

School District of the City of Battle Creek

**Financial Report
with Supplemental Information
June 30, 2011**

School District of the City of Battle Creek

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Independent Auditor's Report

To the Board of Education
School District of the City of Battle Creek

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Battle Creek (the "School District") as of and for the year ended June 30, 2011, 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 School District of the City of Battle Creek's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Battle Creek as of June 30, 2011 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.

During the year, the School District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as discussed in Note 1. As a result of this required implementation, the Athletic Fund and the Technology Fund, previously classified as special revenue funds, are now reported as a part of the General Fund. In addition, fund balance classifications in the governmental fund financial statements have been changed to reflect the new classifications under GASB Statement No. 54.

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

To the Board of Education
School District of the City of Battle Creek

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District of the City of Battle Creek's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information is presented for the purpose of additional analysis. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated November 7, 2011 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 opinions 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.

Plante & Moran, PLLC

November 7, 2011

School District of the City of Battle Creek

Management's Discussion and Analysis

This section of the School District of the City of Battle Creek's (the "School District") financial report presents our discussion and analysis of the School District's financial performance during the fiscal year ended June 30, 2011. 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 statements. These statements are organized so the reader can understand the School District of the City of Battle Creek financially as a whole. The district-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 provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, 2007 Bond Building and Site Fund, and the W.K. Kellogg Fund, with all other funds presented in one column as nonmajor funds. The remaining statements, the fiduciary statement of net assets and the fiduciary statement of changes in net assets, present 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

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

Other Supplemental Information

Reporting the School District as a Whole - District-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.

School District of the City of Battle Creek

Management's Discussion and Analysis (Continued)

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 students, not to generate profits as a commercial entity. Many other nonfinancial factors, such as the quality of the educational programs, are used 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, capital projects, and food services. Property taxes, unrestricted state aid per pupil (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 establishes many other funds to help it control and manage money for particular purposes (special revenue funds - math and science center and food services are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as millage funds used for capital projects). The governmental funds of the School District use the following accounting approach:

- **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.

School District of the City of Battle Creek

Management's Discussion and Analysis (Continued)

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

The School District is the trustee, or fiduciary, for student activity funds. All of the School District's fiduciary activities are reported in a separate fiduciary statement of net assets. 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, 2011 and 2010:

TABLE I	Governmental Activities	
	June 30	
	2011	2010
	(in millions)	
Assets		
Current and other assets	\$ 39.4	\$ 47.4
Capital assets	<u>92.2</u>	<u>82.5</u>
Total assets	131.6	129.9
Liabilities		
Current liabilities	20.3	17.6
Long-term liabilities	<u>63.9</u>	<u>65.0</u>
Total liabilities	<u>84.2</u>	<u>82.6</u>
Net Assets		
Invested in capital assets - Net of related debt	30.0	27.8
Restricted	6.8	3.4
Unrestricted	<u>10.6</u>	<u>16.1</u>
Total net assets	<u>\$ 47.4</u>	<u>\$ 47.3</u>

The above analysis focuses on the net assets (see Table I). 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 \$47.4 million at June 30, 2011. Capital assets, net of related debt totaling \$30.0 million, 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. Restricted net assets, which total \$6.8 million, 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 (\$10.6 million) was unrestricted.

School District of the City of Battle Creek

Management's Discussion and Analysis (Continued)

The \$10.6 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 (see Table 2), which shows the changes in net assets for fiscal years 2010-2011 and 2009-2010 for comparative purposes.

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2011	2010
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 3.5	\$ 5.3
Operating grants and contributions	21.6	24.6
General revenue:		-
Property taxes	12.7	12.3
State foundation allowance	33.8	34.9
Other	2.4	2.4
Total revenue	<u>74.0</u>	<u>79.5</u>
Functions/Program Expenses		
Instruction	40.8	41.8
Support services	25.5	30.9
Athletics	0.8	0.9
Food services	2.7	2.8
Community services	0.2	0.4
Payments to other schools	0.8	0.7
Interest on long-term debt	3.1	3.2
Total functions/program expenses	<u>73.9</u>	<u>80.7</u>
Increase (Decrease) in Net Assets	0.1	(1.2)
Net Assets - Beginning of year	<u>47.3</u>	<u>48.5</u>
Net Assets - End of year	<u><u>\$ 47.4</u></u>	<u><u>\$ 47.3</u></u>

School District of the City of Battle Creek

Management's Discussion and Analysis (Continued)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$73.9 million. Activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions (\$21.6 million). We paid for the remaining "public benefit" portion of our governmental activities with \$12.7 million in taxes, \$33.8 million in state foundation allowance, and with our other revenue (i.e., interest and general entitlements). The School District experienced an increase in net assets of \$100,000. The increase was attributable to a the current construction project resulting from the 2007 bond issue passed by the voters of the City of Battle Creek offset by the district covering shortfalls in state funding requiring a use of fund balance to maintain current educational programs.

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 School District operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted 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. Examining the various funds helps the reader consider whether the School District is being accountable for the resources provided to it while furnishing more insight into the School District's overall financial health.

As the School District completed this year, excluding the new 2007 Bond Building and Site Fund, the governmental funds reported a combined fund balance of \$20.1 million, which is a decrease of \$1.5 million from last year. This decrease was due to a reduction in the General Fund, our principal operating fund, by \$1.5 million, an increase in our special revenue funds of less than \$100,000, and a decrease in Capital Projects Funds, excluding the 2007 Bond Building and Site Fund, of \$0.2 million.

Some of the significant events that impacted the financial results are as follows:

- The original adopted budget showed a projected increase to the General Fund fund balance of \$485,000. However, reductions in state funding required an increase in projected usage of funds to maintain educational programs at their current level. A proration of \$170 per pupil in funding reduced the revenue expected by the School District that would offset expenditures in the amount of \$1.0 million.
- The final adopted budget showed a projected usage of General Fund fund balance of \$1.6 million. However, lower than expected utilities and building costs resulted in a reduction of the usage projected to \$1.5 million.

School District of the City of Battle Creek

Management's Discussion and Analysis (Continued)

- Within the School District's Special Revenue Funds, the Math and Science Center Fund increased \$200,000 primarily due to the increased demand for science kits from the Math and Science Center program. The Special Revenue Food Service Fund decreased by \$100,000 due to the utilization of fund balance to update food service equipment.
- Capital projects funds, excluding the new 2007 Bond Building and Site Fund, reported a decrease in fund balance of \$200,000. This decrease in funds was due to a planned effort to update facilities.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted just before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information section of these financial statements.

There were revisions made to the 2010-2011 General Fund original budgets. Budgeted revenue was revised due to a reduction in funding of the per-pupil foundation due to state shortfalls in school funding. The federal and intergovernmental changes resulted from a reclass of revenue to adhere to 1022 guidelines paired with reductions in federal funding and special education reimbursement. Expenditure revisions were a result of related reductions in federal revenue.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2011, the School District had \$92.1 million invested in a broad range of net capital assets, including land, buildings, vehicles, furniture, and equipment as well as construction in progress. This change was an increase of 12 percent compared to 2010. This increase was primarily due to the bond construction approved in the 2007 bond issue passed by the voters.

	2011	2010
Land	\$ 3,557,217	\$ 3,557,217
Construction in progress	71,647,770	61,000,684
Buildings and building improvements	29,306,657	28,912,326
Buses and other vehicles	7,617,330	5,540,589
Furniture and equipment	4,825,278	7,579,886
Total capital assets	116,954,252	106,590,702
Less accumulated depreciation	(24,763,143)	(24,061,848)
Net capital assets	<u>\$ 92,191,109</u>	<u>\$ 82,528,854</u>

School District of the City of Battle Creek

Management's Discussion and Analysis (Continued)

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

The upcoming years will show a minimal increase in capital assets due to the completion of the 2007 bond construction project in the 2011-2012 fiscal year.

There were \$1.8 million in funds remaining on the project at the end of the 2010-2011 fiscal year. These funds were committed or identified to achieve project completion.

Debt

At the end of this year, the School District had \$62.7 million in bonds outstanding, which is \$1.7 million less than the previous year. Those bonds consisted of the following:

	<u>2011</u>	<u>2010</u>
2007 Bond Building and Site	\$ 62,425,000	\$ 63,950,000
Durant bond	<u>322,608</u>	<u>473,009</u>
Total	<u>\$ 62,747,608</u>	<u>\$ 64,423,009</u>

One of the School District's funds is a debt fund related to the Durant Non-Plaintiff bonds. These bonds are funded by annual state appropriation and no fund balance exists at year end.

The \$62.7 million remaining of bonded debt resulted from a 3.95 mill debt levy being passed by the voters on May 8, 2007. The millage was passed to allow for the renovation of the School District's Central High School, Valleyview Elementary, and expanding the consolidated sports complex location. The initial bond was expected to be \$68.9 million. However, due to a combination of an excellent credit rating and insurance, the School District was able to obtain funding at a reduced level for the project. The millage rate for the 2010-2011 fiscal year for the bond project was at 4.44 due to property tax fluctuations experienced state wide. For the 2011-2012 fiscal year, the millage rate is reduced to 4.34 as tax values begin to stabilize.

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

School District of the City of Battle Creek

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2011 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended full-time equated student count by the foundation allowance per pupil. The blended count for the 2012 fiscal year is expected to be 10 percent and 90 percent of the February 2011 and October 2011 student counts, respectively. The 2011-2012 budget was adopted in June 2011, based on an estimate of students that will be enrolled in October 2011. Also taken into consideration are the additional reductions in the per-pupil foundation due to state funding reductions. Approximately 50 percent of total budgeted General Fund revenue is from the state-funded portion of the foundation allowance. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per-pupil funding are validated, state law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations. The School District makes these initial adjustments and adopts the amendments at the annual November board meeting.

Since the School District's revenue is heavily dependent on state aid, the revenue received in the State Aid Fund is directly related to the State's effectiveness at collecting taxes for the purpose of funding education.

School District of the City of Battle Creek

Statement of Net Assets June 30, 2011

	<u>Primary Governmental Activities</u>
Assets	
Cash and investments (Note 3)	\$ 23,669,652
Receivables - Net (Note 4)	11,050,530
Due from fiduciary funds (Note 6)	28,614
Inventories	1,251,154
Prepaid costs	776,440
Restricted assets	2,569,809
Capital assets - Net (Note 5):	
Capital assets not being depreciated	75,204,987
Capital assets being depreciated - Net of accumulated depreciation	<u>16,986,122</u>
Total assets	131,537,308
Liabilities	
Accounts payable	1,414,387
Accrued payroll-related liabilities	7,146,126
Accrued interest	483,588
Deferred revenue (Note 4)	8,774,629
Noncurrent liabilities (Note 8):	
Due within one year	2,439,634
Due in more than one year	<u>63,907,387</u>
Total liabilities	84,165,751
Net Assets	
Invested in capital assets - Net of related debt	29,964,477
Restricted:	
Debt service	428,989
Capital projects	2,913,340
Math and Science Center	2,801,300
Food service	676,960
Unrestricted	<u>10,586,491</u>
Total net assets	<u><u>\$ 47,371,557</u></u>

School District of the City of Battle Creek

Statement of Activities Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenue		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Assets
Primary government - Governmental activities:				
Instruction	\$ 40,803,074	\$ 158,459	\$ 14,619,140	\$ (26,025,475)
Support services	25,557,007	2,739,184	3,251,475	(19,566,348)
Athletics	760,012	83,548	-	(676,464)
Food services	2,721,651	439,401	2,726,990	444,740
Community services	168,210	-	138,417	(29,793)
Payments to other public schools	752,300	-	742,300	(10,000)
Interest	3,109,211	-	172,924	(2,936,287)
Total primary government	<u>\$ 73,871,465</u>	<u>\$ 3,420,592</u>	<u>\$ 21,651,246</u>	(48,799,627)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				5,684,163
Property taxes, levied for debt service				4,832,472
Property taxes, levied for capital projects				2,174,218
State aid not restricted to specific purposes				33,753,383
Federal grants not restricted to specific purposes				1,941,984
Interest and investment earnings				24,717
Loss on the sale of capital assets				(99,317)
Other				526,978
Total general revenue				<u>48,838,598</u>
Change in Net Assets				38,971
Net Assets - Beginning of year				<u>47,332,586</u>
Net Assets - End of year				<u>\$ 47,371,557</u>

School District of the City of Battle Creek

Governmental Funds Balance Sheet June 30, 2011

	General Fund	2007 Bond Building and Site Fund	WK Kellogg Fund	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 23,487,270	\$ -	\$ -	\$ 182,382	\$ 23,669,652
Receivables (Note 4)	10,745,030	-	-	305,500	11,050,530
Due from other funds (Note 6)	-	-	7,000,000	5,233,497	12,233,497
Inventories	184,895	-	-	1,066,259	1,251,154
Prepaid costs and other assets	578,385	-	-	198,055	776,440
Restricted assets	-	2,155,274	-	414,535	2,569,809
Total assets	\$ 34,995,580	\$ 2,155,274	\$ 7,000,000	\$ 7,400,228	\$ 51,551,082
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 915,983	\$ 270,177	\$ -	\$ 228,227	\$ 1,414,387
Accrued payroll and other liabilities	7,021,611	-	-	124,515	7,146,126
Due to other funds (Note 6)	12,200,863	-	-	4,020	12,204,883
Deferred revenue (Note 4)	1,551,752	-	7,000,000	222,877	8,774,629
Total liabilities	21,690,209	270,177	7,000,000	579,639	29,540,025
Fund Balances					
Nonspendable:					
Inventories	184,895	-	-	1,066,259	1,251,154
Prepaid assets	578,385	-	-	198,055	776,440
Restricted:					
Capital projects (bonded)	-	1,885,097	-	-	1,885,097
Debt service	-	-	-	428,989	428,989
Food service	-	-	-	430,607	430,607
Capital projects (sinking fund)	-	-	-	2,913,340	2,913,340
Math and Science Center	-	-	-	1,783,339	1,783,339
Assigned - Budgeted use of fund balance in subsequent year	3,826,535	-	-	-	3,826,535
Unassigned	8,715,556	-	-	-	8,715,556
Total fund balances	13,305,371	1,885,097	-	6,820,589	22,011,057
Total liabilities and fund balances	\$ 34,995,580	\$ 2,155,274	\$ 7,000,000	\$ 7,400,228	\$ 51,551,082

School District of the City of Battle Creek

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2011

Fund Balance Reported in Governmental Funds	\$ 22,011,057
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 are not reported in the funds:	
Cost of capital assets	\$ 116,954,252
Accumulated depreciation	<u>(24,763,143)</u> 92,191,109
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Bonds payable, including unamortized premium	(63,628,141)
Compensated absences	(1,787,426)
Self-insurance	<u>(931,454)</u> (66,347,021)
Accrued interest payable is not included as a liability in governmental funds	<u>(483,588)</u>
Net Assets of Governmental Activities	<u>\$ 47,371,557</u>

School District of the City of Battle Creek

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2011

	General Fund	2007 Bond Building and Site Fund	WK Kellogg Fund	Nonmajor Funds	Total Governmental Funds
Revenue					
Local sources	\$ 6,975,897	\$ 4,726	\$ -	\$ 9,978,042	\$ 16,958,665
State sources	39,492,517	-	-	1,684,381	41,176,898
Federal sources	9,281,460	-	-	2,244,479	11,525,939
Intergovernmental and other sources	4,348,251	-	-	-	4,348,251
Total revenue	60,098,125	4,726	-	13,906,902	74,009,753
Expenditures					
Current:					
Instruction	37,778,882	-	-	1,054,727	38,833,609
Support services	22,209,972	-	-	2,496,643	24,706,615
Athletics	672,114	-	-	-	672,114
Food services	-	-	-	2,708,298	2,708,298
Community services	133,165	-	-	-	133,165
Interfund reimbursement (Note 6)	(74,474)	-	-	74,474	-
Debt service:					
Principal	-	-	-	1,675,401	1,675,401
Interest	-	-	-	3,161,711	3,161,711
Other	-	-	-	10,076	10,076
Capital outlay	144,071	9,212,743	-	2,737,916	12,094,730
Intergovernmental transfers	752,300	-	-	-	752,300
Total expenditures	61,616,030	9,212,743	-	13,919,246	84,748,019
Excess of Expenditures Over Revenue	(1,517,905)	(9,208,017)	-	(12,344)	(10,738,266)
Other Financing Sources -					
Proceeds from sale of capital assets	21,122	-	-	-	21,122
Net Change in Fund Balances	(1,496,783)	(9,208,017)	-	(12,344)	(10,717,144)
Fund Balances - Beginning of year	14,802,154	11,093,114	-	6,832,933	32,728,201
Fund Balances - End of year	\$13,305,371	\$ 1,885,097	\$ -	\$ 6,820,589	\$ 22,011,057

School District of the City of Battle Creek

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (10,717,144)

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, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (1,580,556)	
Capitalized capital outlay	<u>11,363,250</u>	9,782,694

Governmental funds report proceeds from sale of assets as revenue; in the statement of activities, these are recorded net of carrying value of the disposed assets (120,439)

Underwriter's discount/premium reported as expenditures/revenue in the funds and amortized in the statement of activities 33,867

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 1,675,401

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 28,709

Compensated absences, as well as self-insured liability claims, are recorded when earned in the statement of activities. In the current year, more was paid out than was earned (644,117)

Change in Net Assets of Governmental Activities \$ 38,971

School District of the City of Battle Creek

Fiduciary Funds Statement of Net Assets June 30, 2011

	Student Activities Agency Fund	Trust Fund	Total
Assets			
Cash and investments	\$ 109,500	\$ 1,874,762	\$ 1,984,262
Accounts receivable	14,578	1,074	15,652
Inventories	44,155	-	44,155
Total assets	<u>\$ 168,233</u>	1,875,836	2,044,069
Liabilities			
Accounts payable	\$ -	3,060	3,060
Due to student activities	168,233	-	168,233
Due to other funds (Note 6)	-	28,614	28,614
Total liabilities	<u>\$ 168,233</u>	31,674	199,907
Net Assets		<u>\$ 1,844,162</u>	<u>\$ 1,844,162</u>

School District of the City of Battle Creek

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2011

	<u>Trust Fund</u>
Revenue	
Contributions	\$ 5,134
Investment gain	<u>190,719</u>
Total revenue	195,853
Expenses	<u>75,270</u>
Excess of Revenue Over Expenses	120,583
Net Assets - Beginning of year	<u>1,723,579</u>
Net Assets - End of year	<u><u>\$ 1,844,162</u></u>

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2011

Note I - Summary of Significant Accounting Policies

The accounting policies of the School District of the City of Battle Creek (the "School 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 School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. 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 financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund 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 of the School District's district-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, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Financial Statements - The district-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.

As a general rule, the effect of interfund activity has been eliminated from the district-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 - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2011

Note I - Summary of Significant Accounting Policies (Continued)

2007 Bond Building and Site Fund - This fund is a capital projects fund used to record bond proceeds and related investment income, and the disbursement of funds specifically designated for capital improvement plans as approved by the voters. The fund will operate until the purpose for which it was created is accomplished.

W.K. Kellogg Fund - This fund is a special revenue fund used to account for the proceeds of a specific revenue source that is restricted to expenditure for specified purposes. Any operating deficit generated by this activity is the responsibility of the General Fund.

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's special revenue funds include the Math and Science Center and the Food Service Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

Debt Service Funds - The 2007 Debt and the Durant Debt Retirement Funds are the School District's only debt service funds. They are used to record property taxes and state revenue, and the corresponding principal and interest payments for the 2007 and Durant bond issues.

Capital Projects Funds - Capital projects funds are used to account for resources specifically designed for the acquisition and construction of facilities and for major capital improvements to facilities. Activities related to the sinking fund millage are recorded in the Building and Site Fund.

Student Activities Agency Fund - The School District presently maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Private-purpose Trust Fund - The Private-purpose Trust Fund is used to account for resources legally held in trust, including contributions received by the School District to be awarded in the form of scholarships.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with varying maturities. Investments are stated at fair value. Pooled investment income is generally allocated to each fund based on the average monthly balances of each respective fund.

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 for approximately 50 percent of the taxes that are due August 20 and December 1 for the remainder of the property taxes which are due on February 14. The final collection date is February 28, after which delinquent real property taxes are added to the county tax rolls.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis, and consist of supplies and, in the Math and Science Center Fund, consist of supplies and materials to be compiled into kits, which are sold primarily to other districts. Inventories of governmental funds are recorded as expenditures when used, or sold in the case of math and science center kits. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both district-wide and fund financial statements.

Restricted Assets - The unspent bond proceeds and related interest of the 2007 Bond Building and Site Fund require amounts to be set aside for construction. The unspent property tax revenue of the Debt Service Fund requires amounts to be set aside for future bond payments. These amounts have been classified as restricted assets and consist of cash and investments.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. 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 extend asset life are not capitalized. The School 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 building additions	10 to 50 years
Buses and other vehicles	7 years
Furniture and other equipment	5 to 20 years

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2011

Note I - Summary of Significant Accounting Policies (Continued)

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for employees who are currently eligible to receive termination payments at normal retirement age are included.

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium.

Fund Equity - In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement 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 on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned. The School District implemented GASB Statement No. 54 during the year.

In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable** - Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted** - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed** - Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- **Assigned** - Intent to spend resources on specific purposes expressed by the Board of Education or the finance director, who is authorized by a policy approved by the Board of Education to make assignments.

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

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

Accounting Change - Effective July 1, 2010, the School District implemented the provisions of Governmental Accounting Standards Board Statement No. 54. In addition to the changes to fund balance discussed above, the School District changed its presentation of the athletics and technology activity in the governmental funds. Previously, the athletics and technology functions were reported as special revenue funds. With the adoption of GASB Statement No. 54, the activities no longer meet the criteria to be classified as special revenue funds and the activities are now reported in the General Fund. Both the Athletic Fund and the Technology Fund did not have fund balances as of June 30, 2010.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including November 7, 2011, which is the date the financial statements were available to be issued.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles, with the exception of classification of certain interfund payments, and state law for the General Fund and the special revenue and capital projects funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. The School District's Board of Education has authorized administration to make transfers of appropriations within or between functions in an amount not to exceed 5 percent of the amount of the appropriation from which the transfer is made. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The School District changed budgeted amounts during the year in response to state aid and other funding changes.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant expenditure budget variances.

Capital Projects Fund Compliance - The 2007 Bond Building and Site Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital projects fund, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2011

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The Building and Site Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the State of Michigan School Code.

Note 3 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School 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 School District's deposits are in accordance with statutory authority. The School District also holds funds in trust for other parties which are invested in common stocks and other investments.

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

The School 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 School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year end, the School District's checking and savings deposit balances of \$11,642,370 were all insured under the Dodd-Frank Act, effective December 31, 2010, which provides temporary unlimited coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions. This coverage terminates on December 31, 2012. The School District 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.

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2011

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School 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 School District does not have an investment policy for custodial credit risk. The following investment securities were uninsured and unregistered and held in the following manner:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. agency notes	\$ 114,604	Held by counterparty's trust department, in our name
U.S. government bonds/notes	1,678,125	Held by counterparty's trust department, in our name
Stocks	959,001	Held by counterparty's trust department, in our name
Corporate bonds/notes	<u>839,174</u>	Held by counterparty's trust department, in our name
Total investments	<u>\$ 3,590,904</u>	

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy restricts investment maturities to within five years of the date of purchase, except for commercial paper which can only be purchased with a 270-day maturity. In addition, no more than 25 percent of the School District's portfolio may be invested in investments with a maturity of greater than three years. However, some of the investments in the School District's portfolio have maturities greater than five years from the date of purchase. As of June 30, 2011, the School District holds approximately \$299,000 of investments that have a maturity greater than five years.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2011

Note 3 - Deposits and Investments (Continued)

At year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Maturities	Rating	Rating Organization
Michigan Liquid Asset Fund	\$ 5,486,647	N/A	AAA	S&P
Bank investment pool - Municipal investment fund	2,078,092	N/A	Not rated	N/A
Bank investment pool - Comerica governmental cash fund	6,555,117	N/A	Not rated	N/A
Various common stocks	959,001	N/A	N/A	N/A
U.S. Treasury bonds/notes	1,678,125	129 days to maturity (weighted average)	N/A	N/A
U.S. agency bonds/notes	114,604	821 days to maturity (weighted average)	AAA	S&P
Corporate note - General Elec. Cap Corp	42,058	6/15/12	AA+	S&P
Corporate note - Boeing Company	32,037	2/15/13	A	S&P
Corporate note - Wells Fargo & Co.	47,883	10/16/13	A+	S&P
Corporate note - Dow Chemical Co.	46,386	5/15/14	BBB	S&P
Corporate note - Bellsouth Corp.	33,051	9/15/14	A-	S&P
Corporate note - Comcast Corporation	51,484	1/15/15	BBB+	S&P
Corporate note - Citigroup Inc.	31,263	5/7/15	A-	S&P
Corporate note - Marriott Int'l Inc.	44,109	11/10/15	BBB	S&P
Corporate note - Humana Inc.	45,566	6/1/16	BBB	S&P
Corporate note - Capital One FINL Corp.	33,097	9/1/16	BBB-	S&P
Corporate note - Bank of America Corp.	42,810	10/14/16	A	S&P
Corporate note - Time Warner Inc.	34,291	11/15/16	BBB	S&P
Corporate note - Kinder Morgan Energy Partners	22,554	2/1/17	BBB	S&P
Corporate note - Valero Energy Corp.	45,274	6/15/17	BBB	S&P
Corporate note - American Express Co.	34,187	8/28/17	BBB+	S&P
Corporate note - Rowan COS Inc.	32,098	9/1/17	BBB-	S&P
Corporate note - Computer Sciences Corp.	32,129	3/15/18	A-	S&P
Corporate note - Bunge LTD FIN Corp.	30,478	6/15/19	BBB-	S&P
Corporate note - Int'l Game Technology	45,732	6/15/19	BBB	S&P
Corporate note - Southern Copper Corp.	30,729	4/16/20	BBB-	S&P
Corporate bond - Powershares Int'l Corp	20,641	N/A	Not rated	N/A
ETF - SPDR BarClay's Capital ST	22,142	N/A	Not rated	N/A
ETF - Vanguard ST Corp. Bond	39,175	N/A	Not rated	N/A
Total investments	<u>\$ 17,710,760</u>			

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2011

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk - The School District places no limit on the amount the School District may invest in U.S. Treasury debt obligations, U.S. agency debt obligations, or SEC-registered money market funds. With the previous exception, the School District's investment policy states no one issuer or group of issuers from the same holding company is to exceed 5 percent of the market value of the portfolio at the time of purchase. The School District does not have more than 5 percent of its investments in any one issue other than U.S. Treasury debt obligations, which comprise approximately 9 percent of the School District's total investments.

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 and the School District's policy prohibit investment in foreign currency.

Note 4 - Receivables and Deferred Revenue

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

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>	<u>Fiduciary Funds</u>
Receivables:				
Taxes receivable	\$ 39,730	\$ 28,217	\$ 67,947	\$ -
Accounts receivable	290,335	153,740	444,075	15,652
Due from other governmental units	<u>10,414,965</u>	<u>123,543</u>	<u>10,538,508</u>	<u>-</u>
Total receivables	<u>\$ 10,745,030</u>	<u>\$ 305,500</u>	<u>\$ 11,050,530</u>	<u>\$ 15,652</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grant and categorical aid payment received prior to meeting all eligibility requirements	<u>\$ -</u>	<u>\$ 8,774,629</u>

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2011

Note 5 - Capital Assets

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

	Balance July 1, 2010	Additions	Disposals and Adjustments	Balance June 30, 2011
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 3,557,217	\$ -	\$ -	\$ 3,557,217
Construction in progress	61,000,684	10,647,086	-	71,647,770
Subtotal	64,557,901	10,647,086	-	75,204,987
Capital assets being depreciated:				
Buildings and improvements	28,912,326	431,015	(36,684)	29,306,657
Furniture and equipment	7,579,886	250,831	(213,387)	7,617,330
Buses and other vehicles	5,540,589	34,318	(749,629)	4,825,278
Subtotal	42,032,801	716,164	(999,700)	41,749,265
Accumulated depreciation:				
Buildings and improvements	15,065,534	782,762	(8,254)	15,840,042
Furniture and equipment	5,118,281	516,067	(121,378)	5,512,970
Buses and other vehicles	3,878,033	281,727	(749,629)	3,410,131
Subtotal	24,061,848	1,580,556	(879,261)	24,763,143
Net capital assets being depreciated	17,970,953	(864,392)	(120,439)	16,986,122
Net capital assets	\$ 82,528,854	\$ 9,782,694	\$ (120,439)	\$ 92,191,109

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:	
Instruction	\$ 1,318,643
Support services	126,321
Community services	35,045
Food services	13,353
Athletics	87,194
Total governmental activities	<u>\$ 1,580,556</u>

Construction Commitments - The School District has an active construction project at year end. At year end, the School District's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Field house project	\$ 920,261	\$ 31,394
Central High project	47,912,272	319,654
Valleyview Elementary project	8,915,962	57,324
Total	<u>\$ 57,748,495</u>	<u>\$ 408,372</u>

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2011

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From			Total
	General Fund	Nonmajor Governmental Funds	Fiduciary Funds	
WK Kellogg Fund	\$ 7,000,000	\$ -	\$ -	\$ 7,000,000
Nonmajor governmental funds	5,200,863	4,020	28,614	5,233,497
Total	\$ 12,200,863	\$ 4,020	\$ 28,614	\$ 12,233,497

Interfund balances shown above primarily represent the respective funds' share of cash and investments that are pooled in the General Fund and pending transfers for reimbursement of amounts paid from the General Fund on behalf of other funds.

Interfund reimbursements represent reimbursements of costs, including indirect costs, from one fund that were paid from another fund on its behalf. The Math and Science Center Fund and the Food Service Fund reimbursed the General Fund in the amount of \$74,474 for expenses paid.

Note 7 - Operating Leases

The building and real estate used by Willard Library are being leased from the School District for \$1 per year. The fair market value of this lease is not known.

Note 8 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Notes and installment purchase agreements are also general obligations of the School District. Other long-term obligations include compensated absences, claims and judgments, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds payable	\$ 64,423,009	\$ -	\$ 1,675,401	\$ 62,747,608	\$ 1,442,554
Issuance premiums	914,400	-	33,867	880,533	33,867
Total bonds payable	65,337,409	-	1,709,268	63,628,141	1,476,421
Other obligations	2,074,763	859,670	215,553	2,718,880	963,213
Total governmental activities	\$ 67,412,172	\$ 859,670	\$ 1,924,821	\$ 66,347,021	\$ 2,439,634

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2011

Note 8 - Long-term Debt (Continued)

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2012	\$ 1,442,554	\$ 3,089,224	\$ 4,531,778
2013	1,505,054	3,030,323	4,535,377
2014	1,365,000	2,955,463	4,320,463
2015	1,420,000	2,900,863	4,320,863
2016	1,475,000	2,844,063	4,319,063
2017-2021	8,600,000	13,010,000	21,610,000
2022-2026	11,035,000	10,578,688	21,613,688
2027-2031	13,980,000	7,624,850	21,604,850
2032-2036	17,815,000	3,786,250	21,601,250
2037	4,110,000	205,498	4,315,498
Total	<u>\$ 62,747,608</u>	<u>\$ 50,025,222</u>	<u>\$ 112,772,830</u>

Governmental Activities

General obligation bonds consist of the following:

\$2,462,491 1998 School Improvement Bond (Durant Non-Plaintiff) serial bonds due in annual installments of \$157,554 to \$165,054 through May 2013; interest at 4.76%	\$ 322,608
\$67,705,000 2007 School Building and Site General Obligation Unlimited Tax bonds due in annual installments of \$1,285,000 to \$4,110,000 through May 2037; interest from 4% to 5.25%	<u>62,425,000</u>
Total bonded debt	<u>\$ 62,747,608</u>

Durant Non-Plaintiff Bond - Included in governmental activities general obligation bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) associated with this bond are funded by the State of Michigan via specifically appropriated state aid and will not require any School District debt levy or utilization of any other School District financial resources.

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$ 1,787,426
Self-insurance - Workers' compensation reserves	900,572
Self-insurance - Maintenance health and dental	<u>30,882</u>
Total	<u>\$ 2,718,880</u>

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2011

Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical benefits provided to most employees and participates in the Middle Cities Risk Management Trust risk pool for claims relating to property and liability loss and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The School District is also self-funded for medical and dental benefits for a small number of employee groups.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The School District is partially uninsured for workers' compensation claims. Under the plan, the School District's maximum loss is limited to \$300,000 per occurrence. Losses in excess of this limitation are insured up to an aggregate annual limit of \$5,000,000 and a cumulative (per occurrence) limit of \$12,000,000. At June 30, 2011, the School District administration does not believe that the liability for claims incurred but not reported is material. Changes in the estimated liability for the past two fiscal years were as follows:

	2011	2010
Estimated liability - Beginning of year	\$ 467,797	\$ 333,015
Estimated claims incurred - Including changes in estimates	648,854	330,230
Claim payments	<u>(216,079)</u>	<u>(195,448)</u>
Unpaid claims - End of year	<u>\$ 900,572</u>	<u>\$ 467,797</u>

Changes in the estimated liability for the small number of employee groups with self-funded medical and dental for the past two fiscal years were as follows:

	2011	2010
Estimated liability - Beginning of year	\$ 68,601	\$ 67,522
Estimated claims incurred - Including changes in estimates	159,576	400,308
Claim payments	<u>(197,295)</u>	<u>(399,229)</u>
Unpaid claims - End of year	<u>\$ 30,882</u>	<u>\$ 68,601</u>

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2011

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits

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

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

Pension Benefits - Employer contributions to the pension 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. The employer contribution rate was 10.13 percent of covered payroll for the period from July 1, 2010 through September 30, 2010 and 12.16 percent for the period from October 1, 2010 through June 30, 2011. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages, or up to 6.4 percent of gross wages for members first entering the system on or after July 1, 2008. The School District's required and actual contributions to the plan for the years ended June 30, 2011, 2010, and 2009 were \$3,917,783, \$3,786,745, and \$3,660,157, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage 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 at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.81 percent of covered payroll for the period from July 1, 2010 through September 30, 2010. From October 1, 2010 through October 31, 2010, the rate was 7.25 and 8.50 percent for the period from November 1, 2010 through June 30, 2011. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2011, 2010, and 2009 were \$2,680,780, \$2,571,060, and \$2,508,919, respectively.

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2011

Note 11 - Upcoming Accounting Pronouncements

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued by the GASB in June 2011 and will be effective for the School District's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The School District is currently evaluating the impact this standard will have on the financial statements when adopted during the School District's 2013 fiscal year.

Required Supplemental Information

School District of the City of Battle Creek

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2011

	Original Budget (Continuation Resolution Adopted June 2010)	Final Budget (Adopted June 2011)	Actual	Over (Under) Final Budget
Revenue and Other Sources				
Local sources	\$ 7,135,298	\$ 7,046,060	\$ 6,975,897	\$ (70,163)
State sources	40,516,425	39,379,481	39,492,517	113,036
Federal sources	9,930,579	9,861,443	9,281,460	(579,983)
Governmental - Intergovernmental	6,297,538	4,702,324	4,348,251	(354,073)
Total revenue and other sources	63,879,840	60,989,308	60,098,125	(891,183)
Expenditures and Other Uses				
Current:				
Instruction:				
Basic program	18,096,584	19,587,995	19,673,199	85,204
Added needs and adult/continuing education	6,703,503	6,968,693	6,774,699	(193,994)
Fringe benefits	11,753,339	11,626,001	11,335,532	(290,469)
Support services:				
Pupil	2,855,890	1,569,489	1,649,999	80,510
Instructional staff	3,118,648	2,756,521	2,546,679	(209,842)
General administration	511,210	545,389	550,285	4,896
School administration	2,186,440	2,221,854	2,189,495	(32,359)
Business	719,634	761,313	723,718	(37,595)
Operations and maintenance	5,613,729	5,961,725	5,832,436	(129,289)
Transportation	2,235,813	2,312,804	1,871,077	(441,727)
Support services central	2,707,759	1,889,032	1,640,263	(248,769)
Fringe benefits	5,742,572	5,760,528	5,344,839	(415,689)
Athletics	727,923	652,929	672,818	19,889
Community services	205,979	207,817	133,165	(74,652)
Transfers to other funds	-	269,151	-	(269,151)
Intergovernmental transfers	1,294,600	752,300	752,300	-
Total expenditures and other uses	64,473,623	63,843,541	61,690,504	(2,153,037)
Other Financing Sources -				
Reimbursement from other funds and proceeds from asset sales	79,137	-	95,596	95,596
Variance Projection	<u>1,000,000</u>	<u>1,269,151</u>	<u>-</u>	<u>(1,269,151)</u>
Net Change in Fund Balance	485,354	(1,585,082)	(1,496,783)	88,299
Fund Balance - Beginning of year	<u>14,802,154</u>	<u>14,802,154</u>	<u>14,802,154</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 15,287,508</u></u>	<u><u>\$ 13,217,072</u></u>	<u><u>\$ 13,305,371</u></u>	<u><u>\$ 88,299</u></u>

Other Supplemental Information

School District of the City of Battle Creek

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2011

	Special Revenue Funds		Debt Service Funds		Capital Projects Fund	Total Nonmajor Governmental Funds
	Math and Science Center	Food Service	Durant Fund	2007 Debt Fund	Building and Site Fund	
Assets						
Cash and cash equivalents	\$ 44	\$ 182,338	\$ -	\$ -	\$ -	\$ 182,382
Accounts receivable	134,504	142,779	-	19,323	8,894	305,500
Due from other funds	1,929,308	309,786	-	-	2,994,403	5,233,497
Inventories	1,014,278	51,981	-	-	-	1,066,259
Prepays	3,683	194,372	-	-	-	198,055
Restricted assets	-	-	-	414,535	-	414,535
Total assets	\$ 3,081,817	\$ 881,256	\$ -	\$ 433,858	\$ 3,003,297	\$ 7,400,228
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 29,854	\$ 107,567	\$ -	\$ 849	\$ 89,957	\$ 228,227
Salaries and other accrued liabilities	80,569	43,946	-	-	-	124,515
Due to other funds	-	-	-	4,020	-	4,020
Deferred revenue	170,094	52,783	-	-	-	222,877
Total liabilities	280,517	204,296	-	4,869	89,957	579,639
Fund Balances						
Nonspendable:						
Inventory	1,014,278	51,981	-	-	-	1,066,259
Prepays	3,683	194,372	-	-	-	198,055
Restricted:						
Debt service	-	-	-	428,989	-	428,989
Food service	-	430,607	-	-	-	430,607
Capital projects (sinking fund)	-	-	-	-	2,913,340	2,913,340
Math and Science Center	1,783,339	-	-	-	-	1,783,339
Total fund balances	2,801,300	676,960	-	428,989	2,913,340	6,820,589
Total liabilities and fund balances	\$ 3,081,817	\$ 881,256	\$ -	\$ 433,858	\$ 3,003,297	\$ 7,400,228

School District of the City of Battle Creek

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2011

	Special Revenue Funds		Debt Service Funds		Capital Projects	Total Nonmajor Governmental Funds
	Math and Science Center	Food Service	Durant Fund	2007 Debt Fund	Building and Site Fund	
Revenue						
Local sources	\$ 2,509,956	\$ 439,752	\$ -	\$ 4,842,650	\$ 2,185,684	\$ 9,978,042
State sources	1,333,238	178,219	172,924	-	-	1,684,381
Federal sources	-	2,244,479	-	-	-	2,244,479
Total revenue	3,843,194	2,862,450	172,924	4,842,650	2,185,684	13,906,902
Expenditures						
Current:						
Instruction	1,054,727	-	-	-	-	1,054,727
Support services	2,376,373	120,270	-	-	-	2,496,643
Food services	-	2,708,298	-	-	-	2,708,298
Interfund reimbursement	40,155	34,319	-	-	-	74,474
Debt service:						
Principal	-	-	150,401	1,525,000	-	1,675,401
Interest	-	-	22,523	3,139,188	-	3,161,711
Taxes written off	-	-	-	10,076	-	10,076
Capital outlay	159,493	147,982	-	-	2,430,441	2,737,916
Total expenditures	3,630,748	3,010,869	172,924	4,674,264	2,430,441	13,919,246
Net Change in Fund Balances	212,446	(148,419)	-	168,386	(244,757)	(12,344)
Fund Balances - Beginning of year	2,588,854	825,379	-	260,603	3,158,097	6,832,933
Fund Balances - End of year	\$ 2,801,300	\$ 676,960	\$ -	\$ 428,989	\$ 2,913,340	\$ 6,820,589

School District of the City of Battle Creek

Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2011

June 30	Durant Principal	2007 Debt Principal
2012	\$ 157,554	\$ 1,285,000
2013	165,054	1,340,000
2014	-	1,365,000
2015	-	1,420,000
2016	-	1,475,000
2017	-	1,550,000
2018	-	1,630,000
2019	-	1,715,000
2020	-	1,805,000
2021	-	1,900,000
2022	-	2,000,000
2023	-	2,100,000
2024	-	2,200,000
2025	-	2,310,000
2026	-	2,425,000
2027	-	2,540,000
2028	-	2,660,000
2029	-	2,785,000
2030	-	2,925,000
2031	-	3,070,000
2032	-	3,225,000
2033	-	3,385,000
2034	-	3,555,000
2035	-	3,735,000
2036	-	3,915,000
2037	-	4,110,000
	\$ 322,608	\$ 62,425,000
Total		
Principal payments due	May 15	May 11
Interest payments due	May 15	May 1 and November 1
Interest rate	4.76%	4% to 5.25%
Original issue	\$ 2,462,491	\$ 67,705,000