

SAS 114

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Nichols & Carter, PC
CPAs AND CONSULTANTS

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October 24, 2011

The Board of Directors
New Branches School
Kent County, Michigan

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of New Branches School for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and Government Auditing Standards), 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 March 4, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by New Branches School are described in the notes to the financial statements. As described in the notes to the financial statements, New Branches School changed accounting policies related to fund balance by adopting Statement of Governmental Accounting Standards Board (GASB Statement) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. We noted no transactions entered into by the governmental unit 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 are 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. The most sensitive estimates affecting the Governmental Activities financial statements were:

Management's estimate of the lives of capital assets. We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.



Difficulties Encountered in Performing the Audit

We were required to spend a significant amount of audit field work time in the following three areas:

- Reviewing asset and liability account balances carried over from June 30, 2010 and reconciling and adjusting them to the proper current year balances. Most of this work was completed throughout the year at the School's request.
- Reviewing, reconciling and adjusting bank accounts, many other asset, liability, revenue and expenditure accounts to obtain the correct classifications and balances for the audited financial statements.

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. Significant adjustments derived from the audit process are as follows:

General Fund

- \$3,000 to close the inter-fund balance with the Construction Fund.
- \$12,228 to adjust the uncollected portion of BASC accounts receivable to deferred revenue at year-end.

Food Service Fund

- \$3,937 to adjust the uncollected portion of accounts receivable to deferred revenue at year-end.
- \$5,657 to classify breakfast reimbursements from state revenue to federal revenue.

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 October 8, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matter, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit'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. To our knowledge, there were no such consultations with other accountants.

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 governmental unit'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 Information in Documents Containing Audited Financial Statements

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.

Other Comments

The General Fund balance of the School increased by \$90,244 to \$383,916 at June 30, 2011. This balance represents 13.7% of the School's 2011-12 budgeted expenditures, up from 12.0% at June 30, 2010. Maintaining a fund balance of at least 15 percent of the ensuing year's expenditure budget is advisable for New Branches School. This gives the School more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the School. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Closing

This information is intended solely for the use of the New Branches School Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties. We have furnished a copy of this letter to Central Michigan University and the Michigan Departments of Education and Treasury as an enclosure with the audit report as required by the State of Michigan.

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

Certified Public Accountants