

NEW BRANCHES SCHOOL
Kent County, Michigan

Annual Financial Report

For the year ended June 30, 2011

NEW BRANCHES SCHOOL
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For the year ended June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

October 24, 2011

The Board of Directors
New Branches School

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of New Branches School at June 30, 2011, and the respective changes in financial position and budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2011 on our consideration of New Branches School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope 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.



Member

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Hungerford, Aldwin, Nichols & Carter, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

NEW BRANCHES SCHOOL
Management's Discussion and Analysis
June 30, 2011

As management of New Branches School, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with New Branches School's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of New Branches School:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *school-wide* financial statements that provide both short-term and long-term information about New Branches School's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of New Branches School, reporting operations in more detail than the school-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

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

School-wide Statements

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

The two school-wide statements report New Branches School's net assets, and how they have changed. Net assets - the difference between assets and liabilities - is one way to measure New Branches School's financial health or position.

- Over time, increases or decreases in New Branches School's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess New Branches School's overall health, one should consider additional non-financial factors such as changes in pupil membership and the condition of the school's building and equipment.

In the school-wide financial statements, New Branches School's activities are presented as follows:

- *Governmental activities*: New Branches School's basic services are included here, such as regular and special education, instructional support, administration, community services and food service. State aid finances most of these activities.

NEW BRANCHES SCHOOL
Management's Discussion and Analysis
June 30, 2011

Condensed School-wide Financial Information

The Statement of Net Assets provides financial information for New Branches School as a whole.

	<u>2011</u>	<u>2010</u>
Assets		
Current assets	\$ 868,369	\$ 1,153,440
Noncurrent assets	<u>2,388,813</u>	<u>2,217,821</u>
Total Assets	<u>3,257,182</u>	<u>3,371,261</u>
Liabilities		
Current liabilities	246,423	252,745
Noncurrent liabilities	<u>2,400,000</u>	<u>2,410,000</u>
Total Liabilities	<u>2,646,423</u>	<u>2,662,745</u>
Net Assets		
Invested in capital assets, net of related debt	(21,187)	(192,179)
Restricted	244,577	600,823
Unrestricted	<u>387,369</u>	<u>299,872</u>
Total Net Assets	<u>\$ 610,759</u>	<u>\$ 708,516</u>

NEW BRANCHES SCHOOL
Management's Discussion and Analysis
June 30, 2011

The results of the fiscal year's operations for New Branches School as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.

	<u>2011</u>	<u>2010</u>
Program Revenues		
Charges for services	\$ 32,936	\$ 31,532
Operating grants	624,420	689,418
General Revenues		
State school aid, unrestricted	2,012,768	1,655,344
Interest earnings	427	871
Other	124,012	86,296
Gain (loss) on disposal of capital assets	<u>(144,961)</u>	<u>—</u>
Total Revenues	<u>2,649,602</u>	<u>2,463,461</u>
Expenses		
Instruction	1,563,311	1,335,915
Supporting services	876,161	756,627
Community services	27,450	22,248
Food service	94,878	81,580
Other	5,834	1,944
Interest on long-term debt	<u>179,725</u>	<u>52,739</u>
Total Expenses	<u>2,747,359</u>	<u>2,251,053</u>
Increase (decrease) in net assets	(97,757)	212,408
Net Assets - Beginning of Year	<u>708,516</u>	<u>496,108</u>
Net Assets - End of Year	<u>\$ 610,759</u>	<u>\$ 708,516</u>

Financial Analysis of the School as a Whole

New Branches School's financial position is the product of many factors. The increase in State aid revenues was the result of an increased student count of forty-two from September 2009 to September 2010 while the per-pupil State foundation grant of \$7,546 remained the same.

Unrestricted state aid accounted for most of New Branches School's revenue, contributing 76 percent of every dollar received. Another 24 percent came from State, federal and local aid for specific programs (including \$125,137 from American Recovery and Reinvestment Act and Education Jobs Program funds) and the remainder from fees charged for services and miscellaneous sources.

New Branches School's expenses are predominantly related to instructing students (57 percent). Instruction support, administration and operation and maintenance accounted for 33 percent of total costs. Food service, child care and interest expenses accounted for the remaining 10 percent of the total costs. The most significant contributors to higher costs were salaries and benefits for additional instructional personnel and health insurance premium increases.

NEW BRANCHES SCHOOL
Management's Discussion and Analysis
June 30, 2011

Total expenses surpassed revenues, decreasing net assets by \$97,757, caused mainly by the abandonment of land and building improvements of \$144,691 resulting from the School's move from its former Alger Street location to the new School facility. Unrestricted net assets for the School increased by \$87,497 to \$387,369 at June 30, 2011.

New Branches School has continued to monitor the General Fund expenditure budget through stringent purchasing controls.

Fund Financial Statements

The fund financial statements provide more detailed information about New Branches School's funds, focusing on its most significant or "major" funds - not the school as a whole. Funds are accounting devices used to keep track of specific sources of funding and spending on particular programs.

New Branches School utilizes only one kind of fund:

- *Governmental funds:* All of New Branches School's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed, short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance school programs. Because this information does not encompass the additional long-term focus of the school-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.

Financial Analysis of the School's Funds

New Branches School uses funds to record and analyze financial information. New Branches School's funds are described as follows:

Major Funds

The General Fund is New Branches School's primary operating fund. The General Fund had total revenues of \$2,712,340, total expenditures of \$2,435,424, and total other financing uses (transfers to the Food Service and Debt Service Funds) of \$186,672. It ended the fiscal year with a fund balance of \$383,916, up from \$293,672 as of June 30, 2010.

The 2010 Debt Service Fund is utilized to receive monthly transfers from the General Fund of the portion of State school aid that is committed to the repayment of the revenue bonds issued in 2010. Transfers in totaled \$185,590 for 2010-11, interest income of \$5 was received and interest expenditures were \$179,725, resulting in an ending fund balance of \$41,637 at June 30, 2011.

The 2010 Construction Capital Projects Fund received interest earnings of \$17, and expended a total of \$362,133 for the purchase of and improvements to the new school building. The fund balance remaining at June 30, 2011 to complete future building renovations totaled \$232,744.

Nonmajor Fund

New Branches School operates one nonmajor Special Revenue Fund, for the food service program. Total revenues were \$82,201, transfers in totaled \$1,082, with total expenditures of \$86,030. The ending fund balance decreased by \$2,747 to \$3,453 at June 30, 2011.

NEW BRANCHES SCHOOL
Management's Discussion and Analysis
June 30, 2011

General Fund Budgetary Highlights

New Branches School revised the annual operating budget twice during the year. These budget amendments and the differences between budgeted and actual amounts were as follows:

- Changes made in February to reflect actual State and grant awards resulting from the final student enrollment count that determines how much foundation grant school aid will be received during the fiscal year, and to adjust expenditures to coordinate with the increased revenues.
- Changes made in June to reflect final year end estimates.
- Although the School's final budget for the General Fund anticipated revenues would exceed expenditures by \$87,689, the actual results for the year show revenues exceeding expenditures by \$90,244.
- Actual revenues were \$7,012 lower than expected, due mainly to lower than expected local revenues.
- Actual expenditures were \$6,053 under budget, due to the stringent budget controls in place during the fiscal year.

Capital Asset and Debt Administration

Capital Assets

By the end of 2011, New Branches School had invested a total of \$2,445,593 in capital assets, including land, land improvements, buildings and improvements and furniture and equipment. More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.

The net book value of capital assets at June 30, 2011 are as follows:

Land	\$ 147,000
Buildings and improvements	1,953,954
Furniture and equipment	<u>143,957</u>
Net Capital Assets	<u><u>\$ 2,244,911</u></u>

Long-term Debt

In March, 2010 the School issued \$2,410,000 of revenue bonds to finance the purchase and renovation of the former Millbrook Christian School building. Principal and interest payments will be paid over the next 25 years. More detailed information about the bond issue can be found in Note F in the Notes to Basic Financial Statements.

NEW BRANCHES SCHOOL
Management's Discussion and Analysis
June 30, 2011

Factors Bearing on the School's Future

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

New Branches salaries and employee benefits increased this year, with retirement costs increasing by 2.5% and insurance benefits increases averaging 12%. Salary step increases were given, but no across the board raises for any staff. Steps and raises will be considered in fiscal year 2011-12 as our fund balance improves and our enrollment increases. Our student count has increased by 60 students for 2011-12.

Continuing annual increases by the State of Michigan's Office of Retirement will be a financial consideration going forward. A 4% increase is expected next year.

The foundation allowance for New Branches School (and all Michigan school districts) for the 2011-12 school year have again been decreased by the continuing \$165 reduction as well as a \$220 per pupil reduction. The State of Michigan is offering a per pupil incentive of \$100 for schools that prove "Best Practices" in reducing costs. New Branches has earned this incentive for the coming year.

In 2010-11, New Branches was able to maintain our staffing level with no layoffs, no reduction in hours and no salary reductions.

The upcoming school year is the final year of grade expansion. All classrooms in the new building will be filled with students. We will be adding Junior Kindergarten, 8th grade and a second 5th grade classroom. Parent surveys in the past and enrollment analysis have shown that having a middle school with 6th, 7th and 8th grade will retain families that would have transferred out had we not expanded our program.

As we will be filled to capacity, there will no more large increases in revenue. Enrollment is a key factor in our financial health. We must continue to fill our classrooms to help offset the State of Michigan reduced funding for the third year in a row.

This past year was the first year in a new building, with significant costs to make the building work for us. In spite of the unknowns of a new building and the investments in the facility we made, we still achieved a 15% fund balance through strict purchasing controls and negotiations with vendors. We anticipate some capital expenditures in the future and plan to save toward those goals. They include repaving the parking lot, some boiler expenses and roof work.

Significant technology advancements were made in 2010-11 for our students and our staff. Our accounting software was upgraded from a DOS program. Our students enjoy a full size computer lab for the first time. The computer server was upgraded from a Windows 2000 to a Windows 2008. A new Cisco router was installed to separate student and staff internet networks and to enhance internet security. We also purchased a telephone system for the School at a great discount, providing a service to our staff they have never had.

We reworked our printers with updates including scanning and e-mailing to improve our paperless initiative. We also created a uniform New Branches e-mail system, something we were unable to make work at our old building. In 2011-12, we have initiated a very comprehensive Student Data Base software, which also integrates with our Food Service program, offering online payments for the first time.

NEW BRANCHES SCHOOL
Management's Discussion and Analysis
June 30, 2011

New Branches was fortunate enough to quadruple the size of our library and enhancing the offerings of our specials – Art, Spanish, PE and Music, particularly for the middle school students.

Our purchases of technology in 2010-11 have set us up for success and our improvements in the classrooms and the facility as a whole, have greatly enhanced the learning environment and capabilities of each of our students.

Contacting the School's Financial Management

This financial report is designed to provide New Branches School's parents, citizens, customers, investors and creditors with a general overview of New Branches School's finances and to demonstrate New Branches School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrator's Office, New Branches School, 3662 Poinsettia Avenue SE., Grand Rapids, Michigan 49508.

BASIC FINANCIAL STATEMENTS

NEW BRANCHES SCHOOL
Statement of Net Assets
June 30, 2011

	Governmental Activities
Assets	
Current Assets	
Cash	\$ 285
Cash equivalents and investments (Note B)	408,679
Accounts receivable	25,461
Due from other governmental units (Note C)	425,907
Prepaid expenses	8,037
Total Current Assets	868,369
Noncurrent Assets	
Unamortized bond costs	143,902
Capital assets not being depreciated (Note E)	147,000
Capital assets being depreciated, net (Note E)	2,097,911
Total Noncurrent Assets	2,388,813
Total Assets	3,257,182
Liabilities	
Current Liabilities	
Accounts payable	39,802
Due to other governmental units	33,589
Salaries payable	117,063
Accrued interest payable	29,804
Unearned revenue	16,165
Current portion of long-term obligations	10,000
Total Current Liabilities	246,423
Noncurrent Liabilities (Note F)	
Bonds payable	2,410,000
Current portion of long-term obligations	(10,000)
Total Noncurrent Liabilities	2,400,000
Total Liabilities	2,646,423
Net Assets	
Invested in capital assets, net of related debt	(21,187)
Restricted for:	
Debt service	11,833
Capital outlay	232,744
Unrestricted	387,369
Total Net Assets	\$ 610,759

See accompanying notes to basic financial statements.

NEW BRANCHES SCHOOL
Statement of Activities
For the year ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 1,563,311	\$ -	\$ 551,905	\$ (1,011,406)
Supporting services	876,161	-	-	(876,161)
Community services	27,450	23,250	-	(4,200)
Food service	94,878	9,686	72,515	(12,677)
Other	5,834	-	-	(5,834)
Interest on long-term debt	179,725	-	-	(179,725)
Total Governmental Activities	<u>\$ 2,747,359</u>	<u>\$ 32,936</u>	<u>\$ 624,420</u>	<u>(2,090,003)</u>
General Revenues				
				2,012,768
State school aid, unrestricted				427
Interest earnings				124,012
Other				(144,961)
Gain (loss) on disposal of capital assets				<u>1,992,246</u>
Total General Revenues				<u>1,992,246</u>
				(97,757)
Change in Net Assets				(97,757)
Net Assets - Beginning of Year				<u>708,516</u>
Net Assets - End of Year				<u>\$ 610,759</u>

See accompanying notes to basic financial statements.

NEW BRANCHES SCHOOL
Balance Sheet
Governmental Funds
June 30, 2011

Assets	<u>General</u>	<u>2010 Debt Service</u>	<u>2010 Construction</u>
Cash	\$ 285	\$ -	\$ -
Cash equivalents and investments (Note B)	134,298	41,637	232,744
Accounts receivable	21,271	-	-
Due from other governmental units (Note C)	425,907	-	-
Prepaid expenditures	4,837	-	-
Total Assets	<u>\$ 586,598</u>	<u>\$ 41,637</u>	<u>\$ 232,744</u>
 Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 39,802	\$ -	\$ -
Due to other governmental units	33,589	-	-
Salaries payable	117,063	-	-
Deferred revenue	12,228	-	-
Total Liabilities	<u>202,682</u>	<u>-</u>	<u>-</u>
Fund Balances			
Nonspendable:			
General	4,837	-	-
Special revenue	-	-	-
Restricted:			
Special revenue	-	-	-
Debt service	-	41,637	-
Capital outlay	-	-	232,744
Unassigned	379,079	-	-
Total Fund Balances	<u>383,916</u>	<u>41,637</u>	<u>232,744</u>
Total Liabilities and Fund Balances	<u>\$ 586,598</u>	<u>\$ 41,637</u>	<u>\$ 232,744</u>

See accompanying notes to basic financial statements.

<u>Nonmajor</u>	<u>Total</u>
\$ -	\$ 285
-	408,679
4,190	25,461
-	425,907
<u>3,200</u>	<u>8,037</u>
<u>\$ 7,390</u>	<u>\$ 868,369</u>

\$ -	\$ 39,802
-	33,589
-	117,063
<u>3,937</u>	<u>16,165</u>
<u>3,937</u>	<u>206,619</u>

-	4,837
3,200	3,200
253	253
-	41,637
-	232,744
<u>-</u>	<u>379,079</u>
<u>3,453</u>	<u>661,750</u>
<u>\$ 7,390</u>	<u>\$ 868,369</u>

NEW BRANCHES SCHOOL
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2011

Total governmental fund balances	\$ 661,750
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$2,445,593 and accumulated depreciation is \$200,682.	2,244,911
Net bond discount and issuance costs are not expensed but are amortized over the life of the new bond issue.	143,902
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Revenue bonds	(2,410,000)
Accrued interest is not included as a liability in governmental funds	<u>(29,804)</u>
Total net assets - governmental activities	<u><u>\$ 610,759</u></u>

See accompanying notes to basic financial statements.

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NEW BRANCHES SCHOOL
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2011

	General	2010 Debt Service	2010 Construction
Revenues			
Local sources	\$ 147,667	\$ 5	\$ 17
State sources	2,142,879	-	-
Federal sources	254,814	-	-
Interdistrict sources	166,980	-	-
Total Revenues	<u>2,712,340</u>	<u>5</u>	<u>17</u>
Expenditures			
Current:			
Instruction	1,518,742	-	-
Supporting services	879,816	-	-
Community services	27,450	-	-
Food service	-	-	-
Capital outlay	9,416	-	362,133
Debt service:			
Interest	-	179,725	-
Total Expenditures	<u>2,435,424</u>	<u>179,725</u>	<u>362,133</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>276,916</u>	<u>(179,720)</u>	<u>(362,116)</u>
Other Financing Sources (Uses)			
Transfers in	-	185,590	-
Transfers out	(186,672)	-	-
Total Other Financing Sources (Uses)	<u>(186,672)</u>	<u>185,590</u>	<u>-</u>
Net Change in Fund Balances	90,244	5,870	(362,116)
Fund Balances, Beginning of Year	<u>293,672</u>	<u>35,767</u>	<u>594,860</u>
Fund Balances, End of Year	<u><u>\$ 383,916</u></u>	<u><u>\$ 41,637</u></u>	<u><u>\$ 232,744</u></u>

See accompanying notes to basic financial statements.

<u>Nonmajor</u>	<u>Total</u>
\$ 9,686	\$ 157,375
1,370	2,144,249
71,145	325,959
-	166,980
<u>82,201</u>	<u>2,794,563</u>
-	1,518,742
-	879,816
-	27,450
86,030	86,030
-	371,549
-	179,725
<u>86,030</u>	<u>3,063,312</u>
<u>(3,829)</u>	<u>(268,749)</u>
1,082	186,672
-	(186,672)
<u>1,082</u>	<u>-</u>
(2,747)	(268,749)
<u>6,200</u>	<u>930,499</u>
<u>\$ 3,453</u>	<u>\$ 661,750</u>

NEW BRANCHES SCHOOL
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2011

Net change in fund balances - total governmental funds \$ (268,749)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

	\$	377,549	
Capital outlays		377,549	
Depreciation expense		<u>(55,762)</u>	321,787

Net bond discount and issuance costs are not expensed but are amortized over the life of the new bond issue. (5,834)

In the Statement of Activities, only the gain (loss) on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale(s) increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the assets sold/retired. (144,961)

Total changes in net assets - governmental activities \$ (97,757)

NEW BRANCHES SCHOOL
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues				
Local sources	\$ 110,100	\$ 158,154	\$ 147,667	\$ (10,487)
State sources	1,989,612	2,193,128	2,142,879	(50,249)
Federal sources	247,579	205,900	254,814	48,914
Interdistrict sources	-	162,170	166,980	4,810
Total Revenues	<u>2,347,291</u>	<u>2,719,352</u>	<u>2,712,340</u>	<u>(7,012)</u>
Expenditures				
Current:				
Instruction:				
Basic programs	1,216,414	1,230,142	1,216,079	14,063
Added needs	284,184	292,919	302,663	(9,744)
Supporting services:				
Pupil services	48,453	82,542	75,380	7,162
Instructional staff services	865	11,875	11,685	190
General administrative services	188,552	231,098	231,431	(333)
School administrative services	201,079	193,087	192,897	190
Business services	33,507	30,920	34,244	(3,324)
Operation and maintenance services	170,741	252,755	253,977	(1,222)
Pupil transportation services	455	563	563	-
Central services	66,658	78,710	79,639	(929)
Community services	23,671	27,450	27,450	-
Capital outlay	-	9,416	9,416	-
Total Expenditures	<u>2,234,579</u>	<u>2,441,477</u>	<u>2,435,424</u>	<u>6,053</u>
Excess of Revenues Over Expenditures	<u>112,712</u>	<u>277,875</u>	<u>276,916</u>	<u>(959)</u>
Other Financing Sources (Uses)				
Transfers out	(185,589)	(190,186)	(186,672)	3,514
Net Change in Fund Balances	<u>(72,877)</u>	<u>87,689</u>	<u>90,244</u>	<u>2,555</u>
Fund Balances, Beginning of Year	<u>293,672</u>	<u>293,672</u>	<u>293,672</u>	<u>-</u>
Fund Balances, End of Year	<u><u>\$ 220,795</u></u>	<u><u>\$ 381,361</u></u>	<u><u>\$ 383,916</u></u>	<u><u>\$ 2,555</u></u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2011

Note A – Summary Of Significant Accounting Policies

New Branches School (the “School”) received its charter under Public Act 416 of 1994 from Central Michigan University on May 18, 1995. As part of the chartering process, New Branches School was instructed to file restated Articles of Incorporation with the Michigan Department of Commerce. According to the contract with Central Michigan University, New Branches School is to act exclusively as a governmental agency and is not to undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Under this contract, Central Michigan University provides certain services to New Branches School including approval of New Branches School’s operating plan, monitoring compliance with provisions of the charter contract and the selection of members for the Board of Directors. Central Michigan University is paid 3% of State Aid payments received by New Branches School for such services.

The School is governed by a Board of Directors consisting of seven members approved by Central Michigan University and administered by a Director who is appointed by the aforementioned Board. The School provides educational services for approximately 284 full-time students as specified by state statute and Board of Directors policy. These services include elementary education, preschool programs, special education, community services and general administrative services.

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

The School’s significant accounting policies are described below.

1. The Reporting Entity

The financial reporting entity consists of a primary government and its component units. The School is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the School for financial statement presentation purposes, and the School is not included in any other governmental reporting entity. Consequently, the School’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. School-wide and Fund Financial Statements

School-wide Financial Statements - The school-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the School as a whole. The reported information includes all of the nonfiduciary activities of the School. The School does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the School. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The School does not have any *business-type activities*.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The School’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
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The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 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. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the school-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General, 2010 Debt Service and 2010 Construction Funds are the School's major funds. The Food Service Special Revenue Fund is the School's only nonmajor fund.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the school-wide level. Reconciliations between the two sets of statements are provided in separate schedules.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the School before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2011

Governmental Funds

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

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Fund maintained by the School is the Food Service Special Revenue Fund.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code.

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

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

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school be under budgetary control and that both budgeted and actual financial results do not incur a deficit. New Branches School has also adopted a budget for its Special Revenue Fund. A school's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a school's budget may occur without a corresponding amendment to the budget. A school has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
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Directors. Expenditures may not legally exceed budget appropriations at the function level. All appropriations lapse at the end of the fiscal year.

New Branches School utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- The Board of Directors and the Director establish proposed operating budgets for the ensuing fiscal year.
- Preliminary operating budgets are submitted to the Board of Directors by the School Administrator. These budgets include proposed expenditures and the means of financing them.
- After the budgets are finalized, the Board of Directors adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General Fund budget was amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory

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

8. Capital Assets

Capital assets, which include land, land improvements, buildings, building improvements, and furniture and equipment, are reported in the school-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$1,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2011

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

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

Land improvements	20 years
Building and improvements	20-40 years
Furniture and equipment	3-10 years

9. Interfund Activity

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

10. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2011

- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

Balances at June 30, 2011 related to cash equivalents, deposits and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Assets:

Governmental activities	<u>\$ 408,679</u>
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Cash Equivalents

Depositories actively used by the School during the year are detailed as follows:

1. Macatawa Bank
2. Lake Michigan Credit Union

Balances at June 30, 2011 related to cash equivalents are detailed in the Basic Financial Statements as follows:

Cash equivalents	<u><u>\$ 134,298</u></u>
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Cash equivalents consist of bank and/or credit union checking, savings and money market accounts.

Custodial Credit Risk Related to Cash Equivalents

Custodial credit risk is the risk that in the event of bank or credit union failure, the School's cash equivalents may not be returned to the School. Protection of School cash equivalents is provided by the Federal Deposit Insurance Corporation and the National Credit Union Association. At year end, the carrying amount of the School's cash equivalents was \$134,298, and the bank balance was \$156,384. The total bank balance was covered by depository insurance.

Investments

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

	<u>Fair Value</u>
Investment Pool Accounts:	
Wells Fargo Advantage Government Accounts	<u><u>\$ 274,381</u></u>

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
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The Wells Fargo Advantage Government Account is an external pooled investment fund that includes qualified investments in accordance with the applicable sections of the State School Code. The pool is not regulated or registered with the Securities and Exchange Commission and reported the same value of the pool shares as the fair value of the School's investments at June 30, 2011. The pooled investment fund is not rated.

Custodial Credit Risk Related to Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the School may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School's investment policy minimizes custodial credit risk by limiting investments to the types of securities allowed by law. At June 30, 2011, the School had no investments that were subject to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The School's investment policy (and State law) requires that commercial paper be rated within the two highest classifications established by not less than two standard rating services at the time of purchase. Mutual fund investments must have a par share value intended to maintain a net asset value of at least \$1.00 per share.

Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The School's investment policy states "The purpose of the investments is to maximize the returns on the School's excess cash balances consistent with safety of those monies and with the desired liquidity of the investments." The School's investment policy also states that maturities do not exceed two (2) years from the date of purchase and that investment contracts are awarded using the School's bidding procedure.

Concentration of Credit Risk

The School's investment policy addresses concentration of credit risk, which is the risk of loss attributed to the magnitude of the School's investment in a single issuer, by allowing up to one hundred percent of the available reserves to be invested in U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest. Excluding U.S. Government guaranteed investments, mutual funds and pooled investments, no single investment exceeded 5% of total investments at June 30, 2011.

Foreign Currency Risk

The School is not authorized to invest in investments which have this type of risk.

Note C – State School Aid

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts.

These additional State revenues pass through to Michigan schools in the form of a per pupil "Foundation Allowance" paid on a "blended count" of School pupil membership in February 2010 and September 2010. The 2010-11 "Foundation Allowance" for New Branches School was \$7,546 for 278 "Full Time Equivalent" students, generating \$2,144,250 in state aid payments to the School of which \$387,328 was paid to the School in July and August, 2011 and included in "Due From Other Governmental Units" of the General Fund.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2011

Note D – Interfund Transfers

Operating transfers between funds during the year ended June 30, 2011 were as follows:

	Transfers In	Transfers Out
General Fund:		
Special Revenue Fund:		
Food Service Fund	\$ —	\$ 1,082
Debt Service Fund:		
2010 Debt Service Fund	—	185,590
	—	186,672
Special Revenue Fund:		
Food Service Fund:		
General Fund	1,082	—
Debt Service Fund:		
2010 Debt Service Fund:		
General Fund	185,590	—
	185,590	—
Total All Funds	\$ 186,672	\$ 186,672

A transfer from the General Fund to the Food Service Special Revenue Fund was made to cover operating expenditures for the year ended June 30, 2011. Transfers from the General Fund to the Debt Service Fund were made to cover debt service expenditures of the 2010 revenue bond issue.

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balances July 1, 2010	Additions	Deductions	Balances June 30, 2011
Capital assets not being depreciated:				
Land	\$ 147,000	\$ —	\$ —	\$ 147,000
Capital assets being depreciated:				
Land improvements	61,065	—	61,065	—
Building and improvements	1,826,221	274,248	106,638	1,993,831
Furniture and equipment	201,461	103,301	—	304,762
	2,088,747	\$ 377,549	\$ 167,703	2,298,593
Totals capital assets being depreciated	2,088,747	\$ 377,549	\$ 167,703	2,298,593

NEW BRANCHES SCHOOL
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	Balances July 1, 2010	Additions	Deductions	Balances June 30, 2011
Less accumulated depreciation for:				
Land improvements	\$ 6,339	\$ —	\$ 6,339	\$ —
Building and improvements	16,403	39,877	16,403	39,877
Furniture and equipment	144,920	15,885	—	160,805
Total accumulated depreciation	167,662	\$ 55,762	\$ 22,742	200,682
Total capital assets being depreciated	1,921,085			2,097,911
Net Capital Assets	\$ 2,068,085			\$ 2,244,911

Depreciation expense was charged to School activities as follows:

Governmental activities:	
Instruction	\$ 44,569
Supporting services	2,345
Food service	8,848
	\$ 55,762

Note F – Long-term Debt

Amounts available and to be provided for outstanding long-term debt at June 30, 2011 are summarized as follows:

	Bond Issue
Amounts Available For Retirement of Long-term Debt	
Debt Service Fund	\$ 41,637
Amounts To Be Provided For Retirement of Long-term Debt	
General Fund	2,368,363
Total Amounts Available And To Be Provided	\$ 2,410,000

Changes in long-term debt for the year ended June 30, 2011 are detailed as follows:

	Debt Outstanding July 1, 2010	Debt Added	Debt Retired	Debt Outstanding June 30, 2011
Michigan Public Educational Facilities Authority				
Limited Obligation Revenue Bonds:				
March 1, 2010	\$ 2,410,000	\$ —	\$ —	\$ 2,410,000

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2011

The bond issue outstanding at June 30, 2011 is detailed as follows:

	Final Maturity Date	Interest Rate	Outstanding Balance	Amount Due Within One Year
Revenue Bonds				
\$2,410,000 2010 Michigan Public Educational Facilities				
Authority Limited Obligation Revenue Bonds:				
Annual Maturities of \$10M to \$215M	May 1, 2035	6.375 - 7.625	\$ 2,410,000	\$ 10,000

The annual requirements to pay principal and interest on the revenue bonds outstanding are as follows:

Year Ending June 30	Principal	Interest	Total
2012	\$ 10,000	\$ 178,825	\$ 188,825
2013	15,000	178,188	193,188
2014	20,000	177,231	197,231
2015	30,000	175,956	205,956
2016	55,000	174,044	229,044
2017	60,000	170,538	230,538
2018	65,000	166,712	231,712
2019	70,000	162,569	232,569
2020	70,000	158,106	228,106
2021	75,000	153,644	228,644
2022	80,000	147,925	227,925
2023	90,000	141,825	231,825
2024	95,000	134,962	229,962
2025	100,000	127,719	227,719
2026	110,000	120,094	230,094
2027	120,000	111,705	231,705
2028	130,000	102,556	232,556
2029	135,000	92,644	227,644
2030	150,000	82,350	232,350
2031	160,000	70,912	230,912
2032	170,000	58,713	228,713
2033	185,000	45,750	230,750
2034	200,000	31,644	231,644
2035	215,000	16,394	231,394
	\$ 2,410,000	\$ 2,981,006	\$ 5,391,006

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2011

Note G – Fund Balance

As of July 1, 2010 the District adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The stated objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, detailed as follows:

- Nonspendable – resources that cannot be spent because they are either (a) not in spendable form (inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact (the principal of a permanent fund).
- Restricted – resources that cannot be spent because of (a) constraints externally imposed by creditors (debt covenants), grantors, contributors, or laws or regulations or (b) imposed by law through constitutional provisions or enabling legislation and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.
- Committed – resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority (Board of Directors). Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified uses by taking the same type of action it employed to previously commit those amounts.
- Assigned – resources that are constrained by the government’s *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has designated the authority to assign amounts to be used for specific purposes.
- Unassigned – unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

As New Branches School has not established a policy for its use of unrestricted fund balance amounts, it considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Note H – Retirement Plan

Substantially all School employees participate in the Michigan Public Schools Employees’ Retirement System (MPERS) (the “System”), a multiple employer public retirement system. The School’s payroll for employees covered by MPERS for the year ended June 30, 2011 was \$1,270,638. The System provides retirement, survivor and disability benefits to plan members and their beneficiaries. The System also provides postemployment healthcare benefits to retirees and their beneficiaries who elect to receive those benefits.

The System’s membership consists of the following:

- Basic members who may retire at age 55 with 30 or more years of credited service; or at age 60 with 10 or more years of credited service.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
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- Member Investment Plan (MIP) members who may retire at any age with 30 or more years of credited service; at age 60 with 10 or more years of credited service; or at age 60 with 5 years of credited service provided the member has worked through his or her 60th birthday and has credited service in each of the five school fiscal years immediately preceding the retirement effective date.
- Pension Plus Plan members (who became members of MPSERS on or after July 1, 2010) who may retire at age 60 with 10 or more years of credited service.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan-Fixed (MIP-Fixed). Effective January 1, 1990, all new employees are automatically enrolled in the MIP Plan. Participants in the MIP or Pension Plus Plans receive benefits in addition to those available under the Basic Plan. Basic plan members make no contributions; MIP and Pension Plus Plan members contribute at rates ranging from 3% to 4.3% of gross wages; or up to 6.4% of gross wages for members entering the MIP Plus Plan on or after July 1, 2008, and the Pension Plus Plan on or after July 1, 2010. In addition, Pension Plus Plan member employees contribute 2% of gross wages to their defined contribution account.

Benefits are based on a final average compensation period of 5 years for Basic Plan participants and 3 years for Member Investment Plan participants. The Pension Plus Plan pairs a guaranteed retirement income (Defined Benefit) with a flexible and transferable retirement savings (Define Contribution) account.

Districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPSERS plan. The School's contributions to the plan for the fiscal years ended June 30, 2011, 2010 and 2009 were \$250,530, \$188,258 and \$158,941, respectively. The contribution rates for the fiscal year are detailed as follows:

- July 01, 2010 to September 30, 2010 – 10.13% for members who first worked before July 01, 2010 and 8.63% for members who first worked on or after July 01, 2010.
- October 1, 2010 to June 30, 2011 – 12.16% for members who first worked before July 01, 2010 and 10.66% for members who first worked on or after July 01, 2010.
- July 01, 2010 to June 30, 2011 – 1% for Pension Plus Plan members to their defined contribution accounts.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPSERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPSERS does not make separate measurements of assets and actuarial accrued liability for individual Districts, instead using the aggregate actuarial cost method. The actuarial accrued liability at September 30, 2009 (the latest reporting date available) for retirement benefits for the MPSERS as a whole, determined through an actuarial valuation performed as of that date was \$56.7 billion. Net assets available for retirement benefits on that date were \$44.7 billion leaving an unfunded actuarial accrued liability of \$12.0 billion. The total unfunded actuarial accrued liability increased by \$3.1 billion from September 30, 2008 to September 30, 2009. At September 30, 2009 the funded ratio of actuarial accrued liability was 78.9%; covered payroll totaled \$9.9 billion, and unfunded actuarial accrued liability was 121.2% of covered payroll.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2011

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits were 6.81% of covered payroll for the period from July 01, 2010 to September 30, 2010; 7.25% for the period from October 1, 2010 to October 31, 2010; and 8.5% for the period from November 1, 2010 to June 30, 2011. At September 30, 2009, the actuarial accrued liability for post-employment insurance benefits for the MPSERS as a whole was \$28.3 billion. The MPSERS net assets available for these benefits were \$713.3 million leaving an unfunded actuarial accrued liability of \$27.6 billion. At September 30, 2009, the funded ratio of actuarial liability was 2.5%; covered payroll totaled \$9.9 billion, and unfunded actuarial liability was 279.1% of covered payroll.

Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2010 Annual Report of the MPSERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

Note I – Stewardship, Compliance and Accountability

The following School funds had actual expenditures and other financing uses exceed final budgeted amounts for the year ended June 30, 2011, as follows:

	Budget	Actual	Variance
General Fund			
Instruction:			
Added needs	\$ 292,919	\$ 302,663	\$ 9,744
Supporting services:			
General administrative services	231,098	231,431	333
Business services	30,920	34,244	3,324
Operation and maintenance services	252,755	253,977	1,222
Central services	78,710	79,639	929
Special Revenue Fund			
Food Service Fund	83,367	86,030	2,663

SUPPLEMENTAL INFORMATION

GENERAL FUND

To account for resources which are traditionally associated with the general operation of the School and not required to be accounted for in another fund.

**NEW BRANCHES SCHOOL
General Fund
Comparative Balance Sheet
June 30, 2011 and 2010**

	2011	2010
Assets		
Cash	\$ 285	\$ 345
Cash equivalents	134,298	105,355
Accounts receivable	21,271	11,872
Due from other governmental units	425,907	335,176
Prepaid expenditures	4,837	27,919
Total Assets	\$ 586,598	\$ 480,667
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 39,802	\$ 49,724
Due to other governmental units	33,589	36,820
Salaries payable	117,063	90,846
Deferred revenue	12,228	9,605
Total Liabilities	202,682	186,995
Fund Balances		
Nonspendable	4,837	-
Unassigned	379,079	-
Unreserved:		
Undesignated	-	293,672
Total Fund Balances	383,916	293,672
Total Liabilities and Fund Balances	\$ 586,598	\$ 480,667

NEW BRANCHES SCHOOL
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Local sources:		
Interest earnings:		
Interest on cash equivalents	\$ 405	\$ 315
Other local revenue:		
Child care fees	23,250	19,177
Donations	78,060	61,494
Miscellaneous	45,952	24,802
	<u>147,262</u>	<u>105,473</u>
Total local sources	147,667	105,788
State sources:		
State aid	2,142,879	1,753,053
Federal sources:		
Stabilization - ARRA	27,061	56,065
Education jobs program	56,858	-
Title I	88,942	68,151
Title I - ARRA	33,413	17,603
Title II A	2,008	1,657
Title II D	1,167	654
I.D.E.A. program	37,017	30,925
I.D.E.A. program - ARRA	7,805	18,031
Drug free schools	543	700
	<u>254,814</u>	<u>193,786</u>
Total federal sources	254,814	193,786
Interdistrict sources:		
Special education - county	152,465	92,263
Medicaid	8,796	6,565
SPLASH	4,719	2,837
Groundswell grant	1,000	-
	<u>166,980</u>	<u>101,665</u>
Total interdistrict sources	166,980	101,665
Total Revenues	<u><u>\$ 2,712,340</u></u>	<u><u>\$ 2,154,292</u></u>

NEW BRANCHES SCHOOL
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2011 and 2010

	2011	2010
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries	\$ 753,384	\$ 691,617
Employee benefits	359,318	278,322
Purchased services	15,911	1,910
Supplies	44,266	40,830
Capital outlay	40,264	11,007
Miscellaneous	2,936	16,249
Total basic programs	<u>1,216,079</u>	<u>1,039,935</u>
Added needs:		
Special education:		
Salaries	74,279	78,710
Employee benefits	46,442	40,371
Supplies	3,049	9,908
Miscellaneous	-	120
	<u>123,770</u>	<u>129,109</u>
Compensatory education:		
Salaries	115,389	107,466
Employee benefits	56,477	47,390
Purchased services	3,884	-
Supplies	2,176	2,894
Capital outlay	967	-
	<u>178,893</u>	<u>157,750</u>
Total added needs	<u>302,663</u>	<u>286,859</u>
Total instruction	<u>1,518,742</u>	<u>1,326,794</u>
Supporting services:		
Pupil services:		
Guidance services:		
Salaries	8,899	-
Employee benefits	681	-
	<u>9,580</u>	<u>-</u>
Physical therapist services:		
Purchased services	8,149	5,976
Psychological services:		
Purchased services	4,956	5,595
Speech pathology services:		
Purchased services	26,703	21,208
Social worker services:		
Purchased services	19,726	14,151
Teacher consultant services:		
Purchased services	6,266	6,931
Total pupil services	<u>75,380</u>	<u>53,861</u>

(Continued)

NEW BRANCHES SCHOOL
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2011 and 2010

	2011	2010
Instructional staff services:		
Improvement of instruction:		
Purchased services	\$ 6,546	\$ 12,376
Supplies	1,576	-
	<u>8,122</u>	<u>12,376</u>
Educational media services:		
Supplies	225	-
Instruction related technology:		
Purchased services	2,143	897
Academic student assessment:		
Purchased services	1,195	1,654
Other instructional staff services:		
Employee benefits	-	4,203
Total instructional staff services	<u>11,685</u>	<u>19,130</u>
General administrative services:		
Board of education:		
Purchased services	23,684	17,746
Supplies	320	-
Miscellaneous	21	107
	<u>24,025</u>	<u>17,853</u>
Executive administration:		
Salaries	89,538	82,500
Employee benefits	44,748	26,607
Purchased services	72,033	55,588
Supplies	127	1,180
Miscellaneous	960	574
	<u>207,406</u>	<u>166,449</u>
Grant writer/grant procurement:		
Purchased services	-	4,000
Total general administrative services	<u>231,431</u>	<u>188,302</u>
School administrative services:		
Office of the principal:		
Salaries	97,510	92,122
Employee benefits	51,899	54,178
Purchased services	26,137	30,522
Supplies	8,382	4,939
Miscellaneous	8,969	13,120
Total school administrative services	<u>192,897</u>	<u>194,881</u>
Business services:		
Fiscal services:		
Salaries	19,811	13,057
Employee benefits	5,447	2,441
Purchased services	1,400	-
Miscellaneous	5,337	2,690
	<u>31,995</u>	<u>18,188</u>

(Continued)

NEW BRANCHES SCHOOL
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2011 and 2010

	2011	2010
Other business services:		
Purchased services	\$ 2,249	\$ -
Total business services	<u>34,244</u>	<u>18,188</u>
Operation and maintenance services:		
Operation and maintenance:		
Salaries	31,875	8,395
Employee benefits	10,649	10,081
Purchased services	139,389	152,646
Supplies	62,435	27,266
Capital outlay	9,629	14,238
Total operation and maintenance services	<u>253,977</u>	<u>212,626</u>
Pupil transportation services:		
Pupil transportation:		
Purchased services	563	42
Central services:		
Planning and evaluation:		
Purchased services	288	-
Communication services:		
Purchased services	913	-
Staff/personnel services:		
Salaries	31,877	28,798
Employee benefits	8,874	7,060
Purchased services	1,578	1,041
	<u>42,329</u>	<u>36,899</u>
Technology services:		
Salaries	29,772	12,661
Employee benefits	1,643	3,098
Purchased services	4,694	3,456
	<u>36,109</u>	<u>19,215</u>
Total central services	<u>79,639</u>	<u>56,114</u>
Total supporting services	<u>879,816</u>	<u>743,144</u>
Community services:		
Child care:		
Salaries	18,304	16,665
Employee benefits	8,445	4,994
Supplies	300	269
Miscellaneous	401	320
Total community services	<u>27,450</u>	<u>22,248</u>
Capital outlay:		
Facilities acquisition	9,416	-
Debt service:		
Principal repayment	-	38,782
Interest and fiscal charges	-	2,072
Total debt service	<u>-</u>	<u>40,854</u>
Total Expenditures	<u><u>\$ 2,435,424</u></u>	<u><u>\$ 2,133,040</u></u>

NONMAJOR GOVERNMENTAL FUND

NEW BRANCHES SCHOOL
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Local sources	\$ 13,624	\$ 9,686	\$ (3,938)
State sources	1,370	1,370	-
Federal sources	71,145	71,145	-
Total Revenues	<u>86,139</u>	<u>82,201</u>	<u>(3,938)</u>
Expenditures			
Current:			
Food service	83,367	86,030	(2,663)
Excess (Deficiency) of Revenues Over Expenditures	<u>2,772</u>	<u>(3,829)</u>	<u>(6,601)</u>
Other Financing Sources			
Transfers in	-	1,082	1,082
Net Change in Fund Balances	2,772	(2,747)	(5,519)
Fund Balances, Beginning of Year	<u>6,200</u>	<u>6,200</u>	<u>-</u>
Fund Balances, End of Year	<u><u>\$ 8,972</u></u>	<u><u>\$ 3,453</u></u>	<u><u>\$ (5,519)</u></u>

SPECIAL REVENUE FUND

Food Service—to account for monies received from food service activities and federal subsidies for use in administering the breakfast and hot lunch program of the School.

NEW BRANCHES SCHOOL
Food Service Special Revenue Fund
Comparative Balance Sheet
June 30, 2011 and 2010

	2011	2010
Assets		
Accounts receivable	\$ 4,190	\$ 3,000
Prepaid expenditures	3,200	3,200
Total Assets	\$ 7,390	\$ 6,200
 Liabilities and Fund Balances		
Liabilities		
Deferred revenue	\$ 3,937	\$ -
Fund Balances		
Nonspendable	3,200	-
Restricted	253	-
Unreserved:		
Undesignated	-	6,200
Total Fund Balances	3,453	6,200
Total Liabilities and Fund Balances	\$ 7,390	\$ 6,200

NEW BRANCHES SCHOOL
Food Service Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2011 and 2010

	2011	2010
Revenues		
Local sources:		
Sales and admissions:		
Children's lunches	\$ 8,973	\$ 11,889
Children's breakfasts	713	466
Total local sources	9,686	12,355
State sources	1,370	1,718
Federal sources	71,145	61,971
Total Revenues	82,201	76,044
Expenditures		
Current:		
Food service:		
Salaries	1,519	-
Employee benefits	416	228
Purchased services	33,988	33,975
Supplies	49,660	45,101
Capital outlay	-	1,787
Miscellaneous	447	-
Total Expenditures	86,030	81,091
Excess (Deficiency) of Revenues Over Expenditures	(3,829)	(5,047)
Other Financing Sources		
Transfers in	1,082	9,367
Net Change in Fund Balances	(2,747)	4,320
Fund Balances, Beginning of Year	6,200	1,880
Fund Balances, End of Year	\$ 3,453	\$ 6,200

DEBT SERVICE FUND

2010 Debt Service — To accumulate interest earnings and transfers in for repayment of the bond issues of the School used to finance new building construction projects.

NEW BRANCHES SCHOOL
2010 Debt Service Fund
Comparative Balance Sheet
June 30, 2011 and 2010

	2011	2010
Assets		
Cash equivalents, deposits and investments	\$ 41,637	\$ 35,767
Liabilities and Fund Balances		
Liabilities	\$ -	\$ -
Fund Balances		
Restricted	41,637	-
Reserved for debt service	-	35,767
Total Fund Balances	41,637	35,767
Total Liabilities and Fund Balances	\$ 41,637	\$ 35,767

NEW BRANCHES SCHOOL
2010 Debt Service Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2011 and 2010

	2011	2010
Revenues		
Local sources:		
Earnings on investments:		
Interest on deposits and investments	\$ 5	\$ 2
Expenditures		
Debt service:		
Interest and fiscal charges:		
Interest expense	179,725	20,863
Excess (Deficiency) of Revenues Over Expenditures	(179,720)	(20,861)
Other Financing Sources		
Transfers in	185,590	56,628
Net Change in Fund Balances	5,870	35,767
Fund Balances, Beginning of Year	35,767	-
Fund Balances, End of Year	\$ 41,637	\$ 35,767

CAPITAL PROJECTS FUND

2010 Construction—to account for bond proceeds used to finance building construction and improvement projects.

NEW BRANCHES SCHOOL
2010 Construction Capital Projects Fund
Comparative Balance Sheet
June 30, 2011 and 2010

	2011	2010
Assets		
Cash equivalents, deposits and investments	\$ 232,744	\$ 630,806
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ -	\$ 35,946
Fund Balances		
Restricted	232,744	-
Reserved for capital outlay	-	594,860
Total Fund Balances	232,744	594,860
Total Liabilities and Fund Balances	\$ 232,744	\$ 630,806

NEW BRANCHES SCHOOL
2010 Construction Capital Projects Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2011 and 2010

	2011	2010
Revenues		
Local sources:		
Interest on deposits and investments	\$ 17	\$ 554
Donations	-	232,569
Total Revenues	<u>17</u>	<u>233,123</u>
Expenditures		
Capital outlay:		
Land and building	-	1,790,000
Building improvements	233,883	76,583
Other professional services	30,949	-
New furniture and equipment	97,301	30,000
Bond issuance costs	-	108,300
Underwriter's discount	-	43,380
Total Expenditures	<u>362,133</u>	<u>2,048,263</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(362,116)</u>	<u>(1,815,140)</u>
Other Financing Sources		
Bonds issued	-	2,410,000
Net Change in Fund Balances	<u>(362,116)</u>	<u>594,860</u>
Fund Balances, Beginning of Year	<u>594,860</u>	<u>-</u>
Fund Balances, End of Year	<u><u>\$ 232,744</u></u>	<u><u>\$ 594,860</u></u>

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

October 24, 2011

The Board of Directors
New Branches School
Kent County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of New Branches School as of and for the year ended June 30, 2011, which collectively comprise New Branches School's basic financial statements and have issued our report thereon dated October 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of New Branches School in a separate document.

This report is intended solely for the information and use of management, the Board of Directors, 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.

Hungerford, Aldwin, Nichols & Benten, P.C.

Certified Public Accountants