

DOWAGIAC UNION SCHOOL DISTRICT

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION

JUNE 30, 2011

Dowagiac Union School District

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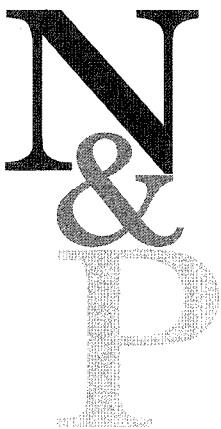
Dowagiac Union School District

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Dowagiac Union Schools, Michigan

Norman & Paulsen, P.C.

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We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dowagiac Union Schools, 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 Dowagiac Union Schools' 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 the 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 Dowagiac Union Schools 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.

The administration's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but is 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.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA/ABV, CVA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

Board of Education
Dowagiac Union Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dowagiac Union Schools basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic 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 not a required part of the basic financial statements. Such 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 our report dated October 31, 2011, on our consideration of Dowagiac Union School's internal control over financial reporting and on our tests of it's 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.

October 31, 2011

Norman J. Paulsen, P.C.

DOWAGIAC UNION SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS
YEAR ENDED June 30, 2011

This section of Dowagiac Union Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the 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 Dowagiac Union Schools 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, the Debt Service Fund and the Food Service Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

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

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statement

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue 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 revenues and expenses are taken into account regardless of when cash is received or paid.

DOWAGIAC UNION SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2011

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 revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

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

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. 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.

DOWAGIAC UNION SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2011

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

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary 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

	June 30,	
	2011	2010
Assets		
Current and other assets	\$ 8,379,389	\$ 6,899,109
Capital assets - Net of accumulated depreciation	24,276,163	24,867,490
Other noncurrent assets	72,472	-
Total assets	32,728,024	31,766,599
Liabilities		
Current liabilities	3,433,220	2,941,701
Long-term liabilities	18,800,713	19,390,507
Total liabilities	22,233,933	22,332,208
Net Assets		
Invested in property and equipment - net of related debt	4,962,256	4,939,805
Restricted for debt service	338,163	248,734
Unrestricted	5,193,672	4,245,852
Total net assets	\$ 10,494,091	\$ 9,434,391

DOWAGIAC UNION SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
 YEAR ENDED June 30, 2011

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 \$10,494,091 at June 30, 2011. Capital assets, net of related debt totaling \$4,962,256 compares the original cost, less depreciation of the School District's capital assets to long-term debt. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$5,193,672 was unrestricted.

The \$5,193,672 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. 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 ended June 30, 2011 and 2010.

TABLE 2

	Year Ended June 30,	
	<u>2011</u>	<u>2010</u>
Revenue		
Program revenue:		
Charges for services	\$ 572,014	\$ 449,253
Grants and catagoricals	4,511,303	4,978,696
General revenue:		
Property taxes	6,048,088	6,021,732
State foundation allowance	12,009,413	11,861,252
Other	<u>137,209</u>	<u>115,755</u>
Total revenue	23,278,027	23,426,688
Function/Program Expenses		
Instruction	11,784,303	12,822,586
Support services	7,277,803	7,558,083
Community services	3,579	7,946
Food services	1,081,194	1,046,915
Athletics	393,443	405,498
Interest on long-term debt	892,271	1,030,000
Depreciation (unallocated)	<u>785,734</u>	<u>818,644</u>
Total expenses	<u>22,218,327</u>	<u>23,689,672</u>
Change in net assets	<u>\$ 1,059,700</u>	<u>\$ (262,984)</u>

DOWAGIAC UNION SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2011

As reported in the statement of activities, the cost of all governmental activities this year was \$22,218,327. Certain activities were partially funded from those who benefited from the programs \$572,014 or by other governments and organizations that subsidized certain programs with grants and categoricals \$4,511,303. We paid for the remaining "public benefit" portion of our governmental activities with \$6,048,088 in taxes, \$12,009,413 in State foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets of \$1,059,700. Key reasons for the change in net assets were capitalizable expenditures and the repayment of bond principal and other long-term obligations. The decrease in net assets differs from the change in fund balance and a reconciliation appears on page 15.

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 sources.

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$5,664,835, which is an increase of \$959,119 from last year. In the General Fund, our principal operating fund, the fund balance increased \$1,009,204 to \$5,307,556. The General Fund fund balance is reflected as nonspendable for inventories - \$90,443; assigned for working capital - \$2,000,000; and unassigned - \$3,217,113.

Our Food Service Fund reflected a fund balance increase of \$19,116.

Our Debt Service Fund reflected a fund balance decrease of \$60,201 and the fund balance ended the year at \$338,163. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Fund fund balance is reserved since it can only be used to pay debt service obligations.

DOWAGIAC UNION SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
 YEAR ENDED June 30, 2011

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

Budgeted revenues were increased \$436,814 to better reflect adjustments to state per student foundation funding, adjustments to categorical funding and various grant programs. Actual revenues were within \$46,119(0.2 percent) of the final budgeted revenues.

Budgeted expenditures were increased \$520,651 to better reflect operating costs. Actual expenditures ended the year under the final budget by \$742,380 (3.6 percent).

Capital Asset and Debt Administration

Capital Assets

At June 30, 2011, the School District had \$35,888,818 invested in a broad range of capital assets, including land, buildings, furniture and equipment, and construction in progress. This amount represents a net increase (including additions and disposals) of \$80,704, or 0.2 percent, from last year.

	<u>2011</u>	<u>2010</u>
Land	\$ 907,264	\$ 907,264
Buildings and improvements	31,089,515	31,089,515
Buses and other vehicles	1,487,485	1,353,268
Furniture and equipment	<u>2,404,554</u>	<u>2,458,067</u>
Total capital assets	35,888,818	35,808,114
Less accumulated depreciation	<u>11,612,655</u>	<u>10,940,624</u>
Net capital assets	<u>\$ 24,276,163</u>	<u>\$ 24,867,490</u>

DOWAGIAC UNION SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2011

Debt

At the end of this year, the School District had \$20,298,082 in bonds outstanding versus \$20,475,160 in the previous year - a change of 1.0 percent. Those bonds consisted of the following:

	<u>2011</u>	<u>2010</u>
General Obligation Bonds	<u>\$ 20,298,082</u>	<u>\$ 20,475,160</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt is significantly below the statutorily imposed limit.

Factors Bearing on the District's Future

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

The 2011-2012 foundation allowance has been reduced by \$470 per student. The foundation allowance represents 58% of total District revenue.

Student count is projected to increase slowly over the next five years. However, the uncertain economy in the State of Michigan could impact the number of enrolled students.

Retirement contributions increased to a new rate of 24.46% of payroll, effective October 1, 2011.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact Dawn Copley, Director of Finance, phone (269) 782-4400, 243 S. Front Street, Dowagiac, Michigan 49047.

DOWAGIAC UNION SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2011

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 3,805,418
Accounts receivable	48,204
Taxes receivable (net)	-
Due from other governmental units	4,415,396
Prepaid expenses	2,925
Inventories	<u>107,446</u>
Total current assets	8,379,389
Noncurrent Assets:	
Capital assets	35,888,818
Less: accumulated depreciation	<u>(11,612,655)</u>
Net capital assets	24,276,163
Issuance cost for bonds, net	<u>72,472</u>
Total noncurrent assets	<u>24,348,635</u>
Total assets	32,728,024
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts payable	308,917
Accrued payroll	1,061,460
Accrued benefits	611,433
Other liabilities	103,163
Accrued interest	133,000
Deferred revenue	629,581
Bonds payable, due within one year, net	<u>585,666</u>
Total current liabilities	3,433,220
Noncurrent Liabilities:	
Bonds payable, net	<u>18,800,713</u>
Total liabilities	22,233,933
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	4,962,256
Restricted for debt service	338,163
Unrestricted	<u>5,193,672</u>
Total net assets	<u>\$ 10,494,091</u>

See Notes to Financial Statements

DOWAGIAC UNION SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
YEAR ENDED June 30, 2011

	<u>Program Revenues</u>			<u>Governmental Activities</u>
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>	
Functions/Programs				
Governmental activities:				
Instruction	\$ 11,784,303	\$ 54,043	\$ 3,523,971	\$ (8,206,289)
Support services	7,277,803	191,907	51,828	(7,034,068)
Food services	1,081,194	243,516	904,371	66,693
Athletics	393,443	82,548	-	(310,895)
Community services	3,579	-	-	(3,579)
Interest on long- term debt	892,271	-	31,133	(861,138)
Depreciation (unallocated)	<u>785,734</u>	<u>-</u>	<u>-</u>	<u>(785,734)</u>
Total Governmental activities	<u>\$ 22,218,327</u>	<u>\$ 572,014</u>	<u>\$ 4,511,303</u>	(17,135,010)
General revenues:				
Taxes				
Property taxes, levied for general operations				4,619,398
Property taxes, levied for debt service				1,428,690
State aid not restricted to specific purposes				12,009,413
Interest and investment earnings				20,198
Other				<u>117,011</u>
Total general revenues				<u>18,194,710</u>
Change in Net Assets				1,059,700
Net Assets - Beginning of year				<u>9,434,391</u>
Net Assets - End of year				<u>\$ 10,494,091</u>

See Notes to Financial Statements

DOWAGIAC UNION SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2011

	General	Debt Service	Food Service
<u>ASSETS</u>			
Cash and cash equivalents	\$ 3,335,984	\$ 338,163	\$ 131,271
Accounts receivable	48,204	-	-
Due from other governmental units	4,380,839	-	34,557
Due from other funds	130,206	-	-
Prepaid expenditures	-	-	2,925
Inventories	90,443	-	17,003
Total assets	<u>\$ 7,985,676</u>	<u>\$ 338,163</u>	<u>\$ 185,756</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 272,483	\$ -	\$ 36,434
Accrued payroll	1,061,460	-	-
Accrued benefits	611,433	-	-
Other liabilities	103,163	-	-
Due to other funds	-	-	130,206
Deferred revenue	629,581	-	-
Total liabilities	2,678,120	-	166,640
Fund Balances:			
Nonspendable:			
Inventories	90,443	-	17,003
Restricted for:			
Debt service	-	338,163	-
Food service	-	-	2,113
Assigned for:			
Working capital	2,000,000	-	-
Unassigned	3,217,113	-	-
Total fund balances	5,307,556	338,163	19,116
Total liabilities and fund balances	<u>\$ 7,985,676</u>	<u>\$ 338,163</u>	<u>\$ 185,756</u>

See Notes to Financial Statements

Total

\$ 3,805,418
48,204
4,415,396
130,206
2,925
107,446

\$ 8,509,595

\$ 308,917
1,061,460
611,433
103,163
130,206
629,581

2,844,760

107,446

338,163
2,113

2,000,000
3,217,113

5,664,835

\$ 8,509,595

DOWAGIAC UNION SCHOOL DISTRICT

GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2011

Total Fund Balances - Governmental Funds \$ 5,664,835

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.

The cost of the capital assets is	35,888,818
Accumulated depreciation is	<u>(11,612,655)</u>
Total	24,276,163

Long-term liabilities are not due and payable in the
current period and are not reported in the funds:

Bonds payable, net	(19,386,379)
Issuance cost for bonds, net	72,472

Accrued interest payable on long-term liabilities is not
included as a liability in governmental activities (133,000)

Net assets of governmental activities \$ 10,494,091

DOWAGIAC UNION SCHOOL DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED June 30, 2011

	General	Debt Service	Food Service
Revenues:			
Local sources	\$ 5,082,450	\$ 1,431,345	\$ 243,516
State sources	13,153,368	31,133	49,361
Federal sources	2,431,844	-	855,010
Total revenues	20,667,662	1,462,478	1,147,887
Expenditures:			
Instruction	11,836,803	-	-
Supporting services	7,424,633	-	-
Community services	3,579	-	-
Food service	-	-	1,128,771
Athletics	393,443	-	-
Debt services			
Principal payment	-	617,078	-
Interest and fiscal charges	-	854,601	-
Bond issuance costs	-	78,072	-
Total expenditures	19,658,458	1,549,751	1,128,771
Excess (deficiency) of revenues over expenditures	1,009,204	(87,273)	19,116
Other financing sources (uses):			
Proceeds from bond issuance	-	9,945,000	-
Premium on bond issuance	-	275,770	-
Deposit with bond paying agent	-	(10,202,698)	-
Total other financing sources (uses)	-	18,072	-
Net change in fund balances	1,009,204	(69,201)	19,116
Fund balances, July 1	4,298,352	407,364	-
Fund balances, June 30	\$ 5,307,556	\$ 338,163	\$ 19,116

See Notes to Financial Statements

Total

\$ 6,757,311
13,233,862
3,286,854

23,278,027

11,836,803
7,424,633
3,579
1,128,771
393,443

617,078
854,601
78,072

22,336,980

941,047

9,945,000
275,770
(10,202,698)

18,072

959,119

4,705,716

\$ 5,664,835

DOWAGIAC UNION SCHOOL DISTRICT
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2011

	<u>Student Activities Agency Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ <u>172,757</u>
<u>LIABILITIES</u>	
Due to student groups	\$ <u>172,757</u>

See Notes to Financial Statements

DOWAGIAC UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Dowagiac Union 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 Districts' reporting entity, and which organizations are legally separate, component units of the school district. Based on the application of the criteria, the 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 changes in net assets) 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 revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. 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 revenues 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 government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

DOWAGIAC UNION SCHOOL DISTRICT

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 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 government-wide financial statements.

Amounts reported as program revenue include (1) charges to customer 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-based 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 government considers revenues to be available if they are 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 government.

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

The school district reports the following major governmental funds:

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

DOWAGIAC UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Debt Service Fund is used to record tax, interest, other revenue for payment, principle and other expenditures on the bond debt obligations.

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

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Fund maintained by the School District is the Food Services Fund.

Additionally, the government reports the following fund types:

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity 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."

DOWAGIAC UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

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

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government 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.

DOWAGIAC UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges 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 bond issuance costs, during the current period.

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 service expenditures.

Fund equity - Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions.*" This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance - amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.

Restricted fund balance - amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District's Debt Service fund and Food Service fund balances are considered restricted.

Committed fund balance - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

DOWAGIAC UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity - (continued)

Assigned fund balance - amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.

Comparative Data/Reclassifications - Comparative data is not included in the district's financial statements.

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

DOWAGIAC UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue 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. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

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

DOWAGIAC UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 3 - CASH AND CASH EQUIVALENTS

Investments and Depositories are restricted to those complying with MCL 380.622, 380.1221 and 380.1223. These include:

- * United States Government Securities.
- * United States Government Agencies.
- * Federal Instrumentalities (United States Government-Sponsored Enterprises).
- * Certificates of Deposit.
- * Repurchase Agreements.
- * Commercial Paper.
- * Bankers' Acceptances.
- * Registered Investment Companies (Money Market Mutual Funds).
- * Investment pools, as authorized by the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118, composed entirely of instruments that are legal for direct investment by an intermediate school district.

The School District's cash and cash equivalents at June 30, 2011, are composed of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Deposits	<u>\$ 3,805,418</u>	<u>\$ 172,757</u>	<u>\$ 3,978,175</u>

Deposits consist of checking, savings, and bank municipal investment funds. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$4,119,451. Of that amount, \$1,299,311 was covered by federal depository insurance coverage or secured and \$1,922,214 was uninsured and uncollateralized. The balance of \$897,926 was invested in bank municipal investment funds which are not categorized by risk.

The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The School District evaluates each financial institution it deposits School District funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

DOWAGIAC UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 4 - DEFERRED REVENUE

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 include unearned grant and categorical aid payments received prior to meeting all eligibility requirements in the amount of \$629,581.

NOTE 5 - CAPITAL ASSETS

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

	Balance <u>July 1, 2010</u>	<u>Additions</u>	Disposals and <u>Adjustments</u>	Balance <u>June 30, 2011</u>
Assets not being depreciated - Land	\$ 907,264	\$ -	\$ -	\$ 907,264
Capital assets being depreciated:				
Buildings and building improvements	31,089,515	-	-	31,089,515
Buses and other vehicles	1,353,268	134,217	-	1,487,485
Furniture and equipment	<u>2,458,067</u>	<u>60,190</u>	<u>113,703</u>	<u>2,404,554</u>
Subtotal	34,900,850	194,407	113,703	34,981,554
Accumulated depreciation:				
Buildings and building improvements	8,219,505	571,750	-	8,791,255
Buses and other vehicles	1,085,407	69,112	-	1,154,519
Furniture and equipment	<u>1,635,712</u>	<u>144,872</u>	<u>113,703</u>	<u>1,666,881</u>
Subtotal	<u>10,940,624</u>	<u>785,734</u>	<u>113,703</u>	<u>11,612,655</u>
Net capital assets being depreciated	<u>23,960,226</u>			<u>23,368,899</u>
Net capital assets	<u>\$ 24,867,490</u>			<u>\$ 24,276,163</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

DOWAGIAC UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due To/From Other Funds:		
General Fund	Food Service Fund	<u>\$ 130,206</u>

NOTE 7 - 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 property loss, torts, errors and omissions, and medical claims for certain employee groups. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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.

Long-term obligation activity can be summarized as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds	\$ 20,475,160	\$ 9,945,000	\$10,122,078	\$20,298,082	\$ 643,366
Issuance premiums	-	275,770	19,700	256,070	19,700
Deferred charges	(547,475)	(697,698)	(77,400)	(1,167,773)	(77,400)
Other obligations	<u>52,500</u>	<u>-</u>	<u>52,500</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 19,980,185</u>	<u>\$ 9,523,072</u>	<u>\$10,116,878</u>	<u>\$19,386,379</u>	<u>\$ 585,666</u>

DOWAGIAC UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 8 - LONG-TERM DEBT - (Continued)

The annual requirement to service the bonds and notes outstanding to maturity, including both principal and interest, are as follows:

Year ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 643,366	\$ 800,454	\$ 1,443,820
2013	694,716	768,803	1,463,519
2014	720,000	753,288	1,473,288
2015	745,000	738,088	1,483,088
2016	805,000	715,338	1,520,338
Thereafter	<u>16,690,000</u>	<u>6,179,260</u>	<u>22,869,260</u>
	<u>\$20,298,082</u>	<u>\$ 9,955,231</u>	<u>\$30,253,313</u>

Governmental Activities:

General obligation bonds consist of:

\$443,346 1998 School Improvement Bond (Durant Settlement) payable in annual installments of \$45,444 to \$19,549 through May 15, 2013; payments are to be made directly by the State of Michigan	\$ 58,082
\$9,945,000 2010 Refunding Bonds, payable in annual installments of \$630,000 to \$1,085,000 through May 1, 2024; interest from 2.00% to 5.00%	9,945,000
\$1,135,000 2002 School Building and Site Bonds, payable in annual installments of \$555,000 to \$580,000 through May 1, 2012; interest from 4.125% to 5.00%	580,000
\$10,000,000 2005 Refunding Bonds, payable in annual installments of \$35,000 to \$1,475,000 through May 1, 2031; interest from 3.25% to 4.375%	<u>9,715,000</u>
Total bonds payable	<u>\$20,298,082</u>

DOWAGIAC UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFITS PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employee's Retirement System (MPSERS), as cost sharing multiple-employer state-wide defined benefit public employee retirement plan 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 was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to the Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members joining the system on or after July 1, 2008 contribute at the following graduated rate: 3% of the first \$5,000, 3.6% of \$5,001 through \$15,000 and 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any are refundable.

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus Member. The Pension Plus Plan pairs a guaranteed retirement income (defined benefit pension) with a flexible and transferable retirement savings (defined contribution) account.

DOWAGIAC UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFITS PLAN (Continued)

Funding Policy (Continued)- The 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 rate through September 30, 2010 was 16.94% of payroll and increased to 19.41% for the base plan and 17.91% for pension plus members effective October 1, 2010 through October 31, 2010 at which time it increased again due to the number of retirees associated with the early retirement incentive to 20.66% for basic plan members and 19.16% for pension plus members for the period November 1, 2010 through June 30, 2011. In addition, the district is required to match 50% up to 1% of the employees contribution in the pension plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The health care portion is 5.5% before the 3% for the injunction. The District contributions to MPSERS for the year ended June 30, 2011, 2010 and 2009 were \$2,144,232, \$1,965,268 and \$1,895,900 respectively, and were equal to the required contribution for those years.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees. For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit and were paid less than \$18,000 in the prior school year and members who were hired on or after July 1, 2010, with a starting salary of less than \$18,000 are required to contribute 1.5% of the members' compensation. For each school fiscal year that begins on or after July 1, 2011, members shall contribute 3% of compensation into the health care funding account. Effective April 1, 2011, a court order eliminated this requirement. The court order is being appealed by the State of Michigan.

Pension recipients are generally eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage.

The District is not responsible for the payment of retirement or post-retirement benefits which is the responsibility of the State of Michigan.

REQUIRED SUPPLEMENTAL INFORMATION

DOWAGIAC UNION SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 YEAR ENDED June 30, 2011

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Revenues:				
Local sources	\$ 4,991,357	\$ 4,996,270	\$ 5,082,450	\$ 86,180
State sources	13,202,577	13,203,069	13,153,368	(49,701)
Federal sources	2,083,033	2,514,442	2,431,844	(82,598)
Total revenue	20,276,967	20,713,781	20,667,662	(46,119)
Expenditures:				
Instruction:				
Basic programs	9,041,699	9,408,332	9,158,836	(249,496)
Added needs	2,725,842	2,683,196	2,609,180	(74,016)
Adult/community education	60,113	80,355	68,786	(11,569)
Support services:				
Pupil	821,555	708,941	743,459	34,518
Instructional staff	1,240,837	1,220,544	1,056,772	(163,772)
General administration	418,850	396,909	386,886	(10,023)
School administration	1,218,015	1,304,961	1,302,117	(2,844)
Business services	816,425	978,491	894,380	(84,111)
Operations and maintenance	1,905,111	1,923,594	1,813,868	(109,726)
Transportation	943,348	990,145	953,824	(36,321)
Central services	280,815	294,720	273,328	(21,392)
Athletics	396,490	404,090	393,443	(10,647)
Community services	11,087	6,560	3,579	(2,981)
Total expenditures	19,880,187	20,400,838	19,658,458	(742,380)
Net change in fund balance	396,780	312,943	1,009,204	696,261
Fund balance, July 1	4,298,352	4,298,352	4,298,352	-
Fund balance, June 30	\$ 4,695,132	\$ 4,611,295	\$ 5,307,556	\$ 696,261

DOWAGIAC UNION SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION
 BUDGETARY COMPARISON SCHEDULE - FOOD SERVICE FUND
 YEAR ENDED June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenues:				
Local sources	\$ 268,710	\$ 241,050	\$ 243,516	\$ 2,466
State sources	66,005	49,361	49,361	-
Federal sources	<u>827,650</u>	<u>856,882</u>	<u>855,010</u>	<u>(1,872)</u>
Total revenues	1,162,365	1,147,293	1,147,887	594
Expenditures:				
Salaries	60,075	54,950	54,950	-
Employee benefits	16,255	15,518	15,557	39
Purchased services	950,525	906,414	911,095	4,681
Supplies, material and other	88,500	122,834	99,592	(23,242)
Capital outlay	<u>47,010</u>	<u>47,577</u>	<u>47,577</u>	<u>-</u>
Total expenditures	<u>1,162,365</u>	<u>1,147,293</u>	<u>1,128,771</u>	<u>(18,522)</u>
Net change in fund balances	-	-	19,116	19,116
Fund balance - July 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,116</u>	<u>\$ 19,116</u>

OTHER SUPPLEMENTAL INFORMATION

DOWAGIAC UNION SCHOOL DISTRICT

OTHER SUPPLEMENTAL INFORMATION

COMBINING STATEMENT OF CHANGES IN
ASSETS AND LIABILITIES - ALL AGENCY TYPES
June 30, 2011

	<u>Balance</u> <u>06/30/10</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>Balance</u> <u>6/30/11</u>
<u>STUDENT ACTIVITY FUND</u>				
ASSETS				
Cash and cash equivalents	\$ 174,090	\$ 250,304	\$ 251,637	\$172,757
LIABILITIES				
Due to student groups and teacher groups:				
Kincheloe School	\$ 13,872	\$ 11,355	\$ 9,714	\$ 15,513
Justus Gage School	3,189	7,116	8,310	1,995
Sister Lakes School	20,764	16,810	18,501	19,073
Patrick Hamilton School	7,160	11,899	11,625	7,434
Dowagiac Middle School	50,145	67,685	68,491	49,339
Union High School	48,313	135,331	134,496	49,148
Bakeman Music Scholarship	<u>30,647</u>	<u>108</u>	<u>500</u>	<u>30,255</u>
Total Liabilities	<u>\$ 174,090</u>	<u>\$ 250,304</u>	<u>\$ 251,637</u>	<u>\$172,757</u>

DOWAGIAC UNION SCHOOL DISTRICT

OTHER SUPPLEMENTAL INFORMATION

STATEMENT OF BOND INDEBTEDNESS
YEAR ENDED JUNE 30, 2011

2002 SCHOOL BUILDING AND SITE BONDS - NON-REFUNDED PORTION
(General obligation - unlimited tax) \$ 1,135,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2012	5.000	\$ 29,000	\$ 580,000	\$ 609,000

2010 SCHOOL REFUNDING BONDS
(General obligation - unlimited tax) \$ 9,945,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2012	2.000	\$ 353,732	\$ -	\$ 353,732
2013	2.000	335,732	630,000	983,732
2014	2.000	341,132	680,000	1,021,132
2015	3.000	327,532	705,000	1,032,532
2016	3.000	306,382	340,000	646,382
2017	3.000	296,182	830,000	1,126,182
2018	3.000	271,282	855,000	1,126,282
2019	5.000	245,632	880,000	1,125,632
2020	5.000	201,632	925,000	1,126,632
2021	3.500	155,382	970,000	1,125,382
2022	3.625	121,432	1,005,000	1,126,432
2023	4.000	85,000	1,040,000	1,125,000
2024	4.000	43,400	1,085,000	1,128,400
Total		\$ 3,102,452	\$ 9,945,000	\$ 13,047,452

Interest on the bonds of the above issue is payable semi-annually on November 1 and May 1. Principal is payable annually on May 1.

DOWAGIAC UNION SCHOOL DISTRICT
 OTHER SUPPLEMENTAL INFORMATION
 STATEMENT OF BOND INDEBTEDNESS
 YEAR ENDED JUNE 30, 2011

2005 REFUNDING BONDS (General obligation - unlimited tax) \$ 10,000,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2012	4.000	\$ 414,956	\$ 35,000	\$ 449,956
2013	4.000	413,556	35,000	448,556
2014	4.000	412,156	40,000	452,156
2015	4.000	410,556	40,000	450,556
2016	4.000	408,956	465,000	873,956
2017	4.000	390,356	-	390,356
2018	4.000	390,356	-	390,356
2019	4.000	390,356	-	390,356
2020	4.000	390,356	-	390,356
2021	4.000	390,356	-	390,356
2022	4.000	390,356	-	390,356
2023	4.000	390,356	-	390,356
2024	4.000	390,356	-	390,356
2025	4.250	390,356	1,140,000	1,530,356
2026	4.250	341,906	1,190,000	1,531,906
2027	4.250	291,332	1,240,000	1,531,332
2028	4.250	238,632	1,295,000	1,533,632
2029	4.250	183,594	1,350,000	1,533,594
2030	4.375	126,218	1,410,000	1,536,218
2031	4.375	64,532	1,475,000	1,539,532
Total		<u>\$ 6,819,598</u>	<u>\$ 9,715,000</u>	<u>\$ 16,534,598</u>

Interest on the bonds of the above issue is payable semi-annually on November 1 and May 1. Principal is payable annually on May 1.

DOWAGIAC UNION SCHOOL DISTRICT

OTHER SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED June 30, 2011

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. Department of Education</u>			
Passed Through State Department of Education:			
Education Stabilization Fund	84.394	1025250910 1125251011	\$ 707,413 284,173
Title I - Schoolwide Plan Grants	84.010	1115201011	15,000
Title I - Educationally Deprived	84.010	1015300910 1115301011	758,665 742,531
ARRA Title I A	84.389	1115351011 1015350910	322,087 357,087
Migrant Education	84.011	1118302011 1018302010 1118901011 1018900910	285,679 246,991 326,822 288,038
Title IIA - Improving Teacher Quality	84.367	1105201011 1005200910	137,603 161,886
Education Jobs Fund	84.410A	1125451011	542,808
ARRA Title II D	84.386	1042950910	13,678
Title III English Language	84.365	1005800910 1105801011	31,817 38,088
Drug Free Schools	84.186	1128601011 1028600910	9,427 14,953

Total passed through MDE

(continued on next page)

Accrued/ (Deferred) Revenue July 1, 2011	(Memo only) Prior Year Expenditures	Expenditures	Receipts	Accrued/ (Deferred) Revenue June 30, 2011
\$ 24,737	\$ 707,413	\$ -	\$ 24,737	\$ -
<u>-</u>		<u>284,173</u>	<u>-</u>	<u>284,173</u>
24,737		284,173	24,737	284,173
-		15,000	-	15,000
83,014	561,997	144,332	227,346	-
<u>-</u>		<u>610,951</u>	<u>-</u>	<u>610,951</u>
83,014		755,283	227,346	610,951
-		125,880	-	125,880
<u>15,533</u>	223,194	<u>8,013</u>	<u>23,546</u>	<u>-</u>
15,533		133,893	23,546	125,880
-		54,163	-	54,163
48,488	48,488	176,161	224,649	-
-		249,774	-	249,774
<u>74,306</u>	253,868	<u>-</u>	<u>74,306</u>	<u>-</u>
122,794		480,098	298,955	303,937
-		76,559	-	76,559
<u>30,732</u>	161,886	<u>-</u>	<u>30,732</u>	<u>-</u>
30,732		76,559	30,732	76,559
-		* 542,808	-	542,808
3,639	13,678	-	3,639	-
350	14,750	700	1,050	-
<u>-</u>		<u>20,525</u>	<u>-</u>	<u>20,525</u>
350		21,225	1,050	20,525
-		7,534	-	7,534
<u>-</u>	5,277	<u>249</u>	<u>249</u>	<u>-</u>
<u>-</u>		<u>7,783</u>	<u>249</u>	<u>7,534</u>
280,799		2,316,822	610,254	1,987,367

DOWAGIAC UNION SCHOOL DISTRICT

OTHER SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED June 30, 2011

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. Department of Education</u> Passed Through Intermediate School District:			
ARRA IDEA Flow Through	84.391A	10045/0910	50,035
Adult ED - State Admin.	84.002A	101130101377	54,080

TOTAL DEPARTMENT OF EDUCATION

U.S. Department of Health
and Human Services
Passed Through Intermediate
School District:

Medicaid Outreach	93.778		10,907
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<u>Accrued/ (Deferred) Revenue July 1, 2011</u>	<u>(Memo only) Prior Year Expenditures</u>	<u>Expenditures</u>	<u>Receipts</u>	<u>Accrued/ (Deferred) Revenue June 30, 2011</u>
4,609	119,467	50,035	51,354	3,290
<u>840</u>	50,840	<u>54,080</u>	<u>48,340</u>	<u>6,580</u>
286,248		2,420,937	709,948	1,997,237
-		10,907	10,907	-

DOWAGIAC UNION SCHOOL DISTRICT

OTHER SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued
 YEAR ENDED June 30, 2011

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. Department of Agriculture</u>			
Passed Through State Department of Education:			
National School Lunch - Equipment	10.579	10-11	30,356
<u>Nutrition Cluster</u>			
Summer Food Service for Children	10.559	09-11 11-12	26,347 5,988
National School Lunch Breakfast	10.553	09-10 10-11	160,653 157,657
National School Lunch Program	10.555	09-10 10-11	562,566 511,066
Direct Programs - non-cash assistance			
Entitlement Commodities	10.555	10-11	50,546
Bonus Commodities	10.555	10-11	661

Total Nutrition Cluster

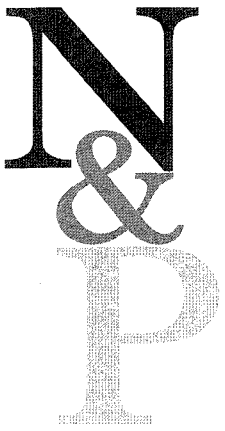
TOTAL DEPARTMENT OF AGRICULTURE

TOTAL FEDERAL FINANCIAL ASSISTANCE

Notes:

- 1.*Designates Major Program
2. Dollar threshold used to distinguish between Type A and Type B programs - \$300,000
3. Expenditures in this schedule are in agreement with amounts reported in the financial statements
4. The amounts reported on the R7120 reconcile with this schedule.
5. This schedule has been prepared under the modified accrual basis of accounting

Accrued/ (Deferred) Revenue July 1, 2011	(Memo only) Prior Year Expenditures	Expenditures	Receipts	Accrued/ (Deferred) Revenue June 30, 2011
-		* 30,356	30,356	-
5,208	5,208	21,139	26,347	-
<u>-</u>		<u>5,988</u>	<u>-</u>	<u>5,988</u>
5,208		* 27,127	26,347	5,988
-	145,136	15,517	15,517	-
<u>-</u>		<u>157,657</u>	<u>149,394</u>	<u>8,263</u>
-		* 173,174	164,911	8,263
-	500,486	62,080	62,080	-
<u>-</u>		<u>511,066</u>	<u>490,760</u>	<u>20,306</u>
-		* 573,146	552,840	20,306
-		50,546	50,546	-
<u>-</u>		<u>661</u>	<u>661</u>	<u>-</u>
-		* 51,207	51,207	-
<u>5,208</u>		<u>824,654</u>	<u>795,305</u>	<u>34,557</u>
<u>5,208</u>		<u>855,010</u>	<u>825,661</u>	<u>34,557</u>
<u>\$ 291,456</u>		<u>\$ 3,286,854</u>	<u>\$1,546,516</u>	<u>\$ 2,031,794</u>



Norman & Paulsen, P.C.

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

To the Board of Education
Dowagiac Union Schools, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dowagiac Union Schools as of and for the year ended June 30, 2011, which collectively comprise Dowagiac Union Schools' basic financial statements and have issued our report thereon dated October 31, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered Dowagiac Union Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness on the Dowagiac Union Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Dowagiac Union Schools' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District'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.

Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA/ABV, CVA

Michael R. Wilson, CPA

Rick L. Strawser, CPA

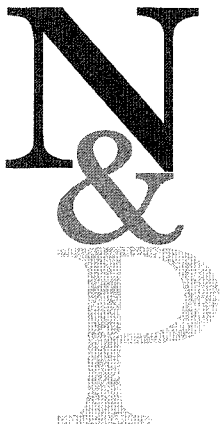
Jerrel T. Norman (1941-1982)

Compliance and Other Matters - As part of obtaining reasonable assurance about whether Dowagiac Union Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 the Board of Education, management, 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.

October 31, 2011

Norman & Paulson, P.C.



Norman & Paulsen, P.C.

Certified Public Accountants

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Dowagiac Union Schools, Michigan

Compliance - We have audited the compliance of Dowagiac Union Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. Dowagiac Union Schools' 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 Dowagiac Union Schools' management. Our responsibility is to express an opinion on Dowagiac Union Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 Dowagiac Union Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Dowagiac Union Schools' compliance with those requirements.

In our opinion, Dowagiac Union Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA/ABV, CVA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

Internal Control over Compliance - The management of Dowagiac Union Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Dowagiac Union Schools internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our 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 Dowagiac Union Schools' internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity'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 combination of deficiencies, in internal control over compliance requirements of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control or 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 compliances that we consider to be material weaknesses, as defined above.

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

Norman J. Paulsen, P.C.

October 31, 2011

DOWAGIAC UNION SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED June 30, 2011

1. Summary of auditor's results:

- (I) An unqualified opinion was issued on the financial statements.
- (ii) No material weakness or significant deficiency in internal control were disclosed by the audit of the financial statements.
- (iii) The audit disclosed no noncompliance.
- (iv) No material weakness or significant deficiency in internal control over major programs were disclosed by the audit.
- (v) An unqualified opinion was issued on Compliance for major programs
- (vi) No audit findings were disclosed.
- (vii) Major programs:
 - U.S. Department of Education:
 - 84.410A Education Jobs Funds
 - U.S. Department of Agriculture:
 - 10.553, 10.555 &
 - 10.559 Nutrition Cluster
 - 10.579 National School Lunch - Equipment Grant
- (viii) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- (ix) Dowagiac Union School District qualified as a low-risk auditee.

2. Findings relating to the financial statements which are required to be reported in accordance with GAGAS.

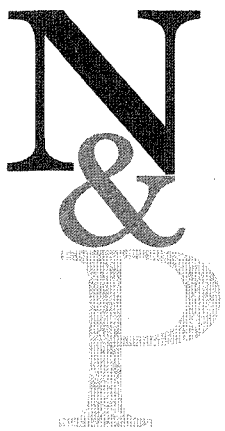
NONE

3. Findings and questioned costs for Federal awards.

NONE

4. Prior year findings:

NONE



AUDIT-RELATED COMMUNICATIONS

To the Board of Education
Dowagiac Union Schools

Norman & Paulsen, P.C.

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We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Dowagiac Union Schools (the "School District") for the year ended June 30, 2011, and have issued our report thereon dated October 31, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated April 11, 2011, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the School District. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you and management of your responsibilities.

Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA/ABV, CVA

Michael R. Wilson, CPA

Rick L. Strawser, CPA

Jerrel T. Norman (1941-1982)

Our audit of the School District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the School District's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated October 31, 2011 regarding 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.

We are also obligated to communicate certain matters related to our audit to those responsibilities for the governance of the School District, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosure regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 15, 2011.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Dowagiac Union Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Dowagiac Union Schools during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statement in a different period than when the transaction occurred.

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

Depreciation

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

No 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 the financial statements taken as a whole.

No Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2011.

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 governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

As required by OMB Circular A-133, we have also completed an audit of the federal programs administered by the School District. The results of that audit are provided to the Board of Education in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 dated October 31, 2011.

This information is intended solely for the information and use of the Board of Education and management of Dowagiac Union Schools and is not intended to be and should not be used by anyone other than these specified parties.

We are pleased to serve as the School District's auditors. If there are any questions about the audited financial statements or the contents of this letter, we would welcome the opportunity to discuss them at your convenience.

Sincerely,

Norman J. Paulsen, P.C.

October 31, 2011