,009	3,272
Comerica Bank	N/A	0.20%	500,964	501,007
Comerica Bank	N/A	0.01%	68,876	68,882
Comerica Bank	N/A	VAR	9,434	9,434
Citizens Bank–Athletic	N/A	0.00%	18,645	18,645
Petty Cash	N/A	VAR	650	-
			<u>\$ 1,420,723</u>	<u>\$ 1,659,766</u>
School Service Fund:				
Comerica Bank -				
School Lunch	N/A	0.01%	\$ 82,876	\$ 87,993
Petty Cash School Lunch	N/A	N/A	100	-
			<u>\$ 82,976</u>	<u>\$ 87,993</u>
Debt Retirement Fund:				
Comerica Bank	N/A	VAR	\$ 39,756	\$ 39,759
Comerica Bank	N/A	VAR	14,851	14,852
Comerica Bank	N/A	VAR	481	481
			<u>\$ 55,088</u>	<u>\$ 55,092</u>

EAST JACKSON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 3 - CASH DEPOSITS AND INVESTMENTS Continued

Agency Fund:

Citizens Bank - Memorial	N/A	N/A	\$ 5,837	\$ 5,837
Citizens Bank - Robinson	N/A	N/A	7,276	7,276
Citizens Bank-MS	N/A	0.05%	20,288	20,403
Citizens Bank-HS	N/A	0.05%	55,153	60,242
Citizens Bank - EJ Dome	N/A	N/A	6,392	6,392
Citizens Bank - Admin	N/A	N/A	733	733
			<u>\$ 95,679</u>	<u>\$ 100,883</u>
Total Cash			<u>\$ 1,654,466</u>	<u>\$ 1,903,734</u>

Deposits are carried at cost. The carrying amount of deposits is included on the balance sheet as "Cash".

Note 4 - RECEIVABLES

Receivables as of year end for the District's individual major funds and the nonmajor and fiduciary funds in the aggregate, including allowances for uncollectible accounts if any, are as follows:

Receivables:	
Intergovernmental	\$1,518,112
Net receivables	<u>\$1,518,112</u>

Note 5 - CAPITAL ASSETS

Capital asset activity of the District's governmental activities was as follows:

	Balance July 1, 2011	Additions	Disposals and Impairment	Balance June 30, 2012
Assets not being depreciated:				
Land	\$ 328,009	\$ -	\$ -	\$ 328,009
Capital assets being depreciated:				
Building and Building improvements	19,417,946	51,136	29,480	19,439,602
Buses and other vehicles	1,014,119	-	27,000	987,119
Furniture and equipment	<u>4,789,564</u>	<u>105,337</u>	<u>445,695</u>	<u>4,449,206</u>
Subtotal	<u>25,221,629</u>	<u>156,473</u>	<u>502,175</u>	<u>24,875,927</u>
Accumulated depreciation:				
Building and building improvements	6,833,450	321,808	29,480	7,125,778
Buses and other vehicles	704,124	87,183	27,000	764,307
Furniture and equipment	<u>3,416,421</u>	<u>249,822</u>	<u>445,695</u>	<u>3,220,548</u>
Subtotal	<u>10,953,995</u>	<u>658,813</u>	<u>502,175</u>	<u>11,110,633</u>
Net capital assets being depreciated	<u>14,267,634</u>	<u>(502,340)</u>	<u>-</u>	<u>13,765,294</u>
Net capital assets	<u>\$14,595,643</u>	<u>\$(502,340)</u>	<u>\$ -</u>	<u>\$14,093,303</u>

Note 6 - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

The Composition of inter-fund balances is as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due To/From Other Funds:	School Lunch	General Fund	\$ 1,218
	Debt Fund	General Fund / Debt Funds	\$156,623

Note 7 - STATE AID ANTICIPATION NOTE

On August 22, 2011 the District borrowed \$1,500,000 in state aid anticipation notes. The notes bear interest at 0.311 percent. The notes are due on August 20, 2012.

Note 8 - LONG-TERM LIABILITIES

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to excluding amounts represented by non-current liabilities. Since they do not affect current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

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

	<u>LONG-TERM DEBT JULY 1, 2011</u>	<u>INCREASED LONG-TERM DEBT</u>	<u>PAYMENTS/ REDUCTIONS</u>	<u>LONG-TERM DEBT JUNE 30, 2012</u>	<u>DUE WITHIN ONE YEAR</u>
UNUSED SICK LEAVE	\$ 147,883	\$ 6,177	\$ -	\$ 154,060	\$ 30,812
1996 ISSUE	85,000	-	85,000	-	-
2005 REFUNDING ISSUE	4,045,000	-	485,000	3,560,000	425,000
2005 BOND ISSUE	8,500,000	-	340,000	8,160,000	515,000
2009 BOND ISSUE	<u>955,000</u>	<u>-</u>	<u>40,000</u>	<u>915,000</u>	<u>40,000</u>
	<u>\$13,732,883</u>	<u>\$ 6,177</u>	<u>\$ 950,000</u>	<u>\$12,789,060</u>	<u>\$ 1,010,812</u>

Note 8 - LONG-TERM LIABILITIES continued

Long-term liabilities at June 30, 2012 are comprised of the following individual issues:

Due to the uncertainty of unused sick leave maturity as of June 30, 2012, this liability has been included in the amount due for years ending June 30, 2032. \$ 154,060

\$5,665,000 – 2005 Refunding Bond Issue for the purpose of advance refunding a portion of the 1996 School and Building Site Issue. Due in installments of \$50,000 to \$485,000, through May 1, 2021; interest 3.0% to 4.2% \$3,560,000

\$9,910,000 – 2005 School Building and Site Bond Issue to be used for erecting, furnishing and equipping additions to and partially remodeling, refurbishing and re-equipping school district buildings; acquiring and installation of educational technology improvements; acquiring school buses; and developing and improving sites. Due in installments of \$140,000 to \$955,000, through May 1 2023; interest 3.25% to 4.30% \$8,160,000

\$995,000 – 2009 School Building and Equipment Bond Issue to be used for partially remodeling school buildings; acquiring and installing educational technology improvements; and purchasing and equipping school buses. Due in installments of \$40,000 to \$125,000, through May 1 2021; interest 3.005% to 4.35% \$ 915,000

The annual requirements to amortize all debts outstanding as of June 30, 2012, including interest payments of \$3,129,156 are as follows:

(See Schedule On Next Page)

EAST JACKSON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS June 30, 2012

Note 8 - LONG-TERM LIABILITIES Continued

SCHEDULE OF LONG-TERM DEBT MATURITIES

	Year Ending June 30, 2013		Year Ending June 30, 2014		Year Ending June 30, 2014		Year Ending June 30, 2016		Year Ending June 30, 2017	
	Principal	Interest								
Unused Sick Leave	\$ 30,812	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2005 Refunding Issue	425,000	139,700	415,000	124,612	410,000	109,465	400,000	93,885	395,000	78,285
2005 Issue	515,000	328,778	560,000	309,465	600,000	288,465	650,000	265,965	695,000	241,590
2009 Issue	40,000	34,668	60,000	33,468	105,000	31,517	105,000	28,105	110,000	25,030
Totals	\$ 1,010,812	\$ 503,146	\$ 1,035,000	\$ 467,545	\$ 1,115,000	\$ 429,447	\$ 1,155,000	\$ 387,955	\$ 1,200,000	\$ 344,905

	Years Ending 06/30/2018 to 06/30/2022		Years Ending 06/30/2023 to 06/30/2027		Year Ending June 30, 2028		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Unused Sick Leave	\$ -	\$ -	\$ -	\$ -	\$ 123,248	\$ -	\$ 154,060	\$ -
2005 Refunding Issue	1,515,000	156,450	-	-	-	-	3,560,000	702,397
2005 Issue	4,185,000	747,250	955,000	41,065	-	-	8,160,000	2,222,578
2009 Issue	495,000	51,993	-	-	-	-	915,000	204,181
Totals	\$ 6,195,000	\$ 955,693	\$ 955,000	\$ 41,065	\$ 123,248	\$ -	\$ 12,789,060	\$ 3,129,156

Note 8 - LONG-TERM LIABILITIES Continued

An amount of \$55,088 is available in the debt service funds to service the general obligation debt.

Advanced Refunding - In 2005, the District defeased certain unlimited tax school building and site bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. As of June 30, 2012, \$4,050,000 of bonds considered defeased are still outstanding.

Note 9 - DEFINED BENEFIT PENSION PLAN

Plan Description - Substantially all District employees participate in the Michigan Public School Employees Retirement System (MPERS). MPERS is a cost-sharing multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, re-codified and currently operating under the provisions of Public Act 300 of 1980, as amended. MPERS was established to provide retirement, survivor and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits. MPERS is a qualified trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts may be members.

MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. 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 – As of June 30, 2012, the District was required to contribute at a current rate of 24.46% of annual covered payroll. The District's contribution for years ending June 30, 2012, 2011, and 2010 were \$1,403,168, \$1,262,701, and \$1,133,418, respectively, which equals the required contribution for each year. Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus additional amounts to fund retiree health care benefits on a cash disbursement basis. Basic plan members make no contributions. All other participants contribute to a Member Investment Plan (MIP) with contribution rates varying based on Plan selections.

Postemployment Benefits - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental, and vision coverage. Retirees having these benefits contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium for the selected coverage. Required contributions for postemployment health care benefits are included as part of the District's total contribution to the MPERS pension plan discussed above.

Note 10 - CONTINGENT LIABILITIES

The District is a reimbursing employer to the Michigan Employment Security Commission and, as such, is responsible to pay the Commission for those benefits paid and charged to its account. As of June 30, 2012 appropriate liabilities have been recorded for all claims paid by the Commission. However, no provision has been made for future payments that might result from claims in process or not yet filed.

Note 11 - RECLASSIFICATIONS

Certain expenditures in the prior year amounts have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Required Supplemental Information

EAST JACKSON COMMUNITY SCHOOLS

REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Over (Under) Actual
	Original	Final		
Revenues:				
Local sources	\$ 2,117,274	\$ 1,898,801	\$ 1,927,524	\$ 28,723
State sources	7,319,154	7,528,045	7,600,076	72,031
Federal sources	824,238	457,926	323,854	(134,072)
Interdistrict sources	-	450,837	394,800	(56,037)
Other Sources:				
Operating transfers	45,000	42,500	41,000	(1,500)
TOTAL REVENUES	10,305,666	10,378,109	10,287,254	(90,855)
Expenditures:				
Current:				
Instruction:				
Basic programs	5,328,161	5,362,063	5,371,493	9,430
Added needs	1,712,399	1,713,313	1,662,755	(50,558)
Adult/Continuing education	5,000	5,000	3,851	(1,149)
Pupil services	155,080	168,148	166,835	(1,313)
Instructional staff	191,573	288,917	248,270	(40,647)
Supporting Services:				
School administration and business	1,061,781	1,096,880	1,118,953	22,073
Operation, transportation and central	1,602,980	1,567,659	1,534,943	(32,716)
Athletics	155,000	226,773	314,124	87,351
Other Uses:				
Operating transfers, capital outlay and other transactions	45,000	24,000	23,794	(206)
TOTAL EXPENDITURES	10,256,974	10,452,753	10,445,018	(7,735)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	48,692	(74,644)	(157,764)	(83,120)
Budgetary fund balance - July 1, 2011	431,786	431,786	431,786	-
Budgetary fund balance - June 30, 2012	\$ 480,478	\$ 357,142	\$ 274,022	\$ (83,120)

See auditors' report and accompanying notes to financial statements.

Other Supplemental Information

EAST JACKSON COMMUNITY SCHOOLS

BALANCE SHEET NONMAJOR GOVERNMENTAL FUND June 30, 2012

	Nonmajor Special Revenue/ Governmental Fund
	School Lunch Fund
Assets	
Cash and investments	\$ 82,976
Due from other funds	1,218
due from other governmental units	3,546
Inventories	84,294
TOTAL ASSETS	\$ 172,034
Fund Balance	
Nonspendable - inventory	\$ 84,294
Restricted - food services	87,740
TOTAL FUND BALANCE	\$ 172,034

See auditors' report.

EAST JACKSON COMMUNITY SCHOOLS

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE NONMAJOR GOVERNMENTAL FUND Year Ended June 30, 2012

	Nonmajor Special Revenue/ Governmental Fund
	School Lunch Fund
Revenues	
Local sources	\$ 84,829
State sources	22,039
Federal sources	436,815
Miscellaneous	15,596
TOTAL REVENUES	<u>559,279</u>
Expenditures	
Current operations:	
Food services	548,227
TOTAL EXPENDITURES	<u>548,227</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>11,052</u>
Other Financing Sources (Uses)	
Operating transfers out	(41,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(41,000)</u>
Net Change in Fund Balance	(29,948)
Fund Balance - July 1, 2011	<u>201,982</u>
Fund Balance - June 30, 2012	<u>\$ 172,034</u>

See auditors' report.

EAST JACKSON COMMUNITY SCHOOLS

DEBT RETIREMENT FUND COMBINING BALANCE SHEET June 30, 2012

	1996 Debt	2005 Refunding	2005 Debt	2009 Debt	Totals
Assets					
Cash	\$ 39,756	\$ -	\$ 14,851	\$ 481	\$ 55,088
Due from other funds	54,146	-	85,659	16,818	156,623
TOTAL ASSETS	\$ 93,902	\$ -	\$ 100,510	\$ 17,299	\$ 211,711
Liabilities					
Due to other funds	\$ 58,930	\$ -	\$ -	\$ 4,988	\$ 63,918
TOTAL LIABILITIES	58,930	-	-	4,988	63,918
Fund Balance					
Restricted:					
Debt Retirement	34,972	-	100,510	12,311	147,793
TOTAL LIABILITIES AND FUND BALANCE	\$ 93,902	\$ -	\$ 100,510	\$ 17,299	\$ 211,711

See auditors' report.

EAST JACKSON COMMUNITY SCHOOLS

DEBT RETIREMENT FUND COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES Year Ended June 30, 2012

	1996 Debt	2005 Refunding	2005 Debt	2009 Debt	Totals
Revenues					
Local Sources:					
Property tax levy	\$ 708,726	\$ -	\$ 654,738	\$ 84,541	\$ 1,448,005
Interest on Delinquent Debt	2,498		2,317	300	5,115
Earnings on investments	327	-	309	29	665
State Sources:					
State Aid - restricted	8,751	-	-	-	8,751
TOTAL REVENUES	<u>720,302</u>	<u>-</u>	<u>657,364</u>	<u>84,870</u>	<u>1,462,536</u>
Expenditures					
Debt Service:					
Redemption of principal	85,000	485,000	340,000	40,000	950,000
Interest on debt	5,015	156,675	341,527	35,868	539,085
Other	16,653	-	13,161	1,649	31,463
TOTAL EXPENDITURES	<u>106,668</u>	<u>641,675</u>	<u>694,688</u>	<u>77,517</u>	<u>1,520,548</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>613,634</u>	<u>(641,675)</u>	<u>(37,324)</u>	<u>7,353</u>	<u>(58,012)</u>
Other financing sources (uses):					
Operating transfers in	-	641,675	-	-	641,675
Operating transfers out	(641,675)	-	-	-	(641,675)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(641,675)</u>	<u>641,675</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change In Fund Balances	(28,041)	-	(37,324)	7,353	(58,012)
Fund Balance - July 1, 2011	<u>63,013</u>	<u>-</u>	<u>137,834</u>	<u>4,958</u>	<u>205,805</u>
Fund Balance - June 30, 2012	<u>\$ 34,972</u>	<u>\$ -</u>	<u>\$ 100,510</u>	<u>\$ 12,311</u>	<u>\$ 147,793</u>

See auditors' report.

EAST JACKSON COMMUNITY SCHOOLS

CAPITAL PROJECTS FUND BALANCE SHEET Year Ended June 30, 2012

	2009 Capital Project
Assets	
Cash	\$ -
TOTAL ASSETS	\$ -
Liabilities	
Accounts payable	\$ -
TOTAL LIABILITIES	-
Fund Balance	
Restricted:	
Capital projects	-
TOTAL LIABILITIES AND FUND BALANCE	\$ -

See auditors' report.

EAST JACKSON COMMUNITY SCHOOLS**CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenues			
Earnings on investments	\$ -	\$ -	\$ -
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures			
Capital outlay	-	86	86
Bank service fees	-	185	185
TOTAL EXPENDITURES	<u>-</u>	<u>271</u>	<u>271</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>(271)</u>	<u>(271)</u>
Net Change in Fund Balance	-	(271)	(271)
Fund Balance - July 1, 2011	<u>-</u>	<u>271</u>	<u>271</u>
Fund Balance - June 30, 2012	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

See auditors' report.

EAST JACKSON COMMUNITY SCHOOLS

TRUST AND AGENCY FUNDS COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES June 30, 2012

	GROUPS July 1, 2011	ADDITIONS	DEDUCTIONS	GROUPS June 30, 2012
HIGH SCHOOL:				
Activity Fund	\$ -	\$ 1,345.93	\$ 1,345.93	\$ -
* Athletic Association	5,744.44	54,710.16	55,904.98	4,549.62
* Athletic Passes	3,610.76	2,250.00	300.00	5,560.76
* Athletic Pay To Play	-	9,412.50	7,315.26	2,097.24
Band and Music	-	1,997.00	1,232.88	764.12
Baseball	657.72	4,336.00	4,734.49	259.23
Board of Education	493.71	372.11	537.00	328.82
Book Fee/Equipment	15,676.75	4,318.00	3,275.00	16,719.75
Bowling	671.13	-	60.00	611.13
Boys' Basketball	2,064.31	2,765.00	3,118.90	1,710.41
Boys' Cross Country	329.41	327.00	354.60	301.81
Boys' Golf	549.38	842.00	367.00	1,024.38
Boys' Track	0.23	-	-	0.23
Cheerleading	88.22	598.00	-	686.22
Choir	639.73	-	736.55	(96.82)
Class of 2011	1,176.08	-	1,176.08	-
Class of 2012	2,818.49	2,917.98	5,651.65	84.82
Class of 2013	1,017.60	10,408.49	6,359.10	5,066.99
Class of 2014	372.25	2,306.98	1,505.96	1,173.27
Class of 2015	-	574.49	150.00	424.49
English Department	317.70	-	-	317.70
Environmental Club	146.12	225.00	-	371.12
Fine/Applied Arts	364.01	700.00	452.75	611.26
First Robotics	-	4,696.00	4,363.73	332.27
Football	766.70	4,764.12	3,671.33	1,859.49
Foreign Language	129.23	482.00	445.36	165.87
* General Athletics	1,476.66	15,289.29	14,515.05	2,250.90
Girls' Basketball	38.75	9,768.52	9,641.96	165.31
Girls' Cross Country	237.00	-	14.40	222.60
Girls' Softball	104.07	859.20	706.20	257.07
Girls' Track	167.27	792.00	800.00	159.27
Humanities	1,302.23	400.00	449.74	1,252.49
Lanyard	427.00	-	427.00	-
Library Fines	572.49	-	-	572.49
Locks	58.78	-	-	58.78
Miscellaneous	763.72	1,335.22	1,797.45	301.49
National Honor Society	252.35	395.00	648.80	(1.45)
Newspaper Writer's Edge	106.73	-	-	106.73
Picture Money	717.10	602.00	1,012.38	306.72
Pop	(71.10)	6,666.04	6,388.55	206.39
Quiz Bowl	182.31	-	182.31	-
S.A.D.D.	158.36	312.37	167.20	303.53
Scholarship Fund	-	2,915.00	2,903.32	11.68
Spanish Club	698.84	-	539.87	158.97
Special Education	89.29	37.53	88.99	37.83
Student Council	3,724.92	1,768.00	2,163.36	3,329.56
Summer School	-	1,100.00	-	1,100.00
Teachers Flower Fund	27.60	-	31.00	(3.40)
Theater	3,451.60	-	297.60	3,154.00
Volleyball	50.73	858.50	771.33	137.90
Wellness Center	343.26	-	-	343.26
Wrestling	10.84	4,638.50	2,881.58	1,767.76
Yearbook	8,584.15	9,351.20	9,447.31	8,488.04
TOTAL HIGH SCHOOL	61,108.92	167,437.13	158,933.95	69,612.10

See auditors' report

EAST JACKSON COMMUNITY SCHOOLS

TRUST AND AGENCY FUNDS COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES June 30, 2012 (Continued)

	GROUPS July 1, 2011	ADDITIONS	DEDUCTIONS	GROUPS June 30, 2012
MIDDLE SCHOOL:				
* Athletic	\$ 6,175.35	\$ 9,274.50	\$ 11,262.63	\$ 4,187.22
Band	288.69	789.00	180.00	897.69
Book and Equipment Fees	15,593.90	3,811.51	5,089.58	14,315.83
Choir	916.84	65.75	-	982.59
Concession Stand	1,130.12	659.43	1,048.47	741.08
Eighth Grade Account	484.05	1,545.30	2,080.18	(50.83)
Faculty	269.03	-	-	269.03
Library	931.12	129.00	37.00	1,023.12
Middle Bucket	462.16	399.00	182.50	678.66
Seventh G.O.A.L.S.	1,149.80	534.00	527.38	1,156.42
Student Council	1,765.84	1,830.89	3,322.49	274.24
TOTAL MIDDLE SCHOOL	29,166.90	19,038.38	23,730.23	24,475.05
BERTHA ROBINSON ELEMENTARY FUND:				
Fourth Grade Camp	-	7,700.82	7,441.90	258.92
General	4,095.95	4,589.90	5,416.29	3,269.56
Library	271.51	3,136.30	2,653.73	754.08
Music	110.79	520.00	437.50	193.29
Pop Fund	2,720.14	79.56	-	2,799.70
Science	223.29	-	223.29	-
TOTAL BERTHA ROBINSON ELEMENTARY	7,421.68	16,026.58	16,172.71	7,275.55
MEMORIAL ELEMENTARY FUND:				
Faculty	952.99	224.64	-	1,177.63
Miscellaneous	5,278.39	3,846.76	7,196.36	1,928.79
Pencils	97.98	359.00	265.85	191.13
Pictures	1,912.80	1,087.72	461.50	2,539.02
TOTAL MEMORIAL ELEMENTARY	8,242.16	5,518.12	7,923.71	5,836.57
ADMINISTRATIVE OFFICE:				
EJ Dome Project	-	7,946.51	1,554.46	6,392.05
Employee Retirement Fund	-	1,533.52	800.00	733.52
	-	9,480.03	2,354.46	7,125.57
SUB-TOTAL	105,939.66	217,500.24	209,115.06	114,324.84
* Less - Athletic activities reported under School Service	17,007.21	90,936.45	89,297.92	18,645.74
GRAND TOTAL	\$ 88,932.45	\$ 126,563.79	\$ 119,817.14	\$ 95,679.10

See auditors' report

EAST JACKSON COMMUNITY SCHOOLS

PROPERTY TAX DATA Year Ended June 30, 2012

	Unpaid at July 1, 2011	Tax	Collections/ Adjustments	Unpaid (Deferred) at June 30, 2012
General Fund	\$ 50,248	\$ 1,687,735	\$ 1,737,983	\$ -
Debt Retirement Funds	-	1,448,005	1,448,005	-
TOTAL	\$ 50,248	\$ 3,135,740	\$ 3,185,988	\$ -

Other Information

Taxable value of property assessed in the East Jackson Community School District

	2012			
	Homestead	Industrial PP	Commercial PP	Non-homestead
Municipality:				
Blackman Township	\$ 10,931,755	\$ -	\$ 2,782,893	\$ 22,922,959
Henrietta Township	2,888,742	-	2,798	530,390
Leoni Township	95,634,059	1,729,884	7,342,696	62,944,492
Summit Township	349,529	-	-	324,545
Waterloo Township	2,954,991	-	91,600	4,783,080
City of Jackson	-	-	-	202,550
Total	\$ 112,759,076	\$ 1,729,884	\$ 10,219,987	\$ 91,708,016

Tax Levy (Mills):	
Debt Retirement Funds	6.4800
General Fund	18.0000
Total tax levy	24.4800

Blended official student enrollment 1,247.05

See auditors' report.

Federal Awards Supplemental Information

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Certified Public Accountants

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*

Board of Education
East Jackson Community Schools
Jackson, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Jackson Community Schools as of and for the year ended June 30, 2012, which collectively comprise East Jackson Community School's basic financial statements and have issued our report thereon dated November 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Corrective Action Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Corrective Action Responses, referenced as items 12-01 and 12-02, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Jackson Community 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Corrective Action Responses as item 12-03.

We noted certain matters that we reported to management of East Jackson Community Schools in a separate letter dated November 1, 2012.

East Jackson Community Schools' response to the findings identified in our audit is described in the accompanying Schedule of Findings and Corrective Action Responses. We did not audit East Jackson Community 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.

Drake, Watters & Associates, PLLC

Jackson, Michigan
November 1, 2012

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Certified Public Accountants

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

Board of Education
East Jackson Community Schools
Jackson, Michigan

Compliance

We have audited East Jackson Community 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 East Jackson Community Schools' major federal programs for the year ended June 30, 2012. East Jackson Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Corrective Action Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of East Jackson Community Schools' management. Our responsibility is to express an opinion on East Jackson Community 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 East Jackson Community 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 East Jackson Community Schools' compliance with those requirements.

In our opinion East Jackson Community 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, 2012. However, the results of our auditing procedures disclosed an 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 Corrective Action Responses as item 12-03.

Internal Control Over Compliance

Management of East Jackson Community 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 East Jackson Community Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of East Jackson Community Schools' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Corrective Action Responses as items 12-01 and 12-02 to be material weaknesses.

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. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies, as described above.

East Jackson Community Schools' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Corrective Action Responses. We did not audit East Jackson Community 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.

Drake, Watters & Associates, PLLC

Jackson, Michigan
November 1, 2012

EAST JACKSON COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2012

Federal Grantor Pass Through Grantor Program Title/Grant Number	CFDA Number	Approved Awards Amount	Accrued or (Deferred) Revenue July 1, 2011	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued or (Deferred) Revenue June 30, 2012	Adjustments
U.S. Department of Education:								
Passed through Michigan Department of Education								
Title I 111530 1011	84.010	313,373	177,495	177,495	42,753	220,248	-	-
Title I 121530 1112	84.010	409,781	-	-	195,661	195,661	-	-
ARRA Title I, Part A 111535 1011	84.389	38,000	13,842	13,842	4,799	18,641	-	-
Title II, Part A Teach/Principal Training & Recruiting 110520 1011	84.367	62,744	23,182	23,182	4,732	27,914	-	-
Title II, Part A Teach/Principal Training & Recruiting 120520 1112	84.367	71,378	-	-	17,412	17,412	-	-
Title VI, Part B, Subpart 2 - Rural and Low-income Grant 110660 1011	84.358	39,000	14,514	14,514	3,848	18,362	-	-
Title VI, Part B, Subpart 2 - Rural and Low-income Grant 120660 1112	84.358	59,459	-	-	2,530	2,530	-	-
ARRA Education Stabilization Fund 112525 1011	84.394	152,752	9,496	9,496	-	9,496	-	-
Education Jobs Fund 112545 1011	84.410	290,991	102,583	102,583	7,491	110,074	-	-
Education Jobs Fund 112545 1112	84.410	21,982	-	-	17,048	4,012	13,036	-
Total passed through Michigan Department of Education		1,459,460	341,112	341,112	296,274	624,350	13,036	-
Passed through I.S.D.								
ARRA Special Education IDEA Part B Flow Through	84.391	180,997	28,223	28,223	21,278	49,501	-	-
McKinney - Vento Homeless Grant	84.186	4,391	-	-	4,391	4,391	-	-
Administrative Outreach Program	93.778	1,161	-	-	1,161	1,161	-	-
SPLASH	10.561	36	-	-	36	36	-	-
Title II, Part D Enhancing Education Through Technology	84.386	496	-	-	496	496	-	-
ARRA Homeless	84.387	218	-	-	218	218	-	-
Total passed through I.S.D.		187,299	28,223	28,223	27,580	55,803	-	-
Total passed through U.S. Department of Education		1,646,759	369,335	369,335	323,854	680,153	13,036	-
U.S. Department of Agriculture:								
Passed through Michigan Department of Education								
Child Nutrition Cluster - Cash Assistance	10.553	80,722	-	-	80,722	80,722	-	-
School Breakfast Program	10.555	318,375	-	-	318,375	318,375	-	-
National School Lunch Program		399,097	-	-	399,097	399,097	-	-
Total - Cash Assistance		798,194	-	-	798,194	798,194	-	-
Child Nutrition Cluster - Non-Cash Assistance	10.555	33,475	-	-	33,475	33,475	-	-
Commodities - Entitlement	10.555	4,243	-	-	4,243	4,243	-	-
Commodities - Bonus		37,718	-	-	37,718	37,718	-	-
Total - Non-Cash Assistance		75,436	-	-	75,436	75,436	-	-
Total Child Nutrition Cluster		436,815	-	-	436,815	436,815	-	-
Total Passed Through Michigan Department of Education		436,815	-	-	436,815	436,815	-	-
Total U.S. Department of Agriculture		436,815	-	-	436,815	436,815	-	-
Total Federal Financial Assistance		\$ 2,083,574	\$ 369,335	\$ 369,335	\$ 760,669	\$ 1,116,968	\$ 13,036	\$ -

Notes:

1. See notes to financial statements for significant accounting policies and procedures.
2. The Cash Management Grant Auditor Report was used in preparation of this schedule.

See auditors' report.

EAST JACKSON COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND CORRECTIVE ACTION RESPONSES

June 30, 2012

SECTION 1: SUMMARY OF AUDITORS' RESULTS

We have audited the financial statements of East Jackson Community Schools as of and for the year ended June 30, 2012 and have issued an unqualified opinion on the financial statements.

Two control deficiencies were disclosed during the audit of the financial statements and are reported in Section 2 of this schedule. Both of the conditions were considered to be material weaknesses.

No instances of noncompliance that was material to the financial statements of East Jackson Community Schools were disclosed during the audit.

An unqualified opinion was issued on compliance for major federal award programs.

Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.

The following federal programs were identified as major programs: Child Nutrition Cluster (CFDA 10.553 and CFDA 10.555).

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

The East Jackson Community Schools was not considered to be a low-risk auditee.

SECTION 2: FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Material Weaknesses

12-01. Finding

Internal control was found to have a material weakness in regards to segregation of duties. The District has an inadequate number of personnel to accomplish a proper segregation of duties and does not maintain detailed narratives for each financial position including specific detail of all their respective responsibilities.

Response

The District will separate the responsibilities for accounts payable and accounts receivable functions from bank account reconciliations. The District will consult with NEOLA, Inc. to generate more detailed job descriptions for finance personnel. As an additional measure, all payments receive board of trustee approval prior to issuance of checks. We will continue to pursue other measures that may be taken to improve our system.

12-02. Finding

The District accepted the resignation of the finance supervisor as the result of management attempts to implement improvements and corrective actions within the business office. The District was in the process of cross-training another staff member to assume the business manager duties. The resignation left the District without an experienced financial employee with adequate skills in regards to controls over the period-end financial reporting process. A material weakness exists due to the fact that the current skill level of the staff person at year-end was inadequate. The District also does not currently have personnel with a level of knowledge or expertise to prepare and take responsibility for the District's external financial statements.

EAST JACKSON COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND CORRECTIVE ACTION RESPONSES

June 30, 2012

SECTION 2: FINDINGS RELATED TO THE FINANCIAL STATEMENTS (continued)

12-02. Response

The District contracted with a CPA firm to assist with account reconciliations and closing the books for the year end. The District also received some assistance from business officials at Jackson Public Schools. The District will request the assistance of qualified individuals from the Jackson County Intermediate School District to train current district financial staff and provide supervision. For technical matters beyond the expertise of the District staff, the District will seek professional consultation. Currently, the external financial statements are drafted with the assistance of the auditors. The statements are reviewed and approved by the District Superintendent prior to publishing.

SECTION 3: FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

U.S. Department of Agriculture

12-03. Child Nutrition Cluster – CFDA No. 10.553 and 10.555

Eligibility – Immaterial Noncompliance

Criteria: Eligibility guidelines provided by the U.S. Department of Agriculture determine the level of service based on the household income. Children belonging to households meeting nationwide income eligibility requirements may receive meals at no charge or at a reduced price.

Condition: A random test of 40 applications produced one applicant that received a level of benefit greater than that to which he/she was entitled based on established household income guidelines. The student received free price lunches when the income level indicated that the applicant should have paid reduced price for lunches.

Effect of Condition: The cost difference between the two levels of service may be disallowed.

Population and sample size: Of 1,217 student applications, a sample of 40 was selected for verification.

Questioned costs: The test resulted in no questioned costs due to the immaterial amount.

Cause of Condition: Procedures are in place for supervisory review of eligibility determinations before assistance is authorized, but the error in calculating household income was not discovered. This condition appears to have been an isolated clerical error.

Recommendation: The calculation of household income should be verified by supervisory personnel prior to approval of free or reduced priced meals.

Corrective Action Response: The District employees will be more careful when inputting this information into the student data system. Management will review the applications for accuracy.

Responsible Official: The Food Services Director

Estimated Completion Date: Within 10 days after receiving the applications.

EAST JACKSON COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND CORRECTIVE ACTION RESPONSES June 30, 2012

SECTION 4: SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Financial Statement Findings

11-01. Finding

Internal control was found to have a significant deficiency in regards to segregation of duties. The District has an inadequate number of personnel to accomplish a proper segregation of duties.

Current Status

The segregation of duties finding became more significant due to the turnover in personnel. The District addressed the immediate issues by contracting for professional services from a CPA firm. The District has also begun the process of contracting with the Intermediate School District for on-going supervisory and training services.

11-02:

Finding

The District employs individuals with adequate skills in regards to controls over the period-end financial reporting process, including controls over procedures used to post to the general ledger; initiate, authorize, record and process journal entries; and, record recurring and nonrecurring adjustments. However, a significant deficiency exists due to the fact that the District does not currently have personnel with a level of knowledge or expertise to prepare and take responsibility for the District's external financial statements.

Current Status

The District situation changed due to the turnover in personnel. The District staff with the assistance of the professional services provided under contract with another CPA firm permitted the completion of the year-end records. The District intends to continue to utilize the Auditor firm to prepare the external financial statements and the Superintendent and ISD staff will review and approve the financial statements prior to issuance.

Findings and Questioned Costs for Federal Awards

11-03. U.S. DEPARTMENT OF EDUCATION

Title 1 Cluster – CFDA No. 84.010 and 84.389

Finding

Title I compliance requires quarterly reporting from the sub-recipient to the pass-through entity for proper monitoring purposes.

Current Status

The District implemented a written monitoring procedure and trained employees having responsibility so that reports would be timely filed. The District's Title I Director has supervised the filing of reports.

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Certified Public Accountants

November 1, 2012

Board of Education
East Jackson Community Schools
Jackson, Michigan

Dear Board Members:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Jackson Community Schools for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 3, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by East Jackson Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2012. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

We evaluated the key factors and assumptions used to develop the accounting estimate for depreciation and determined that it is reasonable in relation to the financial statements taken as a whole.

Management does not record estimated uncollectible property taxes which are primarily personal property taxes. Instead, management records uncollectible taxes in the following fiscal year when collected. This accounting treatment is not generally accepted, however, management has determined that this departure from generally accepted accounting principles is immaterial. We evaluated this departure and determined that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures can be particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were Notes 7 and 8 regarding debt. The debt obligations of the District are generally of particular interest to investors and lenders.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. The District staff is to be commended for their assistance and professionalism during the course of our audit.

Corrected and Uncorrected Misstatements

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

Our preliminary visits to the District prior to the end of the fiscal year indicated that there were potential significant errors, some bank accounts there were not reconciled, cross-fund entries, and various entries that needed to be recorded on the books. Management responded to our concerns by enlisting assistance from business officials at a neighboring school district and engaging the services of another CPA firm. Those measures resolved the issues to the point that there were no material misstatements at the time of our field work for the audit.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 1, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

The District did consult with another CPA firm to provide accounting services for the year ended June 30, 2012. We were included in preliminary meetings prior to executing the contract for services. Also, during the course of their engagement we were asked to provide documents from our work paper files from the current and prior year.

Other Audit Findings or Issues

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

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

East Jackson Community Schools
November 1, 2012
Page Four

This report is intended solely for the information and use of the Board of Education, management, and others within the administration of East Jackson Community Schools and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the excellent cooperation and courtesy extended us by the District's officials and employees. We appreciate the Board giving us the opportunity to work with your staff and hope we can continue to serve you in the years to come. Please contact us if we can be of any further assistance.

Respectfully submitted,

Drake, Watters & Associates, P.L.L.C.