

Bailey, Hodshire
& Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

479 E. CHICAGO STREET
P.O. BOX 215
JONESVILLE, MI 49250

PHONE: (517) 849-2410
FAX: (517) 849-2493
E-MAIL: BAILEYHODSHIRE@SBCGLOBAL.NET

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Camden-Frontier School
Camden, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Camden-Frontier School, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Camden-Frontier School'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 Camden-Frontier School, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2012 on our consideration of Camden-Frontier School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 26 through 27 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

Board of Education
Camden-Frontier School

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 the Camden-Frontier School financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bailey, Hodshire & Company, P.C.

Jonesville, Michigan
October 3, 2012

Our discussion and analysis of Camden-Frontier School's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2012. The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the school district's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the School District's revenues and expenditures by program for the General Fund, Food Service Fund, Sinking Fund, and Debt Retirement Funds.

Using This Annual Report

The School District's annual report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Assets and the Statement of Activities (pages 7 and 8) provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Our fund financial statements start on page 9. Our governmental activities statements tell how we financed our services in the short term, as well as what remains for future spending. Fund financial statements report the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds. The remaining statement provides information about activities for which the School District acts solely as an agent for the benefit of student groups.

Reporting the School District as a Whole

One of the most important questions asked about the School District is "Is the School District as a whole better off or worse off financially 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 prepared 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. This basis of accounting takes into account all of the current year's revenue and expenses regardless of when cash is received or paid.

These two statements report the School District's *net assets* - - the difference between assets and liabilities, as reported in the Statement of Net Assets - - as one way to measure the School District's financial health, or *financial position*. Over time, *increases or decreases* in the School District's net assets - - as reported in the Statement of Activities - - are one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses indicates the School district's *operating results*. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the school to assess the *overall health* of the School District.

Reporting the School District's Most Significant Funds

The School District's fund financial statements, which begin on page 9, provide detailed information about the School District's 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 other funds to help it control and manage money for particular purposes (like the Food Service Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the Sinking Fund).

Governmental fund reporting focuses on showing how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. 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 School District's operations 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 reconciliations on pages 10 and 13.

The School District as Trustee

The School District is the trustee, or agent, for its student activity funds. All of the School District's agent activities are reported in a separate Statement of Assets and Liabilities - Agency Funds on page 14. 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

The School District's net assets were \$ 4,319,400 at June 30, 2012, an increase of 5.1% from the prior year. Of this amount, \$109,634 was unrestricted. Restricted net assets are reported separately to show legal constraints that limit the School District's ability to use those assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the School District's governmental activities.

TABLE 1 - NET ASSETS

Assets	<u>2011</u>	<u>2012</u>
Current Assets	\$ 1,464,806	\$ 1,549,702
Noncurrent Assets	<u>3,996,749</u>	<u>4,049,702</u>
Total Assets	<u>\$ 5,461,555</u>	<u>\$ 5,599,404</u>
Liabilities		
Current Liabilities	\$ 1,053,566	\$ 1,009,003
Noncurrent Liabilities	<u>297,359</u>	<u>271,001</u>
Total Liabilities	<u>\$ 1,350,925</u>	<u>\$ 1,280,004</u>
Net Assets		
Invested in Capital Assets - Net of Related Debt	\$ 3,709,001	\$ 3,773,088
Restricted	185,553	436,678
Unrestricted	<u>216,076</u>	<u>109,634</u>
Total Net Assets	<u>\$ 4,110,630</u>	<u>\$ 4,319,400</u>

The \$109,634 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to sell all of our assets and pay off all of our bills *today*, we would have \$109,634 left.

TABLE 2 - CHANGES IN NET ASSETS

	<u>2011</u>	<u>2012</u>
Program Revenue		
Charges for Services	\$ 100,151	\$ 89,460
Operating Grants and Contributions	1,126,716	619,183
Capital Grants and Contributions	0	99,728
General Revenue		
Property Taxes	1,078,137	1,083,077
State Aid	3,497,945	3,710,974
Other	<u>25,126</u>	<u>23,572</u>
Total Revenue	<u>\$ 5,828,075</u>	<u>\$ 5,625,994</u>
Expenses		
Instruction	\$ 3,373,021	\$ 3,401,961
Support Services	1,581,754	1,611,525
Food Services	241,340	256,880
Depreciation - Unallocated	130,899	137,575
Interest on Long-Term Obligations	<u>24,344</u>	<u>9,283</u>
Total Expenses	<u>\$ 5,351,358</u>	<u>\$ 5,417,224</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 476,717</u>	<u>\$ 208,770</u>

As shown above, the cost of all of our governmental activities this year was \$5,417,224. However, the amount that our taxpayers ultimately financed for these activities through School property taxes was only \$1,083,077 because the remainder of the cost was paid by charges for services, grants, and State Aid revenue.

There were several reasons for the change in the financial condition from 2011 to 2012:

- Decrease in ARRA Grant money received
- Hired additional staffing based on increased enrollment to maintain low class sizes
- Retirement that the District pays on each employee increased

Major Governmental Funds Budgeting and Operating Highlights

The School District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2012, the School District amended the General Fund budget one time.

General Fund

For the General Fund, actual revenue was \$5,289,364, above the original budget estimate of \$5,128,310, and the final amended budget of \$5,202,805.

The actual expenditures of the General Fund were \$5,086,822, slightly below the original budget estimate of \$5,127,984, but above the final amended budget of \$5,007,255.

June 30, 2012

Capital Asset and Debt Administration

At the end of fiscal year 2012, the School District had \$6,390,159 invested in land and buildings, furniture and equipment, vehicles, and buses. We have estimated that these assets have depreciated by \$2,340,457 through June 30, 2012; therefore, we currently have net book value of \$4,049,702. Total additions for the year totaled \$252,448, which consisted of school zone speed limit signs, a school-wide PA system, a new mower, 122 desktop computers, 72 laptop computers, and 8 *Smart Boards*. Capital assets at year-end were as follows:

	<u>2011</u>	<u>2012</u>
Land	\$ 160,000	\$ 160,000
Buildings and Improvements	4,852,983	4,898,520
Furniture and Equipment	743,455	692,601
Vehicles	639,038	639,038
Less: Accumulated Depreciation	<u>(2,398,727)</u>	<u>(2,340,457)</u>
Total Capital Assets, net of depreciation	<u>\$ 3,996,749</u>	<u>\$ 4,049,702</u>

At June 30, 2012, the School District had \$275,427 in bonds and notes outstanding, as shown below:

	<u>2011</u>	<u>2012</u>
General Obligation Bonds		
1998 School Improvement Bonds	\$ 5,735	\$ 2,934
2002 Building and Site Bonds	80,000	70,000
Installment Purchase Agreements		
School Buses	200,337	143,271
Computer Lease-Purchase	<u>0</u>	<u>59,222</u>
Total Long-Term Debt	<u>\$ 286,072</u>	<u>\$ 275,427</u>

Factors Bearing on the District's Future

Enrollment, State Aid, and Employee Retirement costs will continue to be critical for the future of the District.

Contacting the School District's Financial Management

This report is designed to give an overview of the financial conditions of the Camden-Frontier School. If you have any questions about this report or need further information, please contact the Superintendent at 4971 Montgomery Road, Camden, MI 49232, telephone (517) 368-5991.

**CAMDEN-FRONTIER SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2012**

ASSETS

Current Assets	
Cash	\$ 405,613
Investments	352,888
Accounts Receivable	470
Due from Other Governmental Units	787,029
Inventory	<u>3,702</u>
Total Current Assets	<u>\$ 1,549,702</u>
Noncurrent Assets	
Capital Assets	
Land	\$ 160,000
Buildings & Improvements	4,898,520
Furniture & Equipment	692,601
Vehicles	639,038
Less: Accumulated Depreciation	<u>(2,340,457)</u>
Total Noncurrent Assets	<u>\$ 4,049,702</u>
Total Assets	<u>\$ 5,599,404</u>

LIABILITIES

Current Liabilities	
Accounts Payable	\$ 194,730
Salaries & Benefits Payable	315,186
Interest Payable	5,201
Notes Payable	396,551
Current Portion of Noncurrent Liabilities	<u>97,335</u>
Total Current Liabilities	<u>\$ 1,009,003</u>
Noncurrent Liabilities	
Bonds & Installment Loans Payable - Noncurrent	\$ 178,092
Compensated Absences	<u>92,909</u>
Total Noncurrent Liabilities	<u>\$ 271,001</u>
Total Liabilities	<u>\$ 1,280,004</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 3,773,088
Restricted for:	
Food Service	54,496
Capital Projects	382,182
Debt Service	0
Unrestricted	<u>109,634</u>
Total Net Assets	<u>\$ 4,319,400</u>
Total Liabilities and Net Assets	<u>\$ 5,599,404</u>

See accompanying notes to the basic financial statements.

CAMDEN-FRONTIER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Instruction					
Basic Programs					
Elementary School	\$ 1,911,231	\$ 0	\$ 61,627	\$ 0	\$(1,849,604)
Middle School	16,014	0	0	0	(16,014)
High School	733,030	0	9,572	0	(723,458)
Added Needs					
Special Education	292,573	0	0	0	(292,573)
Compensatory Education	383,062	0	292,178	0	(90,884)
Career & Technical Education	66,051	0	5,686	0	(60,365)
Support Services					
Pupil Services	80,989	0	0	0	(80,989)
Instructional Staff	132,677	0	36,331	99,728	3,382
School Administration	201,303	0	0	0	(201,303)
General Administration	88,154	0	0	0	(88,154)
Business Services	107,126	0	0	0	(107,126)
Operation & Maintenance	536,502	0	0	0	(536,502)
Transportation	344,969	0	0	0	(344,969)
Central Services	12,953	0	0	0	(12,953)
Athletic Activities	100,791	13,519	0	0	(87,272)
Community Services	6,061	0	0	0	(6,061)
Food Service	256,880	75,941	213,789	0	32,850
Depreciation - Unallocated ¹	137,575	0	0	0	(137,575)
Interest on Long-Term Debt	9,283	0	0	0	(9,283)
Total Governmental Activities	<u>\$ 5,417,224</u>	<u>\$ 89,460</u>	<u>\$ 619,183</u>	<u>\$ 99,728</u>	<u>\$(4,608,853)</u>

General Revenues:

Property Tax, levied for general purposes	\$ 660,323
Property Tax, levied for buildings & site	422,754
State School Aid	3,710,974
Unrestricted investment earnings	1,414
Miscellaneous	22,158
Total General Revenues	<u>\$ 4,817,623</u>
Change in Net Assets	\$ 208,770
Net Assets - Beginning	<u>4,110,630</u>
Net Assets - Ending	<u>\$ 4,319,400</u>

¹ This amount does not include depreciation reported in the direct expenses of the various programs.

The accompanying notes are an integral part of this statement.

CAMDEN-FRONTIER SCHOOL
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Sinking Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 23,901	\$ 381,712	\$ 0	\$ 405,613
Investments	352,888	0	0	352,888
Accounts Receivable	0	470	0	470
Due from Other Funds	0	0	55,052	55,052
Due from Other Governmental Units	787,029	0	0	787,029
Inventory	<u>0</u>	<u>0</u>	<u>3,702</u>	<u>3,702</u>
Total Assets	<u>\$ 1,163,818</u>	<u>\$ 382,182</u>	<u>\$ 58,754</u>	<u>\$ 1,604,754</u>
LIABILITIES				
Accounts Payable	\$ 193,700	\$ 0	\$ 1,030	\$ 194,730
Due to Other Funds	55,052	0	0	55,052
Accrued Interest	4,014	0	0	4,014
Salaries & Benefits Payable	311,958	0	3,228	315,186
Notes Payable	<u>396,551</u>	<u>0</u>	<u>0</u>	<u>396,551</u>
Total Liabilities	<u>\$ 961,275</u>	<u>\$ 0</u>	<u>\$ 4,258</u>	<u>\$ 965,533</u>
FUND BALANCES				
Nonspendable	\$ 0	\$ 0	\$ 3,702	\$ 3,702
Restricted	0	382,182	50,794	432,976
Committed	0	0	0	0
Assigned	0	0	0	0
Unassigned	<u>202,543</u>	<u>0</u>	<u>0</u>	<u>202,543</u>
Total Fund Balances	<u>\$ 202,543</u>	<u>\$ 382,182</u>	<u>\$ 54,496</u>	<u>\$ 639,221</u>
Total Liabilities and Fund Balances	<u>\$ 1,163,818</u>	<u>\$ 382,182</u>	<u>\$ 58,754</u>	<u>\$ 1,604,754</u>

The accompanying notes are an integral part of this statement.

CAMDEN-FRONTIER SCHOOL
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2012

Fund Balances - total governmental funds	\$ 639,221
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 in the funds.	
Add: Capital assets	6,390,159
Deduct: Accumulated depreciation	(2,340,457)
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct: Bonds and notes payable	(275,427)
Deduct: Accrued interest on bonds and notes payable	(1,187)
Deduct: Compensated absences payable	<u>(92,909)</u>
Net assets of governmental activities	<u>\$ 4,319,400</u>

The accompanying notes are an integral part of this statement.

CAMDEN-FRONTIER SCHOOL
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>General Fund</u>	<u>Sinking Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUE				
Local Sources				
Property Taxes	\$ 660,323	\$ 422,754	\$ 0	\$ 1,083,077
Other Local Revenue	36,787	304	75,941	113,032
State Sources	3,707,900	0	12,987	3,720,887
Federal Sources	499,436	0	203,876	703,312
Other Sources	<u>87,686</u>	<u>0</u>	<u>0</u>	<u>87,686</u>
Total Revenue	<u>\$ 4,992,132</u>	<u>\$ 423,058</u>	<u>\$ 292,804</u>	<u>\$ 5,707,994</u>
EXPENDITURES				
Instruction				
Basic Programs				
Elementary	\$ 1,907,975	\$ 0	\$ 0	\$ 1,907,975
Middle School	16,014	0	0	16,014
High School	729,242	0	0	729,242
Added Needs				
Special Education	292,649	0	0	292,649
Compensatory Education	383,062	0	0	383,062
Career & Technical Education	66,051	0	0	66,051
Support Services				
Pupil Services	78,814	0	0	78,814
Instructional Staff	139,426	0	0	139,426
General Administration	88,154	0	0	88,154
School Administration	201,255	0	0	201,255
Business Services	108,514	0	0	108,514
Operation & Maintenance	391,528	0	0	391,528
Building Repairs	0	136,477	0	136,477
Pupil Transportation	288,300	0	0	288,300
Central Services	12,953	0	0	12,953
Athletic Activities	100,791	0	0	100,791
Community Services	6,061	0	0	6,061
Food Service	0	0	256,880	256,880
Debt Service	0	0	16,474	16,474
Capital Outlay	<u>197,542</u>	<u>54,906</u>	<u>0</u>	<u>252,448</u>
Total Expenditures	<u>\$ 5,008,331</u>	<u>\$ 191,383</u>	<u>\$ 273,354</u>	<u>\$ 5,473,068</u>

(continued on next page)

The accompanying notes are an integral part of this statement.

CAMDEN-FRONTIER SCHOOL
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012
(continued)

	General Fund	Sinking Fund	Other Governmental Funds	Total Governmental Funds
REVENUE OVER (UNDER)				
EXPENDITURES	\$ (16,199)	\$ 231,675	\$ 19,450	\$ 234,926
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	\$ 0	\$ 0	\$ 13,400	\$ 13,400
Operating Transfers Out	0	0	(13,400)	(13,400)
Other Transactions	<u>(78,490)</u>	<u>0</u>	<u>0</u>	<u>(78,490)</u>
Total Other Financing Sources (Uses)	\$ <u>(78,490)</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>(78,490)</u>
REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (94,689)	\$ 231,675	\$ 19,450	\$ 156,436
FUND BALANCES - Beginning	<u>297,232</u>	<u>150,507</u>	<u>35,046</u>	<u>482,785</u>
FUND BALANCES - Ending	<u>\$ 202,543</u>	<u>\$ 382,182</u>	<u>\$ 54,496</u>	<u>\$ 639,221</u>

The accompanying notes are an integral part of this statement.

CAMDEN-FRONTIER SCHOOL
 Reconciliation of Statement of Revenue, Expenditures
 and Changes in Fund balances of Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2012

Net changes in fund balances - total governmental funds \$ 156,436

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 those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: Capital outlay	252,448
Deduct: Depreciation expense	(187,826)

Debt proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct: Debt Proceeds	(82,000)
Add: Principal payments on long-term debt	92,645

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: Decrease in interest payable on long-term liabilities	489
Deduct: Increase in accrual for compensated absences	(11,753)
Loss on disposal of capital assets	<u>(11,669)</u>

Change in net assets of governmental activities \$ 208,770

The accompanying notes are an integral part of this statement.

CAMDEN-FRONTIER SCHOOL
STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2012

ASSETS

Cash	<u>\$ 69,090</u>
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LIABILITIES

Due to Student Groups	<u>\$ 69,090</u>
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The accompanying notes are an integral part of this statement.

CAMDEN-FRONTIER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Camden-Frontier School is a K-12 public school district with an enrollment of approximately 595 students. The School District operates under a locally elected seven-member Board of Education, and the administrative staff is headed by a superintendent. The School District's boundaries encompass parts of Hillsdale County and Branch County in the State of Michigan.

The accounting policies of Camden-Frontier School conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The following is a summary of significant accounting policies used by Camden-Frontier School:

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District.

Component units are legally separate organizations for which the School District is financially accountable. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt, or the levying of taxes. The School District has no component units.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. For the most part, the effect of interfund activity has been removed from these statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Property taxes, State Aid, and other items not properly included among program revenues are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements - Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

CAMDEN-FRONTIER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue 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 provider have been met.

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 to be collected with the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Under the modified accrual basis, the property taxes, interest, and grants are considered to be both measurable and available at fiscal year-end. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as inventory.

Financial Statement Presentation

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The School District reports the following major governmental funds:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the laws of the State of Michigan.

Capital Projects Fund: Sinking Fund - This capital projects fund is used to account for financial resources from the 3.5-mill tax levy for the general upgrade and remodeling of the District's buildings and facilities.

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 (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for specified purposes (i.e. food service activities).

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

CAMDEN-FRONTIER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Assets, Liabilities, and Net Assets

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less. During the fiscal year ended June 30, 2012, investments were limited to a cash management account managed by Southern Michigan Bank & Trust. Investments in this account are stated at cost which equals market value.

Inventories - Food service inventories are stated at cost. Federal government food commodities inventories are stated at their assigned U.S.D.A. value. All inventories are charged to expenditures when consumed.

Capital Assets - General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings & Improvements	20 - 50 years
Furniture & Equipment	5 - 20 years
Vehicles and Buses	5 years

Compensated Absences (Vacation and Sick Leave) - It is the School District's policy to permit employees to accumulate earned but unused sick day and personal day benefits. These benefits are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation, retirement, or death.

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are reported as "due to/from other funds." These amounts are eliminated on the government-wide statement of net assets.

CAMDEN-FRONTIER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-Term Obligations - In the government-wide financial statements, all payables, accrued liabilities and long-term obligations are reported as liabilities in the statement of net assets. Bonds payable are recorded net of the applicable bond premium or discount. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt retirement expenditures.

Fund Balance – In March, 2009, the Governmental Accounting Standards Board (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 fund financial statements report the following components of fund balance:

- **Nonspendable:** Amounts that are not in a 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 School Board for use for specific purposes. Commitments are made and can be rescinded only by a resolution of the School Board.
- **Assigned:** Amounts that are intended to be spent on specific purposes, as expressed by the School Board or by a committee or individual designated by the School Board.

The District 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.

The District considers restricted funds to be spent first when expenditures are incurred for which both restricted and unrestricted amounts are available.

Interfund Activity - Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

CAMDEN-FRONTIER SCHOOL
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

NOTE 2- STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education. All annual appropriations lapse at fiscal year end.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements:

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

During the year, the District incurred expenditures in the General Fund which were in excess of the amounts appropriated as follows:

<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Capital Outlay	\$ 115,542	\$ 197,542	\$ 82,000

The budget for Other Revenue was understated by the same amount, so the two offset each other.

Sinking Fund

In accordance with Section 1212(1) of the Michigan School code, the District received voter approval in September, 2001, to levy a tax of 3.5 mills (maximum) for five years, for the purpose of creating a sinking fund for the upgrade and remodeling of the buildings and facilities. This levy was renewed in May, 2006, and in May, 2011. In our opinion, the District is in compliance with the provisions of Section 1212(1) of the Michigan School Code.

NOTE 3 - DEPOSITS AND INVESTMENTS

The District uses financial institutions for cash purposes, which is in accordance with statutory authority. The accounts maintained in the financial institutions are checking, savings, and certificates of deposit. The interest rates of the checking and savings accounts are at variable daily rates.

For investment purposes, the District uses a money market account with Southern Michigan Bank & Trust. This account is not rated by any nationally recognized statistical rating organization. All investments are in accordance with the Michigan School Code.

CAMDEN-FRONTIER SCHOOL
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

The District's deposits and investments at June 30, 2012, are as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Government</u>
Deposits	\$ 405,613	\$ 69,090	\$ 474,703
Investments	<u>352,888</u>	<u>0</u>	<u>352,888</u>
Total	<u>\$ 758,501</u>	<u>\$ 69,090</u>	<u>\$ 827,591</u>

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

Interest Rate Risk - In accordance with its investment policy, the District minimizes interest rate risk, which is the risk that market value of securities in the portfolio will fall due to changes in the market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and by limiting the average maturity in accordance with the District's cash requirements.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District minimizes credit risk by limiting investments to the types of securities allowed by State law and pre-qualifying the financial institutions with which the District will do business.

Concentration of Credit Risk - The District minimizes concentration of credit risk, which is the risk of loss attributed to magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk (Deposits) - In the case of deposits, this is the risk that in the event of a financial institution failure, the District's deposits may not be recovered. As of June 30, 2012, \$343,112 of the District's bank balance of \$593,237 was exposed to custodial credit risk because it was uninsured.

Foreign Currency Risk - The District is not authorized to invest in investments which have this type of risk.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, consist mainly of property taxes and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of property taxes, the stable condition of State programs, and the current year guarantee of Federal funds.

A summary of the principal items of receivables follows:

State Aid	\$ 674,231
Federal grants	109,323
Property taxes	752
Other	<u>2,722</u>
	<u>\$ 787,028</u>

CAMDEN-FRONTIER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 160,000	\$ 0	\$ 0	\$ 160,000
Capital assets being depreciated				
Buildings & Improvements	\$ 4,852,983	\$ 45,537	\$ 0	\$ 4,898,520
Furniture & Equipment	743,455	206,911	(257,765)	692,601
Vehicles	<u>639,038</u>	<u>0</u>	<u>0</u>	<u>639,038</u>
Subtotal	<u>\$ 6,235,476</u>	<u>\$ 252,448</u>	<u>\$ (257,765)</u>	<u>\$ 6,230,159</u>
Less accumulated depreciation for				
Buildings & Improvements	\$(1,523,575)	\$ (95,887)	\$ 0	\$(1,619,462)
Furniture & Equipment	(499,055)	(41,688)	246,096	(294,647)
Vehicles	<u>(376,097)</u>	<u>(50,251)</u>	<u>0</u>	<u>(426,348)</u>
Subtotal	<u>\$(2,398,727)</u>	<u>\$ (187,826)</u>	<u>\$ 246,096</u>	<u>\$(2,340,457)</u>
Total capital assets being depreciated, net	<u>\$ 3,836,749</u>	<u>\$ 64,622</u>	<u>\$ (11,669)</u>	<u>\$ 3,889,702</u>
Total capital assets, net	<u>\$ 3,996,749</u>	<u>\$ 64,622</u>	<u>\$ (11,669)</u>	<u>\$ 4,049,702</u>

Depreciation expense was charged to functions/programs of the District as follows:

Support services	
Pupil Transportation	\$ 50,251
Unallocated	<u>137,575</u>
	<u>\$ 187,826</u>

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances at June 30, 2012, is as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Food Service	<u>\$ 55,052</u>	General	<u>\$ 55,052</u>

The interfund balance between Food Service Fund and General Fund represents the accumulated surplus in the Food Service Fund available for future spending.

Interfund transfers during the year consisted of the following:

Transfer from Food Service Fund to 2002 Debt Retirement Fund	13,400
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The transfer from the Food Service Fund to 2002 Debt Retirement Fund was for payments on the 2002 Building & Site Bonds.

**CAMDEN-FRONTIER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7 - SHORT-TERM DEBT

At June 30, 2012, the District had a note payable outstanding of \$396,551. The note had an interest rate of .6 and a maturity date of August 20, 2012. The note was secured by the full faith and credit of the District as well as pledged state aid.

The following table outlines the District's short-term debt activity for the year ended June 30, 2012:

<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2012</u>
\$ 475,426	\$ 1,000,000	\$(1,078,875)	\$ 396,551

Short-term debt is issued by the District to provide for cash flow needs between State Aid payments.

NOTE 8 - LONG-TERM DEBT

The District issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government.

In 2002, the District issued general obligation - limited tax bonds for the purpose of erecting, furnishing, and equipping a kitchen addition; partially remodeling the school building; and developing and improving the site. The bonds are dated August 1, 2002, in the aggregate amount of \$850,000 and require annual payments of principal and semi-annual payments of interest. The interest rates range from 2.25% to 4.25% per annum. The principal balance at June 30, 2012, was \$70,000. These bonds mature on May 1, 2017.

Durant Resolution Package Bonds

In 1998, the District issued Durant Resolution Bonds in the amount of \$43,774 at an interest rate of 4.761353%. The bonds are a legal obligation of the school district but an annual appropriation by the State of Michigan is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate for the bonds, the district is under no obligation for payment. The principal balance at June 30, 2012, was \$2,934. These bonds mature on May 15, 2013.

Installment Loans

The District has financed the purchase of three school buses and 122 desktop computers through installment purchase agreements with local banks.

Long-term debt activity is summarized as follows:

	<u>Balance</u> <u>6-30-11</u>	<u>Increases</u>	<u>Payments/ Reductions</u>	<u>Balance</u> <u>6-30-12</u>
General Obligation Bonds				
1998 School Improvement Bonds	\$ 5,735	\$ 0	\$ (2,801)	\$ 2,934
2002 Building and Site Bonds	80,000	0	(10,000)	70,000
Installment Purchase Agreements				
School Bus Loan	70,582	0	(28,232)	42,350
School Bus Loan	129,755	0	(28,834)	100,921
Computer Loan	0	82,000	(22,778)	59,222
Compensated Absences	81,156	11,753	0	92,909
	<u>\$ 367,228</u>	<u>\$ 93,753</u>	<u>\$ (92,645)</u>	<u>\$ 368,336</u>

CAMDEN-FRONTIER SCHOOL
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

NOTE 8 - LONG-TERM DEBT (continued)

Interest rates, maturity dates, and current portions for the above obligations are as follows:

	<u>Interest Rate(s)</u>	<u>Maturity Date</u>	<u>Current Portion</u>
1998 School Improvement Bonds	4.76 %	5/15/13	\$ 2,934
2002 Building and Site Bonds	2.25 - 4.25%	5/1/17	10,000
School Bus Loan	3.19 %	8/1/13	28,233
School Bus Loan	2.75%	7/23/15	28,835
Computer Loan	1.75%	8/23/14	<u>27,333</u>
			<u>\$ 97,335</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 97,335	\$ 7,636
2014	85,285	4,898
2015	48,390	2,914
2016	29,417	1,474
2017	<u>15,000</u>	<u>638</u>
Total	<u>\$ 275,427</u>	<u>\$ 17,560</u>

The annual requirements to amortize compensated absences are not included above because it is unknown when they will actually be paid.

NOTE 9 - COMPENSATED ABSENCES

Vested or sick leave, leave pay, or personal days that are expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. The entire compensated absence liability is reported on the government-wide financial statements.

Sick leave is earned by teachers at the rate of 10 days per year, and a maximum of 100 unused days may be accumulated. A teacher who leaves the employ of the District after 15 years of service in the system will be paid for ½ of the accumulated sick days at the current rate of substitute teacher pay.

Leave pay is earned by unionized support personnel at the rate of 13-14 days per year, and a maximum of 150 days may be accumulated. All such employees who have been employed by the District for 15 years or more shall receive, when they resign from employment, payment for ¾ of the accumulated leave days at their pay rate at the time of resignation.

Newly-hired non-union personnel are granted 10 sick days and 4 personal days per year, and a maximum of 75 sick days and 5 personal days may be accumulated. Upon separation of employment, the employee will be paid for ½ of the accumulated days at their pay rate at the time of separation. Non-union personnel hired prior to July 1, 2010 may accumulate a maximum of 160 sick days and 6 personal days. Payment at separation will be ½ of the accumulated days at the current rate of substitute teacher pay.

CAMDEN-FRONTIER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 10 - PROPERTY TAXES

The School District levies its property taxes on December 1 on the taxable valuation of property located in the school district as of the preceding December 31. Various municipalities collect the property taxes and remit them to the District through March. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The total levy for 2011 was 18.0 mills on non-homestead valuation for operational purposes and 3.50 mills on total valuation for the sinking fund. The 2011 taxable valuation of the District totaled approximately \$121,007,000.

NOTE 11 - DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan. The MPSERS provides retirement survivor and disability benefits and postretirement benefits for health, dental, and vision for substantially all employees of the District. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPSERS. That report may be obtained by writing to the Michigan Public School Employees' Retirement System, PO Box 30171, Lansing, MI 48909-7671.

Funding Policy

Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate on covered payroll was 20.66% for the period July 1, 2011 through September 30, 2011, and 24.46% for the period October 1, 2011 through June 30, 2012. The District's payroll for the year ended June 30, 2012, for employees covered by MPSERS was approximately \$2,595,350. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3.0% to 6.4% of gross wages. The School District's contributions to the MPSERS pension plan for the years ended June 30, 2012, 2011, and 2010 were \$616,716, \$493,347, and \$444,000, 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. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and a percentage of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School district's total contribution to the MPSERS pension plan discussed above.

NOTE 12 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical benefits and participates in the MASB-SEG Property/Casualty risk pool for the remaining areas of risk. There has been no significant reduction in coverages, and settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

CAMDEN-FRONTIER SCHOOL
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

NOTE 12 - RISK MANAGEMENT (continued)

The MASB/SEG Property/Casualty Pool, Inc. is a public entity risk pool (self-insurance pool) which provides for reinsurance by various insurance companies at various levels, depending on coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the pool has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years.

NOTE 13 - UNEMPLOYMENT TAXES

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

NOTE 14 - FUND BALANCE CONSTRAINTS

Fund balances have been constrained for the following purposes:

	General <u>Fund</u>	Sinking <u>Fund</u>	Food Service <u>Fund</u>
Nonspendable:			
Inventory	\$ 0	\$ 0	\$ 3,702
Restricted:			
Capital Outlay	0	382,182	0
Food Service	<u>0</u>	<u>0</u>	<u>50,794</u>
	<u>\$ 0</u>	<u>\$ 382,182</u>	<u>\$ 54,496</u>

NOTE 15 - COMMITMENTS

At its June, 2012, meeting, the Board approved the borrowing of up to \$1,000,000, in anticipation of State Aid for the 2012-13 school year.

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 3, 2012, the date on which the financial statements were available to be issued.

CAMDEN-FRONTIER SCHOOL
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budget Amounts</u>		<u>Actual</u>	Actual
	<u>Original</u>	<u>Final</u>		Over (Under)
				<u>Final Budget</u>
Fund Balance - Beginning	\$ 150,000	\$ 297,232	\$ 297,232	\$ 0
Resources (Inflows)				
Local Sources				
Property Taxes	625,675	658,880	660,323	1,443
Other Local Revenue	31,680	33,676	36,787	3,111
State Sources	4,013,501	3,707,896	3,707,900	4
Federal Sources	304,954	499,435	499,436	1
Other Sources	<u>2,500</u>	<u>5,686</u>	<u>87,686</u>	<u>82,000</u>
Amounts Available for Appropriation	<u>\$ 5,128,310</u>	<u>\$ 5,202,805</u>	<u>\$ 5,289,364</u>	<u>\$ 86,559</u>
Charges to Appropriations (Outflows)				
Instruction				
Basic Programs				
Pre-School	\$ 275,400	\$ 0	\$ 0	\$ 0
Elementary	1,311,020	1,908,087	1,907,975	(112)
Middle School	596,490	16,015	16,014	(1)
High School	709,929	729,648	729,242	(406)
Added Needs				
Special Education	286,387	292,662	292,649	(13)
Compensatory Education	353,474	383,075	383,062	(13)
Career & Technical Education	55,749	66,058	66,051	(7)
Support Services				
Pupil Services	56,955	78,821	78,814	(7)
Instructional Staff	122,235	139,447	139,426	(21)
General Administration	73,868	88,912	88,154	(758)
School Administration	248,694	201,519	201,255	(264)
Business Services	121,125	108,695	108,514	(181)
Operation & Maintenance	438,299	391,981	391,528	(453)
Pupil Transportation	283,586	288,489	288,300	(189)
Central Services	0	12,954	12,953	(1)
Athletic Activities	103,309	100,796	100,791	(5)
Community Activities	5,000	6,062	6,061	(1)
Capital Outlay	0	115,542	197,542	82,000
Operating Transfers	0	0	0	0
Other Transactions	<u>86,464</u>	<u>78,492</u>	<u>78,491</u>	<u>(1)</u>
Total Charges to Appropriations	<u>\$ 5,127,984</u>	<u>\$ 5,007,255</u>	<u>\$ 5,086,822</u>	<u>\$ (79,567)</u>
Fund Balance - Ending	<u>\$ 326</u>	<u>\$ 195,550</u>	<u>\$ 202,542</u>	<u>\$ 6,992</u>

The accompanying notes are an integral part of this statement.

CAMDEN-FRONTIER SCHOOL
 BUDGETARY COMPARISON SCHEDULE
 SINKING FUND
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budget Amounts</u>		<u>Actual</u>	Actual
	<u>Original</u>	<u>Final</u>		Over (Under)
				<u>Final Budget</u>
Fund Balance – Beginning	\$ 150,507	\$ 150,507	\$ 150,507	\$ 0
Resources (Inflows)				
Property Taxes	384,364	422,770	422,754	(16)
Interest Income	<u>186</u>	<u>246</u>	<u>304</u>	<u>58</u>
Amounts Available for Appropriation	<u>\$ 535,057</u>	<u>\$ 573,523</u>	<u>\$ 573,565</u>	<u>\$ 42</u>
Charges to Appropriations (Outflows)				
Building Repairs	\$ 180,000	\$ 136,478	\$ 136,477	\$ (1)
Capital Outlay	<u>0</u>	<u>54,906</u>	<u>54,906</u>	<u>0</u>
Total Charges to Appropriations	<u>\$ 180,000</u>	<u>\$ 191,384</u>	<u>\$ 191,383</u>	<u>\$ (1)</u>
Fund Balance – Ending	<u>\$ 355,057</u>	<u>\$ 382,139</u>	<u>\$ 382,182</u>	<u>\$ 43</u>

The accompanying notes are an integral part of this statement.

CAMDEN-FRONTIER SCHOOL
 COMBINING BALANCE SHEETS
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

	Special Revenue	Debt Retirement			Total Nonmajor Governmental Funds
	Food Service Fund	1998 Durant Bonds	2002 Building & Site Bonds	Debt Retirement Total	
ASSETS					
Cash	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Due from Other Funds	55,052	0	0	0	55,052
Inventory	<u>3,702</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,702</u>
Total Assets	<u>\$ 58,754</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 58,754</u>
LIABILITIES					
Accounts Payable	\$ 1,030	\$ 0	\$ 0	\$ 0	\$ 1,030
Salaries Payable	<u>3,228</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,228</u>
Total Liabilities	<u>\$ 4,258</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,258</u>
FUND BALANCE					
Nonspendable	\$ 3,702	\$ 0	\$ 0	\$ 0	\$ 3,702
Restricted	50,794	0	0	0	50,794
Committed	0	0	0	0	0
Assigned	0	0	0	0	0
Unassigned	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Fund Balances	<u>\$ 54,496</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 54,496</u>
Total Liabilities and Fund Balances	<u>\$ 58,754</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 58,754</u>

The accompanying notes are an integral part of this statement.

CAMDEN-FRONTIER SCHOOL
 COMBINING STATEMENTS OF REVENUE, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	Special Revenue	Debt Retirement			Total Nonmajor Governmental Funds
	Food Service Fund	1998 Durant Bonds	2002 Building & Site Bonds	Debt Retirement Total	
REVENUE					
Food Service Sales	\$ 75,902	\$ 0	\$ 0	\$ 0	\$ 75,902
State School Aid	9,913	0	0	0	9,913
Federal National School Lunch Program	203,876	0	0	0	203,876
Restricted State Aid	0	3,074	0	3,074	3,074
Miscellaneous Income	<u>39</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>39</u>
Total Revenue	<u>\$ 289,730</u>	<u>\$ 3,074</u>	<u>\$ 0</u>	<u>\$ 3,074</u>	<u>\$ 292,804</u>
EXPENDITURES					
Salaries & Wages	\$ 48,658	\$ 0	\$ 0	\$ 0	\$ 48,658
Employee Benefits	10,788	0	0	0	10,788
Purchased Services	32,878	0	0	0	32,878
Supplies & Materials	161,513	0	0	0	161,513
Capital Outlay	0	0	0	0	0
Other	3,043	0	0	0	3,043
Redemption of Principal	0	2,801	10,000	12,801	12,801
Interest on Debt	<u>0</u>	<u>273</u>	<u>3,400</u>	<u>3,673</u>	<u>3,673</u>
Total Expenditures	<u>\$ 256,880</u>	<u>\$ 3,074</u>	<u>\$ 13,400</u>	<u>\$ 16,474</u>	<u>\$ 273,354</u>
Excess of Revenue Over (Under) Expenditures	<u>\$ 32,850</u>	<u>\$ 0</u>	<u>\$ (13,400)</u>	<u>\$ (13,400)</u>	<u>\$ 19,450</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	\$ 0	\$ 0	\$ 13,400	\$ 13,400	\$ 13,400
Transfers Out	<u>(13,400)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(13,400)</u>
Total Other Financing Sources (Uses)	<u>\$ (13,400)</u>	<u>\$ 0</u>	<u>\$ 13,400</u>	<u>\$ 13,400</u>	<u>\$ 0</u>
Net Change in Fund Balances	\$ 19,450	\$ 0	\$ 0	\$ 0	\$ 19,450
FUND BALANCES - Beginning	<u>35,046</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>35,046</u>
FUND BALANCES - Ending	<u>\$ 54,496</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 54,496</u>

The accompanying notes are an integral part of this statement.

CAMDEN-FRONTIER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor Pass-Through Grantor Program Title - Grant Number	Federal CFDA Number	Pass-through Grantor's Number	Award Amount	Accrued or (Deferred) Revenue 7/1/11	(Memo Only) Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue 6/30/12
U.S. Department of Agriculture:								
Passed through Michigan Department of Education:								
Child Nutrition Cluster:								
Non-cash assistance (commodities):	10.555							
National School Lunch Program - Non Bonus			\$ 15,201	\$ 0	\$ 0	\$ 15,201	\$ 15,201	\$ 0
National School Lunch Program – Bonus			<u>1,708</u>	<u>0</u>	<u>0</u>	<u>1,708</u>	<u>1,708</u>	<u>0</u>
			<u>\$ 16,909</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,909</u>	<u>\$ 16,909</u>	<u>\$ 0</u>
Cash assistance:								
School Breakfast Program	10.553	111970	\$ 8,082	\$ 0	\$ 0	\$ 8,082	\$ 8,082	\$ 0
		121970	<u>67,018</u>	<u>0</u>	<u>0</u>	<u>67,018</u>	<u>67,018</u>	<u>0</u>
			<u>\$ 75,100</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 75,100</u>	<u>\$ 75,100</u>	<u>\$ 0</u>
National School Lunch	10.555	101950	\$ 10,969	\$ 0	\$ 0	\$ 10,969	\$ 10,969	\$ 0
		101960	<u>100,899</u>	<u>0</u>	<u>0</u>	<u>100,899</u>	<u>100,899</u>	<u>0</u>
			<u>\$ 111,868</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 111,868</u>	<u>\$ 111,868</u>	<u>\$ 0</u>
Total U.S. Department of Agriculture			<u>\$ 203,877</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 203,877</u>	<u>\$ 203,877</u>	<u>\$ 0</u>
U.S. Department of Education:								
Passed through Michigan Department of Education:								
Title I Part A – Improving Basic Programs	84.010	111530/1011	\$ 278,427	\$ 44,914	\$ 266,161	\$ 44,914	\$ 0	\$ 0
		121530/1112	<u>342,023</u>	<u>0</u>	<u>0</u>	<u>199,608</u>	<u>292,178</u>	<u>92,570</u>
			<u>\$ 620,450</u>	<u>\$ 44,914</u>	<u>\$ 266,161</u>	<u>\$ 244,522</u>	<u>\$ 292,178</u>	<u>\$ 92,570</u>
ARRA - Title I Part A	84.389	111535/1011	<u>\$ 53,159</u>	<u>\$ 10,446</u>	<u>\$ 53,159</u>	<u>\$ 10,446</u>	<u>\$ 0</u>	<u>\$ 0</u>
ARRA – Title I School Improvement	84.389A	101555/0910	<u>\$ 179,221</u>	<u>\$ 844</u>	<u>\$ 43,162</u>	<u>\$ 136,903</u>	<u>\$ 136,059</u>	<u>\$ 0</u>

CAMDEN-FRONTIER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012
(continued)

Federal Grantor Pass-Through Grantor Program Title - Grant Number	Federal CFDA Number	Pass-through Grantor's Number	Award Amount	Accrued or (Deferred) Revenue 7/1/11	(Memo Only) Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue 6/30/12
U.S. Department of Education (continued):								
Passed through Michigan Department of Education (continued):								
Title II Part A – Teacher/Principal Training and Recruiting	84.367	110520/1011 120520/1112	\$ 72,904 <u>69,700</u> <u>\$ 142,604</u>	\$ 17,021 <u>0</u> <u>\$ 17,021</u>	\$ 58,225 <u>0</u> <u>\$ 58,225</u>	\$ 17,021 <u>44,198</u> <u>\$ 61,219</u>	\$ 0 <u>60,951</u> <u>\$ 60,951</u>	\$ 0 <u>16,753</u> <u>\$ 16,753</u>
ARRA - State Fiscal Stabilization Fund	84.394	112525/1011	<u>\$ 65,591</u>	<u>\$ 10,220</u>	<u>\$ 65,591</u>	<u>\$ 10,220</u>	<u>\$ 0</u>	<u>\$ 0</u>
Education Jobs Fund	84.410A	112545/1011 112545/1112	\$ 126,707 <u>9,572</u> <u>\$ 136,279</u>	\$ 29,093 <u>0</u> <u>\$ 29,093</u>	\$ 126,707 <u>0</u> <u>\$ 126,707</u>	\$ 29,093 <u>9,572</u> <u>\$ 38,665</u>	\$ 0 <u>9,572</u> <u>\$ 9,572</u>	\$ 0 <u>0</u> <u>\$ 0</u>
Total Passed through Michigan Department of Education			<u>\$1,197,304</u>	<u>\$ 112,538</u>	<u>\$ 613,005</u>	<u>\$ 501,975</u>	<u>\$ 498,760</u>	<u>\$ 109,323</u>
Passed Through Hillsdale County Intermediate School District:								
Medical Assistance Program	93.778		<u>\$ 676</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 676</u>	<u>\$ 676</u>	<u>\$ 0</u>
Total Passed Through Intermediate School District			<u>\$ 676</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 676</u>	<u>\$ 676</u>	<u>\$ 0</u>
Total U.S. Department of Education			<u>\$1,197,980</u>	<u>\$ 112,538</u>	<u>\$ 613,005</u>	<u>\$ 502,651</u>	<u>\$ 499,436</u>	<u>\$ 109,323</u>
Total Federal Financial Assistance			<u>\$1,401,857</u>	<u>\$ 112,538</u>	<u>\$ 613,005</u>	<u>\$ 706,528</u>	<u>\$ 703,313</u>	<u>\$ 109,323</u>

NOTES:

1. This schedule includes the federal grant activity of Camden –Frontier School and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB A-133 and reconciles with the amounts presented in the financial statements.
2. Management has utilized the Grants Section Auditors Report (Form R7120) and CMS Grant Auditor Report (GAR) in preparing this schedule.
3. The amounts reported on the Recipient Entitlement Balance Report agree with this schedule for USDA donated food commodities
4. Title I Cluster (CFDA #84.010 and CFDA #84.389A) was audited as a major program, representing 61% of total expenditures.

**CAMDEN-FRONTIER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____	Yes	_____ <u>X</u> _____	No
Significant deficiency(ies) identified?	_____	Yes	_____ <u>X</u> _____	No
Noncompliance material to financial statements noted?	_____	Yes	_____ <u>X</u> _____	No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____	Yes	_____ <u>X</u> _____	No
Significant deficiency(ies) identified?	_____	Yes	_____ <u>X</u> _____	No

Type of auditor’s report issues on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?

	_____	Yes	_____ <u>X</u> _____	No
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Major Programs

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010 and 84.389A	Title I Cluster

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

Auditee qualifies as low-risk auditee? _____ X _____ No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV – PRIOR YEAR FINDINGS

Not applicable – no findings in the prior year.

Bailey, Hodshire
& Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

479 E. CHICAGO STREET
P.O. BOX 215
JONESVILLE, MI 49250

PHONE: (517) 849-2410
FAX: (517) 849-2493
E-MAIL: BAILEYHODSHIRE@SBCGLOBAL.NET

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

To the Board of Education
Camden-Frontier School
Camden, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Camden-Frontier School as of and for the year ended June 30, 2012, which collectively comprise Camden-Frontier School's basic financial statements, and have issued our report thereon dated October 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Camden-Frontier School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Camden-Frontier 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 Camden-Frontier School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Camden-Frontier 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Camden-Frontier 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*.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bailey, Hodshire & Company, P.C.

Jonesville, Michigan

October 3, 2012

Bailey, Hodshire
& Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

479 E. CHICAGO STREET
P.O. BOX 215
JONESVILLE, MI 49250

PHONE: (517) 849-2410
FAX: (517) 849-2493
E-MAIL: BAILEYHODSHIRE@SBCGLOBAL.NET

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Camden-Frontier School
Camden, Michigan

Compliance

We have audited Camden-Frontier School's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Camden-Frontier School's major federal programs for the year ended June 30, 2012. Camden-Frontier School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Camden-Frontier School's management. Our responsibility is to express an opinion on Camden-Frontier School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Camden-Frontier School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Camden-Frontier School's compliance with those requirements.

In our opinion, Camden-Frontier School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Camden-Frontier School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Camden-Frontier

Board of Education
Camden-Frontier School

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, the Board of Education, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bailey, Hodshire & Company, P.C.

Jonesville, Michigan

October 3, 2012

Bailey, Hodshire
& Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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JONESVILLE, MI 49250

PHONE: (517) 849-2410
FAX: (517) 849-2493
E-MAIL: BAILEYHODSHIRE@SBCGLOBAL.NET

October 3, 2012

To the Board of Education
Camden-Frontier School
Camden, MI 49232

We have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of the Camden-Frontier School for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 19, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Camden-Frontier School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the organization 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 estimate affecting the financial statements was:

Management's estimate of Depreciation Expense and Accumulated Depreciation is based on the potential useful lives of the assets being depreciated. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

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

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 3, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization'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 District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying this 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.

This information is intended solely for the use of the Board of Education and management of the Camden-Frontier School and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Bailey, Hodshire & Company, P.C.

Bailey, Hodshire & Company, P.C.