

**BARAGA AREA SCHOOLS
BARAGA, MICHIGAN**

**FINANCIAL STATEMENTS
For the Year Ended June 30, 2007**

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PARTNERS

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INDEPENDENT AUDITORS' REPORT

Board of Education
Baraga Area Schools
210 Lyons Street
Baraga, Michigan 49908

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Baraga Area Schools, as of and for the year ended June 30, 2007, which collectively comprise the Baraga Area Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Baraga Area 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 the Baraga Area Schools, as of June 30, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2007, on our consideration of the Baraga Area Schools' 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.

The management's discussion and analysis and budgetary comparison information on pages 6 through 11 and 32, are not a required part of the basic financial statements but are supplementary 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 supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education
Baraga Area Schools
Baraga, Michigan 49908

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Baraga Area School's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are 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 also not a required part of the basic financial statements of Baraga Area Schools. The combining and individual fund financial statements, schedules and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

October 2, 2007

Baraga Area Schools

Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of Baraga Area Schools financial performance provides an overview of the School District's financial activities for the year ended June 30, 2007. Please read it in conjunction with the financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- Net assets for Baraga Area Schools as a whole were reported at \$865,896, comprised of 100% governmental activities.
- During the year, the Baraga Area Schools expenses were \$6,180,956, while revenues from all sources totaled \$5,813,466, resulting in a decrease in net assets of \$367,490.
- The general fund reported a decrease of \$66,354 before other financing sources (uses). This is \$117,671 or 64% lower than the forecasted decrease of \$184,025. This was a result of revenues being \$44,992 higher and expenses being \$72,679 lower than forecasted, both of which are immaterial when compared with budgeted revenues of \$5,091,700 and budgeted expenditures of \$5,275,725.

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 Baraga Area Schools financially as a whole. The *District-wide Financial Statements* Statement of Net Assets and the Statement of Activities (on pages 12 and 13) provide information about the activities the School District as a whole and present a longer-term view of those finances. The fund financial statements present the next level of detail and start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The fund financial statements also report the School District's operations in more detail than the district-wide statements by providing information about the School District's most significant funds – the General 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.

Reporting the School District as a Whole – *District-wide Financial Statements*

Our analysis of the Baraga Area Schools as a whole begins on page 7. One of the most important questions asked about the School District's finances 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 report information about the School District as a whole and about its activities in a way that helps answer this question. These statements 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.

These two statements report the School District's net assets and changes in them. The School District's net assets – the difference between assets and liabilities – is 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 private-sector companies do. One must consider other non-financial factors, such as the quality of education provided, the safety of the schools and the condition of the School District's capital assets, to assess the overall financial health of the School District.

Management's Discussion and Analysis (Unaudited) (Continued)

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all 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

Our analysis of the School District's major funds begins on page 9. The fund financial statements begin on page 14 and provide detailed information on 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's Board has established other funds to help it control and manage money for particular purposes. The School District's two kinds of funds - *governmental* and *proprietary* – use different accounting methods.

- *Governmental funds* – Most of the School District's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic 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 Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.

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 purpose.

The School District as a Whole

Table 1 provides a summary of the School District's net assets as of June 30, 2007 and 2006:

**Table 1
Net Assets**

	Governmental Activities – 2006	Governmental Activities – 2006
Current and other assets	\$ 2,501,832	\$ 2,556,108
Capital assets, net	3,460,617	3,598,977
Total Assets	5,962,449	6,155,085
Current liabilities	703,275	682,785
Long-term liabilities	4,393,278	4,238,914
Total Liabilities	5,096,553	4,921,699
Net Assets:		
Invested in capital assets, net of related debt	(846,345)	(599,976)
Restricted	31,738	36,202
Unrestricted	1,680,503	1,797,160
Total Net Assets	\$ 865,896	\$ 1,233,386

The School District's net assets were \$865,896 at June 30, 2007. Capital assets, net of related debt totaling \$(846,345), compares the original cost, less depreciation of the School District's capital assets to long-term debt, used to finance the acquisition of those assets. Most of the debt

Management's Discussion and Analysis (Unaudited) (Continued)

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 of \$1,680,503 was unrestricted.

The \$1,680,503 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 year 2007 and 2006.

Table 2
Change in Net Assets

	Governmental Activities – 2007	Governmental Activities – 2006
Revenues		
Program revenues:		
Charges for services	\$ 147,234	\$ 123,454
Operating grants and contributions	1,345,278	1,439,108
Capital grants and contributions	2,869	4,520
General revenues:		
Property taxes	895,751	864,167
State sources not restricted to specific program	3,226,881	3,067,930
Investment earnings	70,894	65,490
Miscellaneous	124,560	44,678
Total Revenues	5,813,467	5,609,347
Program Expenses:		
Instruction	3,110,773	3,292,769
Supporting services	1,889,323	2,157,090
Payments to other governmental agencies	3,250	3,250
Facilities acquisitions	50,878	45,978
Food service activities	236,027	215,298
Athletic activities	115,999	155,401
Bookstore activities	229	809
Interest on retirement of debt	540,220	499,825
Depreciation – unallocated	234,258	229,017
Total Expenses	6,180,957	6,599,437
Increase (decrease) in net assets	(367,490)	(990,090)
Net assets, beginning	1,233,386	2,223,476
Net Assets, Ending	\$ 865,896	\$ 1,233,386

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$6,180,957. Certain activities were partially funded from those who benefited from the programs \$147,234 or by other governments and organizations that subsidized certain programs with grants and contributions \$1,348,147. We paid for the remaining "public benefit" portion of our governmental activities with \$895,751 in taxes, \$3,226,881 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

Management's Discussion and Analysis (Unaudited) (Continued)

The School District experienced a decrease in net assets for the year of \$367,490.

Key reasons for the change in net assets were as follows:

- Net decrease in governmental fund balances of (\$174,045).
- Depreciation charged to expense of (\$234,258).
- Purchase of capital assets in the amount of \$95,899.
- Proceeds from debt issues in the amount of (\$273,072) and payments of principal on debt of \$165,063.
- Change in compensated absences \$52,923.

Table 3 presents the cost of each of the School District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the School District's operation.

Table 3
Governmental Activities

	Total Cost Of Services	Net Cost Of Services
Instruction	\$ 3,110,772	\$ 1,867,289
Supporting services	1,889,323	1,889,323
Interest on retirement of debt	540,220	540,220
Food service activities	236,027	5,079
Depreciation - Unallocated	234,258	234,258

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 the School District's 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 financial resources.

The School District's Funds

As 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 the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$1,869,828, a decrease of \$174,045 from the beginning of the year.

This was due to the following:

1. Higher than expected number of retiring employees resulting in a larger than planned payoff to retirees.
2. Less State Aid revenue than initially projected.
3. A \$100,000 plus deduction in State Aid due to a recapture of Downtown Development Authority payments made the previous fiscal year.
4. Expenses planned for but not budgeted for by the outgoing administration.

Management's Discussion and Analysis (Unaudited) (Continued)

General Fund Budgetary Highlights

Over the course of the year, the School District's Board 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 by \$239,221. This was due to the following:

1. Larger than expected Impact Aid revenues.
2. Unexpected Delinquent Tax revenues.

Budget expenditures were increased by \$61,640. This was due to the following:

1. Higher than normal and unexpected substitute costs.
2. Unexpected retirement incentive payoffs.

Reasons for variances between the final budget and final actual amounts were as follows:

Revenues were \$44,992 higher than budgeted. This was due to the following:

1. Unexpected delinquent tax collection.
2. Unanticipated revenues from a donation made by the KBIC Tribal Council.

Expenditures were \$72,679 lower than budgeted. This was due to the following:

1. Conservative efforts were used to minimize expenses right up to the last day of the fiscal year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007, the School District had \$3,460,617 invested in a variety of capital assets including land, buildings, and machinery and equipment. (See table 4 below)

Table 4
Capital Assets at Year End
(Net of Depreciation)

	2007	2006
Land	\$ 700	\$ 700
Site improvements	755,682	787,950
Buildings	2,437,340	2,505,553
Equipment	182,655	199,785
Vehicles and buses	84,240	104,989
Construction-in-progress	-	-
Totals	<u>\$ 3,460,617</u>	<u>\$ 3,598,977</u>

We anticipate capital additions for the 2007-2008 fiscal year will be comparable to the 2006-2007 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Management's Discussion and Analysis (Unaudited) (Continued)

Debt

At the end of this year, the School District had \$4,306,962 in bonds outstanding as depicted in Table 5 below.

Table 5
Outstanding Debt at Year End

	Governmental Activities – 2007	Governmental Activities – 2006
General obligation bonds	\$ 174,799	\$ 339,862
State Bond Loan Program	4,132,163	3,859,091
Totals	<u>\$ 4,306,962</u>	<u>\$ 4,198,953</u>

There were no new additions of long-term debt this year, except for payment of old debt through the State Bond Loan Program which amounted to \$273,072. We present more detailed information about our long-term debt in the notes to the financial statements.

Economic Factors and Next Year's Budgets

Our elected officials and administration consider many factors when setting the School District's fiscal year 2007-2008 budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2007-2008 fiscal year budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 75 percent to 80 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general obligations. As a result, the district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2007-2008 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2006-2007 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget, if actual district resources are not sufficient to fund original appropriations.

The State budget continues to be an area of concern for local school districts. State revenues are falling short of projections, which could mean reduced funding at the local level.

Contacting the School District's Financial Management

This financial report is designated 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 financial information, contact the Baraga Area Schools, 210 Lyons Street, Baraga, Michigan, 49908.

Baraga Area Schools
Statement of Net Assets

June 30, 2007

	Governmental Activities
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 784,490
Investments	801,336
Receivables:	
Accounts receivable	39,109
Delinquent property taxes	69,913
Due from other governmental units	703,488
Inventories	26,235
Prepaid expense	77,261
TOTAL CURRENT ASSETS	2,501,832
 Non-current assets:	
Land and construction in progress	700
Capital assets	7,263,666
Less accumulated depreciation	(3,803,749)
TOTAL NON-CURRENT ASSETS	3,460,617
TOTAL ASSETS	5,962,449
 LIABILITIES:	
Current liabilities:	
Accounts payable	101,480
Accrued liabilities	437,250
Deferred revenue	93,274
Current portion of long term debt obligations	71,271
TOTAL CURRENT LIABILITIES	703,275
 Non-current liabilities:	
Non-current portion of employee benefit obligations	157,587
Non-current portion of long term debt obligations	4,235,691
TOTAL NON-CURRENT LIABILITIES	4,393,278
TOTAL LIABILITIES	5,096,553
 NET ASSETS:	
Invested in capital assets net of related debt	(846,345)
Restricted:	
Debt Service	31,738
Unrestricted	1,680,503
TOTAL NET ASSETS	\$ 865,896

The accompanying notes are an integral part of these financial statements.

Baraga Area Schools

Statement of Activities

For the Year Ended June 30, 2007

Function / Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 3,110,773	\$ -	\$ 1,243,484	\$ (1,867,289)
Supporting services	1,889,323	-	-	(1,889,323)
Payments to other governmental agencies	3,250	-	-	(3,250)
Facilities acquisitions	50,878	-	2,869	(48,009)
Food service activities	236,027	129,154	101,794	(5,079)
Athletic activities	115,999	17,715	-	(98,284)
Bookstore activities	229	365	-	136
Interest on retirement of debt	540,220	-	-	(540,220)
Depreciation - unallocated	234,258	-	-	(234,258)
TOTAL GOVERNMENTAL ACTIVITIES	6,180,957	147,234	1,345,278	(4,685,576)

General revenues and transfers:

Taxes:	
Property taxes, levied for general purposes	469,759
Property taxes, levied for debt services	425,992
Federal and State aid not restricted to specific purposes:	
General	3,226,881
Interest and investment earnings	70,894
Miscellaneous	124,560
Transfers	-
TOTAL GENERAL REVENUE AND TRANSFERS	4,318,086

TOTAL GENERAL REVENUE AND TRANSFERS

4,318,086

CHANGES IN NET ASSETS

(367,490)

Net Assets, July 1

1,233,386

NET ASSETS, JUNE 30

\$ 865,896

The accompanying notes are an integral part of these financial statements.

Baraga Area Schools

Governmental Funds

Balance Sheet

June 30, 2007

	General Fund	Non-Major Governmental Funds	Total
ASSETS			
Cash and cash equivalents	\$ 734,486	\$ 50,004	\$ 784,490
Investments	800,521	815	801,336
Receivables:			
Accounts receivable	33,980	5,129	39,109
Delinquent property taxes	47,605	22,308	69,913
Due from other governmental units	703,488	-	703,488
Inventories	23,948	2,287	26,235
Prepaid expense	77,261	-	77,261
	TOTAL ASSETS	\$ 80,543	\$ 2,501,832
	\$ 2,421,289	\$ 80,543	\$ 2,501,832
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 82,948	\$ 18,532	\$ 101,480
Accrued liabilities	437,250	-	437,250
Deferred revenue	70,966	22,308	93,274
	TOTAL LIABILITIES	40,840	632,004
	591,164	40,840	632,004
 FUND BALANCES:			
Reserved for:			
School service activities	-	7,965	7,965
Retirement of debt	-	31,738	31,738
Unreserved:			
Undesignated	1,830,125	-	1,830,125
	TOTAL FUND BALANCES	39,703	1,869,828
	1,830,125	39,703	1,869,828
	TOTAL LIABILITIES AND FUND BALANCES	\$ 80,543	\$ 2,501,832
	\$ 2,421,289	\$ 80,543	\$ 2,501,832

The accompanying notes are an integral part of these financial statements.

Baraga Area Schools

Governmental Funds

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2007

Total Fund Balances for Governmental Funds		\$	1,869,828
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
	Cost of capital assets		7,264,366
	Accumulated depreciation		<u>(3,803,749)</u>
			3,460,617
Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of:			
	Bonds payable - current		71,271
	Bonds payable - long term		4,235,691
	Employee benefits payable		<u>157,587</u>
			(4,464,549)
			<hr/>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$	<u><u>865,896</u></u>

The accompanying notes are an integral part of these financial statements.

Baraga Area Schools

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2007

	General Fund	Non-Major Governmental Funds	Total
REVENUES:			
Property taxes	\$ 469,759	\$ 425,992	\$ 895,751
Federal sources	794,858	101,794	896,652
State Aid	3,675,507	-	3,675,507
Local sources	127,428	147,234	274,662
Interest	69,140	1,754	70,894
TOTAL REVENUES	5,136,692	676,774	5,813,466
EXPENDITURES:			
Current:			
Instruction	3,163,130	-	3,163,130
Supporting services	1,985,788	-	1,985,788
Payments to other governmental agencies	3,250	-	3,250
Facilities acquisitions	50,878	-	50,878
Food service activities	-	236,027	236,027
Athletic activities	-	115,999	115,999
Bookstore activities	-	229	229
Debt Service:			
Principal	-	165,063	165,063
Interest	-	540,220	540,220
TOTAL EXPENDITURES	5,203,046	1,057,538	6,260,584
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(66,354)	(380,764)	(447,118)
OTHER FINANCING SOURCES (USES):			
Transfers in (out)	(87,000)	87,000	-
Proceeds from sale of bonds	-	273,073	273,073
TOTAL OTHER FINANCING SOURCES (USES)	(87,000)	360,073	273,073
NET CHANGE IN FUND BALANCES	(153,354)	(20,691)	(174,045)
Fund Balance, July 1	1,983,479	60,394	2,043,873
FUND BALANCE, JUNE 30	\$ 1,830,125	\$ 39,703	\$ 1,869,828

The accompanying notes are an integral part of these financial statements.

Baraga Area Schools

Governmental Funds

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities**

For the Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds **\$ (174,045)**

*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 as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	(234,258)	
Capital outlays - facilities acquisition	-	
Capital outlays - supporting services	95,899	
Capital outlays - instruction	-	(138,359)

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets. (273,072)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 165,063

Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in sick and vacation leave - (support services)	566	
Change in sick and vacation leave- (instruction)	52,357	52,923

Change in Net Assets of Governmental Activities **\$ (367,490)**

The accompanying notes are an integral part of these financial statements.

Baraga Area Schools
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2007

	<u>Totals</u>
ASSETS:	
Cash and cash equivalents	\$ <u>75,725</u>
TOTAL ASSETS	<u>\$ 75,725</u>
LIABILITIES:	
Due to groups, organizations and activities	\$ <u>75,725</u>
TOTAL LIABILITIES	<u>\$ 75,725</u>

The accompanying notes are an integral part of these financial statements.

BARAGA AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A - THE FINANCIAL REPORTING ENTITY:

The School District operates under an elected Board of Education of seven (7) members, which are elected across the District to establish programs and policies.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the financial position of the Baraga Area Schools. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

Based upon the application of these criteria, the financial statements of the Baraga Area Schools contain all the funds controlled by the School District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District nor is the School District a component unit of another entity.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

BASIS OF PRESENTATION

District-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through State sources, intergovernmental revenues, and other non-exchange revenues. All of the School District's district-wide activities are considered to be governmental activities.

Fund Financial Statements:

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The School District reports the General Fund as its major governmental fund in accordance with the above criteria. The funds of the School District are described below:

Governmental Funds

General Fund – The General Fund is the main operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects). The special revenue funds for the Baraga Area Schools are the Food Service, Athletics and Bookstore Funds.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources such as taxes, state aid and interest revenue for the payment of general long-term debt principal, interest, and related costs.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the district-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (b) below. In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

Basis of Accounting

In the district-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Agency Funds financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

Cash and Equivalents

The School District cash and cash equivalents as reported in the Statement of Net Assets are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with maturities of three months or less.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Investments

Investments are carried at market value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Inventory

Inventories are stated at cost, on a first-in, first-out basis, which approximates market value. Inventories recorded in the General Fund consist of centrally warehoused teaching and operating supplies for the School District. The School Lunch Fund consists of food and paper goods. For other funds, expenditures are recorded at the time of use.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

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

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Long-Term Debt

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the district-wide statements.

Compensated Absences

The School District' policies regarding compensated absences permits employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Deferred Revenues

In the district-wide statements, deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable. The School District has reported deferred revenue of \$188,980 in the General Fund and \$14,222 in the Debt Service Fund for grant funding that has been received but is unearned and delinquent property taxes receivable.

Equity Classification

District-Wide Statements

Equity is classified as net assets and displayed in three components:

1. Invested in Capital Assets, Net of Related Debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted Net Assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted Net Assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate.

Revenues

District-Wide Statements

In the district-wide Statement of Activities, revenues are segregated by activity, and are classified as either program revenue or general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

Fund Statements

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District’s policy to use the restricted resources first.

Property Taxes

Property taxes are levied on December 1, on behalf of the District by various taxing units and are payable without penalty by February 28. The District recognizes property tax revenue when levied to the extent they result in current receivables (collected within sixty days of the end of the fiscal year). Property taxes that are not collected within sixty days of the end of the fiscal year are recognized as revenue when collected.

Expenses/Expenditures

District-Wide Statements

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fund Statements

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements. Exceptions to this rule are (1) activities between funds reported as governmental activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is approved by the Board of Education.
- d. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Education.
- e. All annual appropriations lapse at fiscal year end.

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C – DEPOSITS AND INVESTMENTS:

Cash Equivalents

The following is a reconciliation of cash and investments for both the unrestricted and restricted assets for the primary government and fiduciary funds from the Statement of Net Assets.

	Primary Government	Fiduciary Funds	Total
Unrestricted:			
Cash and cash equivalents	\$ 784,490	\$ 75,725	\$ 860,215
Investments	801,336	-	801,336
TOTALS	<u>\$ 1,585,826</u>	<u>\$ 75,725</u>	<u>\$ 1,661,540</u>

NOTE C – DEPOSITS AND INVESTMENTS (Continued):

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. State law does not require and the School does not have a deposit policy for custodial credit risk. The carrying amounts of the School's deposits with financial institutions were \$860,204 and the bank balance was \$821,573. The bank balance is categorized as follows.

Amount insured by the FDIC	\$ 200,000
Amount uncollateralized and uninsured	621,573
	<u>\$ 821,573</u>

Investments

As of June 30, 2007, the School had the following investments.

	Fair Value	Investment Maturities (In years)			
		Less than 1	1-5	6-10	More than 10
PRIMARY GOVERNMENT:					
Unrestricted Investments:					
Michigan Liquid Asset					
Fund-Mutual funds	\$ 801,336	\$ 801,336	\$ -	\$ -	\$ -
TOTAL INVESTMENTS	<u>\$ 801,336</u>	<u>\$ 801,336</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the School's investments. The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes (Act 196, PA 1997) authorize the School to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The School has no investment policy that would further limit its investment choices. Ratings are not required for the School's investment in U.S. Government Agencies or equity-type funds. The School's investments are in accordance with statutory authority.

Concentration of Credit Risk

The School places no limit on the amount the School may invest in any one issuer. There were no investments subject to concentration of credit risk disclosure.

NOTE D – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governments consist of \$598,951 due from the State of Michigan for State Aid and \$104,537 due from other governmental units for the operation of special programs and grant projects.

NOTE E – ACCRUED LIABILITIES:

A summary of accrued liabilities at June 30, 2007 as follows:

	<u>Governmental Activities</u>
Accrued wages	\$ 353,368
MESSA payable	83,882
Accrued fringes	-
Accrued interest	-
	<u>\$ 437,250</u>

NOTE F – LONG-TERM OBLIGATIONS:

A summary of long-term obligations at June 30, 2007, and transactions related thereto for the year then ended is as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
School Improvement Bond, Series 1998	\$ 44,365	\$ -	\$ -	\$ 44,365
1989 Refunding Bonds	141,298	-	43,851	97,447
1991 Issue – School Bond	154,199	-	121,212	32,987
State School Bond Loan Program	3,859,091	273,072	-	4,132,163
Subtotal	<u>4,198,953</u>	<u>273,072</u>	<u>165,063</u>	<u>4,306,962</u>
Employee Benefits – Sick and Vacation Leave	210,511	-	52,924	157,587
TOTAL LONG-TERM DEBT	<u>\$ 4,409,464</u>	<u>\$ 273,072</u>	<u>\$ 217,987</u>	<u>\$ 4,464,549</u>

School Improvement Bonds – Series 1998

June 30, 2007

School Year	May 15		
	Interest	Principal	Total
2007-2008	\$ -	\$ -	\$ -
2008-2009	1,576	6,024	7,600
2009-2010	1,289	6,311	7,600
2010-2011	989	6,611	7,600
2011-2012	4,636	18,164	22,800
2012-2013	345	7,255	7,600
Totals	<u>\$ 8,835</u>	<u>\$ 44,365</u>	<u>\$ 53,200</u>

The School Improvement Bonds, Series 1998 (\$108,245) dated November 24, 1998 mature annually on May 15, with interest at a rate of 4.76% per annum. The only revenue source for making the debt service payment on these School Improvement Bonds is an annual appropriation from the State of Michigan.

1989 Refunding Bonds

June 30, 2007

School Year	May 1		
	Interest	Principal	Total
2007-2008	\$ 111,716	\$ 38,284	\$ 150,000
2008-2009	103,224	31,776	135,000
2009-2010	97,613	27,387	125,000
Totals	<u>\$ 312,553</u>	<u>\$ 97,447</u>	<u>\$ 410,000</u>

Zero Coupon Bonds (\$556,807) dated February 29, 1989 mature annually on May 1 and bear interest at a rate of 7.00% to 7.30% per annum. Interest is paid annually on May 1 of each year.

NOTE F – LONG-TERM OBLIGATIONS (Continued):

**1991 Issue – School Bond
Loan Refunding Bonds
June 30, 2007**

School Year	May 15		Total
	Interest	Principal	
2007-2008	\$ 72,013	\$ 32,987	\$ 105,000
Totals	\$ 72,013	\$ 32,987	\$ 105,000

Capital Appreciation Bonds (\$679,461) dated August 29, 1991, maturing annually on May 15 with interest at a rate of 6.75% to 7.05% per annum.

**State School Bond Loan Program
June 30, 2007**

July 1, 2006 Balance	May 1		June 30, 2007
	Added Interest	Added Principal	
\$ 3,859,091	\$ 184,172	\$ 88,900	\$ 4,132,163

The District has borrowed from the State School Bond Loan Program to apply towards maturing principal and interest payments on their serial bonds. The balance owed as of June 30, 2006 is \$3,859,091, including accrued interest.

Debt Service Requirements

The annual requirements to pay principal and interest based on debt outstanding at June 30, 2007 (exclusive of employee benefits and State School Bond Loan Program) are as follows:

Fiscal	Principal	Interest	Total
2007-2008	\$ 71,271	\$ 183,729	\$ 255,000
2008-2009	37,800	104,800	142,600
2009-2010	33,698	98,902	132,600
2010-2011	6,611	989	7,600
2011-2012	18,164	4,636	22,800
2012-2013	7,255	345	7,600
Totals	\$ 174,799	\$ 393,401	\$ 568,200

NOTE G – SICK LEAVE AND VACATION LEAVE – COMPENSATED ABSENCES:

The School District accrues the liability for earned sick leave based on the termination method. The liability is accrued as the benefits are earned. The current labor agreements stipulate sick leave must be taken in order to be paid, except at retirement. Teachers and administration personnel have the option of being paid for one-half of accumulated sick leave days, up to a maximum of 180 accumulated days, or they may request payment for the Universal Service Credit up to a maximum of \$32,500, upon retirement. Other non-teaching employees may accrue up to 90 sick leave days, and are paid for up to 70 sick leave days upon retirement. As of June 30, 2007, the liability for sick leave is \$142,461.

A vacation liability of \$15,126 for non-teaching employees is recorded in the statement of net assets.

NOTE H – CAPITAL ASSETS:

Capital assets activity of the School District’s governmental activities was as follows:

	Balance at 7/01/06	Additions	Disposals	Balance at 6/30/07
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$700	\$-	\$-	\$700
Construction-in-progress	-	-	-	-
Total Capital Assets not being Depreciated	700	-	-	700
Capital assets being depreciated:				
Site improvements	1,214,319	12,076	-	1,226,395
Buildings	4,962,936	31,679	-	4,994,615
Equipment	580,727	52,144	-	632,871
Vehicles and buses	409,785	-	-	409,785
Total Capital Assets being Depreciated	7,167,767	95,899	-	7,263,666
Less accumulated depreciation:				
Site improvements	(426,370)	(44,343)	-	470,713
Buildings	(2,457,383)	(99,893)	-	2,557,276
Equipment	(380,942)	(69,274)	-	450,216
Vehicles and buses	(304,795)	(20,749)	-	325,544
Total Accumulated Depreciation	(3,569,490)	(234,259)	-	3,803,749
Governmental Activities Capital Assets, Net	\$ 3,598,977	\$ (138,360)	\$ -	\$3,460,617

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:	
Unallocated	\$234,259
Total Governmental Activities Depreciation Expense	\$234,259

NOTE I – RESERVED AND DESIGNATED FUND EQUITY:

The School District reserves fund equities for the following funds:

School Lunch Fund – The resources of the School Lunch Fund are to be used for the school lunch program. The fund equity is reserved for this purpose.

Debt Service Funds – The resources of the Debt Service Funds have been accumulated for the specific purpose of bond and interest debt retirement. The fund equities are reserved for these purposes.

NOTE J – STATE REVENUE:

The State of Michigan currently uses a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on the weighted average of pupil membership counts taken in February and October of 2006.

NOTE J – STATE REVENUE (Continued):

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2006 - August 2007.

The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

NOTE K – FUND MODIFICATIONS (TRANSFER TO/FROM OTHER FUNDS):

		Transfer Out To Other Funds	
		General Fund	Total Transfers In
Transfer In From Other Funds	Lunch Fund	\$ 6,000	\$ 6,000
	Athletic Fund	81,000	81,000
	Total Transfers Out	\$ 87,000	\$ 87,000

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to Debt Service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due, and (3) use unrestricted revenue collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE L – NONMONETARY TRANSACTIONS:

The School District receives USDA donated food commodities for use in its food service program which are accounted for in the School Lunch Fund. The commodities are accounted for on the modified accrual basis and the related revenues and expenditures are recognized as commodities as utilized. The School District recognized \$7,686 during fiscal 2007 in revenues and expenditures for USDA commodities.

NOTE M – PROPERTY TAXES:

The taxable value of real and personal property located in the School District at December 31, 2006 totaled \$53,538,411 (\$27,354,119 designated as Homestead and \$26,184,292 designated as Non-Homestead). The total tax levied consists of 18 mills for the General Fund and 7.9500 mills for debt retirement.

NOTE N – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

Substantially all of the School District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death, disability, health, medical, dental, and vision and hearing insurance coverage. Benefits are established by state statute.

The District was required by state statute to contribute 16.34% of covered compensation to the Plan through September 30, 2006 and 17.74% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2007 was \$564,063 which consisted of \$483,031 from the School District and \$81,032 from employees electing the MIP option. These represent approximately 17% and 3% of covered payroll, respectively. The School Districts contributions to MPERS for 2006 was \$472,141 and for 2005 was \$402,214.

Payroll paid to employees covered by the System for the year ended June 30, 2007 was approximately \$2,917,506. The School District's total payroll was approximately \$3,032,242.

Other Post-Employment Benefits

In addition to pension benefits, MPERS provides comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension of the retiree. The portion provided by MPERS is factored into the pension contribution rate.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. MPERS' issues a publicly available financial report that includes financial statements and required supplementary information for the system. More information may be obtained by writing MPERS, at MPERS, P.O. Box 30673, Lansing, Michigan, 48909-8103.

NOTE O – CONTINGENT LIABILITIES:

Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The School District joined together with other units and created a public entity risk pool currently operating as a common risk management and insurance program. The School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

The School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments that may be required to make the pool self-sustaining.

NOTE P – ECONOMIC DEPENDENCY:

The School District received approximately 80 percent of its revenue through state and federal sources to be used for providing elementary and secondary education for the residents of Baraga. The District's Foundation Allowance is set by the state and includes the local contribution from Non Homestead taxes. Increases in the local Non Homestead property tax revenues are offset by a corresponding decrease in state aid on a per pupil basis.

REQUIRED SUPPLEMENTAL INFORMATION

Baraga Area Schools
General Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local sources	\$ 534,362	\$ 622,335	\$ 666,327	\$ 87,973	\$ 43,992
State sources	3,641,519	3,675,087	3,675,507	33,568	420
Federal sources	676,598	794,278	794,858	117,680	580
TOTAL REVENUES	4,852,479	5,091,700	5,136,692	239,221	44,992
EXPENDITURES:					
Instruction:					
Basic Programs	2,705,357	2,613,990	2,574,407	91,367	39,583
Added Needs	775,817	585,096	582,485	190,721	2,611
Adult/Continuing education	-	6,240	6,238	(6,240)	2
Total Instruction	3,481,174	3,205,326	3,163,130	275,848	42,196
Supporting Services:					
Pupil services	79,813	287,008	287,487	(207,195)	(479)
Instructional staff	118,581	200,794	200,778	(82,213)	16
Administration	644,360	637,127	631,290	7,233	5,837
Business services	10,121	15,509	15,173	(5,388)	336
Operation and maintenance	816,836	863,808	851,060	(46,972)	12,748
Total Supporting Services	1,669,711	2,004,246	1,985,788	(334,535)	18,458
Payments to Other Governmental Agencies					
Other	-	12,972	3,250	(12,972)	9,722
Total Payments to Other Government Agencies	-	12,972	3,250	(12,972)	9,722
Facilities Acquisition					
Capital Outlay	63,200	53,181	50,878	10,019	2,303
Total Facilities Acquisition	63,200	53,181	50,878	10,019	2,303
TOTAL EXPENDITURES	5,214,085	5,275,725	5,203,046	(61,640)	72,679
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(361,606)	(184,025)	(66,354)	177,581	117,671
OTHER FINANCING SOURCES					
Transfers out	(120,550)	(91,162)	(87,000)	29,388	4,162
NET CHANGE IN FUND BALANCE	(482,156)	(275,187)	(153,354)	206,969	121,833
Fund Balance, July 1	1,983,479	1,983,479	1,983,479	-	-
FUND BALANCE, JUNE 30	\$ 1,501,323	\$ 1,708,292	\$ 1,830,125	\$ 206,969	\$ 121,833

OTHER SUPPLEMENTAL INFORMATION

Baraga Area Schools

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual

For the Year Ended June 30, 2007

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Local Sources:			
Taxes and Penalties:			
Property tax levy	\$ 480,449	\$ 469,759	\$ (10,690)
Other Local Sources:			
Rental of school facilities	9	9	-
Donations	2,869	2,869	-
Other local revenue	70,331	124,550	54,219
Income from investments	68,677	69,140	463
TOTAL LOCAL SOURCES	622,335	666,327	43,992
State Sources:			
Unrestricted:			
Proposal A Obligation	3,214,087	3,214,087	-
Discretionary Payment	12,793	12,794	1
Restricted:			
At Risk	127,633	127,625	(8)
Alternative Education	145,685	145,686	1
Adult Education	9,987	10,412	425
Special Education - Head lee	131,343	131,343	-
Bilingual and Compensatory Education	14,435	14,436	1
Non-Durant Settlement	10,824	10,824	-
MI Profile Healthy Youth	8,300	8,300	-
TOTAL STATE SOURCES	3,675,087	3,675,507	420
Federal Sources:			
Restricted:			
Title VII - Indian Education	69,123	69,703	580
Public Law 81-874	490,601	490,601	-
Schools & Roads	15,855	15,855	-
REAP	1,477	1,477	-
Restricted - received through the state:			
E.I.C.I.A. Title I	142,923	145,866	2,943
E.I.C.I.A. Title V	1,942	1,942	-
Handicapped Preschool	-	3,760	3,760
E.I.C.I.A. Title II, Part A	46,562	46,562	-
E.I.C.I.A. Title II, Part D	1,440	1,440	-
Tech Literacy Challenge	-	-	-
Freedom to Learn	6,722	-	(6,722)
E.I.C.I.A. Title III, Part A	17,633	17,652	19
Restricted - received through the CCISD:	-	-	-
TOTAL FEDERAL SOURCES	794,278	794,858	580
TOTAL REVENUES	5,091,700	5,136,692	44,992

Baraga Area Schools

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2007

	Final Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES:			
Instruction:			
Elementary:			
Salaries	\$ 807,906	\$ 785,949	\$ 21,957
Fringe benefits	406,266	405,604	662
Purchased services	23,432	23,430	2
Supplies and materials	30,781	28,704	2,077
Capital outlay	-	-	-
Other expenses	2,754	2,753	1
TOTAL ELEMENTARY	1,271,139	1,246,440	24,699
Secondary:			
Salaries	827,190	813,685	13,505
Fringe benefits	441,112	441,088	24
Purchased services	13,329	13,328	1
Supplies and materials	51,124	49,772	1,352
Capital outlay	4,194	4,194	-
Other expenses	5,902	5,900	2
TOTAL SECONDARY	1,342,851	1,327,967	14,884
Summer School:			
Salaries	3,000	3,000	-
Fringe benefits	-	-	-
Purchased services	-	-	-
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL SUMMER SCHOOL	3,000	3,000	-
Special Education:			
Salaries	252,885	248,882	4,003
Fringe benefits	134,143	132,598	1,545
Purchased services	89	88	1
Supplies and materials	7,061	7,057	4
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL SPECIAL EDUCATION	394,178	388,625	5,553

Baraga Area Schools

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual

For the Year Ended June 30, 2007

	Final Budget	Actual	Variance Favorable (Unfavorable)
Compensatory Education:			
Salaries	\$ 85,900	\$ 88,842	\$ (2,942)
Fringe benefits	82,749	82,758	(9)
Purchased services	10,873	10,871	2
Supplies and materials	6,629	6,622	7
Capital outlay	1,767	1,767	-
Other expenses	-	-	-
TOTAL COMPENSATORY EDUCATION	187,918	190,860	(2,942)
Alternative Education			
Salaries	4,880	4,880	-
Fringe benefits	1,303	1,302	1
Purchased services	25	25	-
Supplies and materials	32	31	1
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL ALTERNATIVE EDUCATION	6,240	6,238	2
TOTAL INSTRUCTION	3,205,326	3,163,130	42,196
Supporting Services:			
Pupil Services:			
Truancy/Absenteeism			
Salaries	-	-	-
Fringe benefits	-	-	-
Purchased services	3,474	3,473	1
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL TRUANCY/ABSENTEEISM	3,474	3,473	1
Guidance:			
Salaries	120,800	122,005	(1,205)
Fringe benefits	55,117	55,111	6
Purchased services	908	908	-
Supplies and materials	831	1,106	(275)
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL GUIDANCE	177,656	179,130	(1,474)

Baraga Area Schools

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual

For the Year Ended June 30, 2007

	Final Budget	Actual	Variance Favorable (Unfavorable)
Health:			
Salaries	\$ 15,887	\$ 13,830	\$ 2,057
Fringe benefits	19,226	19,225	1
Purchased services	1,306	1,306	-
Supplies and materials	6,240	6,732	(492)
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL HEALTH	42,659	41,093	1,566
Home School Coordinator/Social Work:			
Salaries	22,550	23,128	(578)
Fringe benefits	29,389	29,387	2
Purchased services	3,810	3,808	2
Supplies and materials	1,413	1,412	1
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL HOME SCHOOL COORDINATOR/SOCIAL WORK	57,162	57,735	(573)
Other Pupil Service:			
Salaries	4,838	4,838	-
Fringe benefits	1,219	1,218	1
Purchased services	-	-	-
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL OTHER PUPIL SERVICES	6,057	6,056	1
TOTAL PUPIL SERVICES	287,008	287,487	(479)
Instructional Staff:			
Improvement of Instruction:			
Salaries	-	-	-
Fringe benefits	-	-	-
Purchased services	-	-	-
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL IMPROVEMENT OF INSTRUCTION	-	-	-

Baraga Area Schools

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual

For the Year Ended June 30, 2007

	Final Budget	Actual	Variance Favorable (Unfavorable)
Library:			
Salaries	\$ 67,756	\$ 67,755	\$ 1
Fringe benefits	39,112	39,110	2
Purchased services	4,589	4,589	-
Supplies and materials	6,549	6,546	3
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL LIBRARY	118,006	118,000	6
Technology Assisted Instruction			
Salaries	-	-	-
Fringe benefits	-	-	-
Purchased services	-	-	-
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL TECHNOLOGY ASSISTED INSTRUCTION	-	-	-
Supervision and Direction of Instructional Staff			
Salaries	62,632	62,629	3
Fringe benefits	11,558	11,554	4
Purchased services	7,114	7,111	3
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	1,484	1,484	-
TOTAL SUPERVISION AND DIRECTION OF INSTRUCTIONAL STAFF	82,788	82,778	10
TOTAL INSTRUCTIONAL STAFF	200,794	200,778	16
Administration:			
Board of Education:			
Salaries	-	-	-
Fringe benefits	31	31	-
Purchased services	31,750	34,479	(2,729)
Supplies and materials	1,271	2,704	(1,433)
Capital outlay	-	-	-
Other expenses	4,173	4,172	1
TOTAL BOARD OF EDUCATION	37,225	41,386	(4,161)

Baraga Area Schools

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2007

	Final Budget	Actual	Variance Favorable (Unfavorable)
Executive Administration:			
Salaries	\$ 164,878	\$ 164,875	\$ 3
Fringe benefits	85,581	85,578	3
Purchased services	10,920	10,919	1
Supplies and materials	10,999	8,991	2,008
Capital outlay	5,325	266	5,059
Other expenses	3,163	2,163	1,000
TOTAL EXECUTIVE ADMINISTRATION	280,866	272,792	8,074
Offices of Principals:			
Salaries	206,845	206,842	3
Fringe benefits	101,329	101,083	246
Purchased services	3,573	3,421	152
Supplies and materials	2,685	1,563	1,122
Capital outlay	-	-	-
Other expenses	4,604	4,203	401
TOTAL OFFICE OF PRINCIPALS	319,036	317,112	1,924
TOTAL ADMINISTRATION	637,127	631,290	5,837
Business Services:			
Fiscal Services:			
Salaries	-	-	-
Fringe benefits	11,500	11,164	336
Purchased services	-	-	-
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL FISCAL SERVICES	11,500	11,164	336
Other Business Services:			
Salaries	-	-	-
Fringe benefits	-	-	-
Purchased services	4,009	4,009	-
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL OTHER BUSINESS SERVICES	4,009	4,009	-
TOTAL BUSINESS SERVICES	15,509	15,173	336

Baraga Area Schools

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual

For the Year Ended June 30, 2007

	Final Budget	Actual	Variance Favorable (Unfavorable)
Operation and Maintenance:			
Operating Building Maintenance			
Salaries	\$ 134,504	\$ 133,712	\$ 792
Fringe benefits	111,253	111,250	3
Purchased services	124,940	124,934	6
Supplies and materials	200,481	194,303	6,178
Capital outlay	11,300	11,299	1
Other expenses	25	25	-
TOTAL OPERATING BUILDING MAINTENANCE	582,503	575,523	6,980
Transportation:			
Salaries	83,741	79,228	4,513
Fringe benefits	65,202	65,201	1
Purchased services	15,594	15,592	2
Supplies and materials	42,487	42,484	3
Capital outlay	17,375	17,375	-
Other expenses	384	384	-
TOTAL TRANSPORTATION	224,783	220,264	4,519
Staff/Personnel Services			
Salaries	-	-	-
Fringe benefits	-	-	-
Purchased services	1,475	1,375	100
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL STAFF/PERSONNEL SERVICES	1,475	1,375	100
Central Services			
Salaries	16,191	16,088	103
Fringe benefits	4,054	4,051	3
Purchased services	600	600	-
Supplies and materials	7,385	6,343	1,042
Capital outlay	-	-	-
Other expenses	26,817	26,816	1
TOTAL CENTRAL SERVICES	55,047	53,898	1,149
TOTAL OPERATIONS AND MAINTENANCE	863,808	851,060	12,748
TOTAL SUPPORT SERVICES	2,004,246	1,985,788	18,458

Baraga Area Schools

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2007

	Final Budget	Actual	Variance Favorable (Unfavorable)
Payments to Other Governmental Agencies			
L'Anse Area Schools - Tuition	\$ -	\$ -	\$ -
Community Schools	-	-	-
Michigan Technology University - Tuition	-	-	-
Copper Country Intermediate School District	6,722	-	6,722
Arvon Township Schools - Transportation	6,250	3,250	3,000
TOTAL PAYMENTS TO OTHER GOVERNMENTAL AGENCIES	<u>12,972</u>	<u>3,250</u>	<u>9,722</u>
Facilities Acquisition			
Capital Outlay	53,181	50,878	2,303
TOTAL FACILITIES ACQUISITION	<u>53,181</u>	<u>50,878</u>	<u>2,303</u>
TOTAL EXPENDITURES	<u>5,275,725</u>	<u>5,203,046</u>	<u>72,679</u>
EXCESS REVENUES (EXPENDITURES)	<u>(184,025)</u>	<u>(66,354)</u>	<u>117,671</u>
Other Financing Sources (Uses):			
Transfers Out:			
Lunch Fund	(81,440)	(81,000)	440
Athletic Fund	(9,722)	(6,000)	3,722
Bookstore Fund	-	-	-
TOTAL OTHER FINANCING USES	<u>(91,162)</u>	<u>(87,000)</u>	<u>4,162</u>
NET CHANGE IN FUND BALANCE	<u>(275,187)</u>	<u>(153,354)</u>	<u>121,833</u>
Fund Balance, July 1	1,983,479	1,983,479	-
FUND BALANCE, JUNE 30	<u>\$ 1,708,292</u>	<u>\$ 1,830,125</u>	<u>\$ 121,833</u>

Baraga Area Schools
Non-Major Governmental Funds
Combining Balance Sheet

June 30, 2007

	Special Revenue	Debt Service	Total
ASSETS			
Cash and cash equivalents	\$ 18,380	\$ 31,624	\$ 50,004
Investments	-	815	815
Accounts receivable	5,129	-	5,129
Delinquent Taxes Receivable	-	22,308	22,308
Inventory	2,287	-	2,287
	TOTAL ASSETS	\$ 54,747	\$ 80,543
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 17,831	\$ 701	\$ 18,532
Deferred revenue	-	22,308	22,308
	TOTAL LIABILITIES	23,009	40,840
FUND BALANCES:			
Reserved for:			
School service activities	7,965	-	7,965
Retirement of debt	-	31,738	31,738
Unreserved	-	-	-
	TOTAL FUND BALANCES	31,738	39,703
	TOTAL LIABILITIES AND FUND BALANCES	\$ 54,747	\$ 80,543

Baraga Area Schools

Non-Major Governmental Funds

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2007

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total</u>
REVENUES:			
Property taxes	\$ -	\$ 425,992	\$ 425,992
School lunch activities	129,154	-	129,154
Athletic activities	17,715	-	17,715
Bookstore activities	365	-	365
Interest	-	1,754	1,754
State aid	-	-	-
Federal sources	101,794	-	101,794
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	249,028	427,746	676,774
EXPENDITURES:			
School lunch activities	236,027	-	236,027
Athletic activities	115,999	-	115,999
Bookstore activities	229	-	229
Debt service activities			
Principal	-	165,063	165,063
Interest and fees	-	540,220	540,220
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	352,255	705,283	1,057,538
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(103,227)	(277,537)	(380,764)
OTHER FINANCING SOURCES (USES):			
Proceeds from sale of bond	-	273,073	273,073
Transfers in	87,000	-	87,000
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	87,000	273,073	360,073
NET CHANGE IN FUND BALANCE	(16,227)	(4,464)	(20,691)
Fund Balance, July 1	24,192	36,202	60,394
	<hr/>	<hr/>	<hr/>
FUND BALANCE, JUNE 30	\$ 7,965	\$ 31,738	\$ 39,703
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Baraga Area Schools
Non-Major Special Revenue Funds
Combining Balance Sheet
June 30, 2007

	School Lunch Fund	Athletic Fund	Bookstore Fund	Total
ASSETS				
Cash and cash equivalents	\$ 14,579	\$ 1,770	\$ 2,031	\$ 18,380
Accounts receivable	5,129	-	-	5,129
Inventory	1,978	-	309	2,287
TOTAL ASSETS	\$ 21,686	\$ 1,770	\$ 2,340	\$ 25,796
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ -	\$ 17,831	\$ -	\$ 17,831
TOTAL LIABILITIES	-	17,831	-	17,831
FUND BALANCES:				
Reserved for school service activities	21,686	(16,061)	2,340	7,965
TOTAL LIABILITIES AND FUND BALANCES	\$ 21,686	\$ 1,770	\$ 2,340	\$ 25,796

Baraga Area Schools

Non-Major Special Revenue Funds

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2007

	School Lunch Fund	Athletic Fund	Bookstore Fund	Total
REVENUES:				
Athletic activities	\$ -	\$ 17,715	\$ -	\$ 17,715
School lunch activities	129,154	-	-	129,154
Bookstore activities	-	-	365	365
State aid	-	-	-	-
Federal sources	101,794	-	-	101,794
TOTAL REVENUES	230,948	17,715	365	249,028
EXPENDITURES:				
School lunch activities	236,027	-	-	236,027
Athletic activities	-	115,999	-	115,999
Bookstore activities	-	-	229	229
TOTAL EXPENDITURES	236,027	115,999	229	352,255
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(5,079)	(98,284)	136	(103,227)
OTHER FINANCING SOURCES (USES):				
Transfers in	6,000	81,000	-	87,000
TOTAL OTHER FINANCING SOURCES (USES)	6,000	81,000	-	87,000
NET CHANGE IN FUND BALANCE	921	(17,284)	136	(16,227)
Fund Balance, July 1	20,765	1,223	2,204	24,192
FUND BALANCE, JUNE 30	\$ 21,686	\$ (16,061)	\$ 2,340	\$ 7,965

Baraga Area Schools

School Lunch Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
School lunch activities	\$ 104,059	\$ 129,154	\$ 25,095
State aid	21,533	-	(21,533)
Federal sources	<u>101,794</u>	<u>101,794</u>	<u>-</u>
TOTAL REVENUES	<u>227,386</u>	<u>230,948</u>	<u>3,562</u>
EXPENDITURES:			
School lunch activities:			
Salaries	72,972	72,722	250
Fringe benefits	58,359	61,844	(3,485)
Purchased services	130	130	-
Supplies and materials	95,653	100,290	(4,637)
Capital outlay	500	500	-
Other expenses	<u>1,039</u>	<u>541</u>	<u>498</u>
TOTAL EXPENDITURES	<u>228,653</u>	<u>236,027</u>	<u>(7,374)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(1,267)	(5,079)	(3,812)
OTHER FINANCING SOURCES (USES):			
Transfers in	<u>7,610</u>	<u>6,000</u>	<u>(1,610)</u>
TOTAL OTHER FINANCING SOURCES (USES):	<u>7,610</u>	<u>6,000</u>	<u>(1,610)</u>
NET CHANGE IN FUND BALANCE	6,343	921	(5,422)
Fund Balance, July 1	<u>20,765</u>	<u>20,765</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 27,108</u>	<u>\$ 21,686</u>	<u>\$ (5,422)</u>

Baraga Area Schools

Athletic Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Athletic activities	\$ 13,613	\$ 17,715	\$ 4,102
TOTAL REVENUES	<u>13,613</u>	<u>17,715</u>	<u>4,102</u>
EXPENDITURES:			
Athletic activities:			
Salaries	53,307	53,525	(218)
Fringe benefits	13,733	12,581	1,152
Purchased services	34,496	38,049	(3,553)
Supplies and materials	-	-	-
Capital outlay	10,918	10,913	5
Other expenses	1,886	931	955
TOTAL EXPENDITURES	<u>114,340</u>	<u>115,999</u>	<u>(1,659)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(100,727)	(98,284)	2,443
OTHER FINANCING SOURCES (USES):			
Transfers in	81,440	81,000	(440)
TOTAL OTHER FINANCING SOURCES (USES)	<u>81,440</u>	<u>81,000</u>	<u>(440)</u>
NET CHANGE IN FUND BALANCE	(19,287)	(17,284)	2,003
Fund Balance, July 1	1,223	1,223	-
FUND BALANCE, JUNE 30	<u>\$ (18,064)</u>	<u>\$ (16,061)</u>	<u>\$ 2,003</u>

Baraga Area Schools

Bookstore Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
Bookstore revenue	\$ 365	\$ 365	\$ -
TOTAL REVENUES	<u>365</u>	<u>365</u>	<u>-</u>
EXPENDITURES:			
Bookstore activities:			
Salaries	-	-	-
Fringe benefits	-	-	-
Purchased services	-	-	-
Supplies and materials	500	206	294
Capital outlay	-	-	-
Other expenses	22	23	(1)
TOTAL EXPENDITURES	<u>522</u>	<u>229</u>	<u>293</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(157)	136	293
OTHER FINANCING SOURCES (USES)			
Transfer in	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(157)	136	293
Fund Balance, July 1	<u>2,204</u>	<u>2,204</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 2,047</u>	<u>\$ 2,340</u>	<u>\$ 293</u>

Baraga Area Schools

Debt Service Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual

For the Year Ended June 30, 2007

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes and penalties	\$ 402,967	\$ 425,992	\$ 23,025
State aid	-	-	-
Interest	1,398	1,754	356
TOTAL REVENUES	404,365	427,746	23,381
EXPENDITURES:			
Principal payments	281,212	165,063	116,149
Interest and agent fees	239,858	540,220	(300,362)
TOTAL EXPENDITURES	521,070	705,283	(184,213)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(116,705)	(277,537)	(160,832)
OTHER FINANCING SOURCES (USES):			
Proceeds from sale of bond	88,900	273,073	184,173
TOTAL OTHER FINANCING SOURCES (USES)	88,900	273,073	184,173
NET CHANGE IN FUND BALANCE	(27,805)	(4,464)	23,341
Fund Balance, July 1	36,202	36,202	-
FUND BALANCE, JUNE 30	\$ 8,397	\$ 31,738	\$ 23,341

Baraga Area Schools

Student Activity Agency Fund

Statement of Changes in Assets and Liabilities

For the Year Ended June 30, 2007

	<u>Balance July 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30</u>
ASSETS:				
Cash and cash equivalents	<u>\$ 83,322</u>	<u>\$ 131,680</u>	<u>\$ 139,277</u>	<u>\$ 75,725</u>
TOTAL ASSETS	<u>\$ 83,322</u>	<u>\$ 131,680</u>	<u>\$ 139,277</u>	<u>\$ 75,725</u>
LIABILITIES:				
Due to others	<u>\$ 83,322</u>	<u>\$ 131,680</u>	<u>\$ 139,277</u>	<u>\$ 75,725</u>
TOTAL LIABILITIES	<u>\$ 83,322</u>	<u>\$ 131,680</u>	<u>\$ 139,277</u>	<u>\$ 75,725</u>

COMPLIANCE SECTION



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

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

Board of Education
Baraga Area Schools
210 Lyons Street
Baraga, Michigan 49908

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Baraga Area Schools as of and for the year ended June 30, 2007, which collectively comprise the Baraga Area School's basic financial statements and have issued our report thereon dated October 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Baraga Area 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 the Baraga Area School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Baraga Area School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Baraga Area School's financial statements that is more than inconsequential will not be prevented or detected by the Baraga Area School's internal control. We consider the deficiencies described in the accompanying report to management to be significant deficiencies in internal control over financial reporting listed as item 07-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Baraga Area School's internal control.

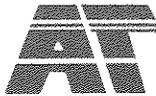
Board of Education
Baraga Area Schools
Baraga, Michigan 49908

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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

Anderson, Tackman & Company, PLLC
Certified Public Accountants

October 2, 2007



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN
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DANIEL E. BIANCHI, CPA

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

Board of Education
Baraga Area Schools
210 Lyons Street
Baraga, Michigan 49908

Compliance

We have audited the compliance of Baraga Area School's 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, 2007. Baraga Area 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 Baraga Area Schools' management. Our responsibility is to express an opinion on Baraga Area 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 Baraga Area 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 Baraga Area School's compliance with those requirements.

In our opinion, Baraga Area 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, 2007.

Internal Control Over Compliance

The management of Baraga Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Baraga Area School's internal control over compliance with 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, 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 Baraga Area School's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control

Board of Education
Baraga Area Schools
Baraga, Michigan 49908

deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Baraga Area School's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Baraga Area School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, school board, others within the entity, state 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.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

October 2 , 2007

BARAGA AREA SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2007

Federal Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memorandum Only) Prior Year Expenditures	Accrued (Deferred) Revenue	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue
U.S. DEPARTMENT OF AGRICULTURE:							
Direct Award							
Bonus Commodities	10.550	\$ 159	\$ 378	\$ -	\$ 159	\$ 159	\$ -
Entitlement Commodities	10.550	7,527	8,116	-	7,527	7,527	-
	Sub-Total	7,686	8,494	-	7,686	7,686	-
Passed Through the Michigan Department of Education:							
National School Breakfast Program	10.553	14,233	11,613	-	14,233	14,233	-
	Sub-Total	14,233	11,613	-	14,233	14,233	-
Passed Through the Michigan Department of Education:							
Section 4 - All Lunches	10.555	11,969	10,713	-	11,969	11,969	-
Section 11 - Free & Reduced Lunches	10.555	65,409	56,585	-	65,409	65,409	-
	Sub-Total	77,378	67,298	-	77,378	77,378	-
Direct Award							
Schools & Road Grant	10.665	12,283	14,802	-	12,283	12,283	-
	Sub-Total	12,283	14,802	-	12,283	12,283	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE							
U.S. DEPARTMENT OF EDUCATION							
Passed Through Michigan Department of Education:							
Title I, Part A	84.010	152,866	147,322	67,803	5,543	73,346	-
Title I, Part A	84.010	140,323	-	-	140,323	54,500	85,823
	Sub-Total	293,189	147,322	67,803	145,866	127,846	85,823
Passed Through Michigan Department of Education:							
Handicapped Preschool & School Prog	84.027	3,760	3,760	-	3,760	3,760	-
	Sub-Total	3,760	3,760	-	3,760	3,760	-
Direct Award:							
P.L. 81-874 Title VIII of ESEA Impact Aid	84.041	390,992	-	-	390,992	390,992	-
P.L. 81-874 Title VIII of ESEA Impact Aid	84.041	99,609	-	-	99,609	99,609	-
	Sub-Total	490,601	-	-	490,601	490,601	-
Direct Award:							
P.L. 107-110 ESEA	84.060A	56,559	23,024	(17,176)	33,535	16,359	-
P.L. 107-110 ESEA	84.060A	52,806	-	-	36,168	52,806	(16,638)
	Sub-Total	109,365	23,024	(17,176)	69,703	69,165	(16,638)

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memorandum Only) Prior Year Expenditures	Accrued (Deferred) Revenue	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue
Passed Through the Michigan Department of Education: Title V, Part A - LEA Allocation Title V, Part A - LEA Allocation	84.298 84.298	\$ 4,007 1,942 5,949	\$ 4,007 -	\$ 3,188 -	\$ - 1,942 1,942	\$ 3,188 1,942 5,130	\$ - -
Sub-Total			4,007	3,188	1,942	5,130	39,263
Passed Through the Michigan Department of Education: Title II Part D Title II Part D	84.318 84.318	2,852 1,440 4,292	2,852 -	1,918 -	- 1,440 1,440	1,918 1,440 3,358	- -
Sub-Total			2,852	1,918	1,440	3,358	-
Direct Award: REAP Small Rural School Achievement Program	84.358	1,477 1,477	1,477 1,477	- -	1,477 1,477	1,477 1,477	- -
Sub-Total			1,477	-	1,477	1,477	-
Passed Through the Michigan Department of Education: Title III - Limited English Title III - Limited English Title III - Limited English	84.365 84.365 84.365	24,784 19 17,633 42,436	24,784 -	24,784 -	- 19 17,633 17,652	24,784 - 10,000 34,784	- 19 7,633 7,652
Sub-Total			24,784	24,784	17,652	34,784	-
Passed Through the Michigan Department of Education: Title II, Part A Title II, Part A	84.367 84.367	47,185 46,562 93,747	47,185 -	47,185 -	- 46,562 46,562	47,185 35,500 82,685	- 11,062 11,062
Sub-Total			47,185	47,185	46,562	82,685	-
TOTAL U.S. DEPARTMENT OF EDUCATION		1,044,816	254,411	127,702	779,003	818,806	87,899
GRAND TOTAL		\$ 1,156,397	\$ 356,618	\$ 127,702	\$ 890,563	\$ 930,387	\$ 87,899

BARAGA AREA SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2007

NOTE A – OVERSIGHT AGENCY:

The U.S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the School District's federal awards.

NOTE B – BASIS OF ACCOUNTING:

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

NOTE C – STATE GRANTS:

The following state grants were reported on Form R7120, Grants Section Auditors Report for the year ending June 30, 2007 and are not included on the Schedule of Federal Awards.

<u>Description</u>	<u>Project Number</u>	<u>State Expenditures</u>
School Breakfast	066320 M-24	\$ 2,497

NOTE D – FINAL COST REPORT - FORM DS4044:

The final cost reports are not due until 60 days after the end of the grant period. The reports for the current year were not completed as of the date of our report. However, we reviewed the reports filed for the prior year grants and noted that they agreed with either the prior year audited figures or the prior year and current year audit figures combined.

NOTE E – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RECONCILIATION:

The amounts reported as current payments on the R7120, Grant Section Auditors Report, reconcile with the Schedule of Expenditures of Federal Awards as follows:

Current payments per R7120		\$ 351,671
Add – payments not on R7120:		
Direct programs	\$ 574,064	
Pass through CCISD	-	
Bonus and entitlement commodities	<u>7,686</u>	581,750
Minus – state grants on R7120:		
School Breakfast – non-program	<u>(2,497)</u>	(2,497)
Adjustments:		
Rounding		
Accrued (deferred) revenue – BOY	(144,878)	
Accrued (deferred) revenue – EOY	<u>104,537</u>	<u>(40,341)</u>
Per the Schedule of Expenditures of Federal Awards		<u><u>\$ 890,583</u></u>

**NOTE E – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RECONCILIATION
(Continued):**

A reconciliation of expenditures on the Schedule of Federal Awards to federal revenue is as follows:

GENERAL FUND:

Total Federal Revenue Sources Reported in the Financial Statements	\$ 896,652
Less: Revenue in lieu of taxes (Commercial Forest Reserve)	(3,572)

SCHOOL LUNCH SPECIAL REVENUE FUND:

Less: State School Breakfast	(2,497)
	<u>\$ 890,583</u>

BARAGA AREA SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year June 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the general purpose financial statements of Baraga Area Schools.
2. There were no reportable conditions disclosed during the audit of the financial statements.
3. There were no instances of noncompliance material to the financial statements of Baraga Area Schools disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs is reported in this schedule.
5. The auditors' report on compliance for the major federal award programs for Baraga Area Schools expresses an unqualified opinion.
6. No audit findings relative to the major federal award program for Baraga Area Schools were disclosed during the audit.
7. The programs tested as major programs were:

P.L. 81-874 Title VIII of ESEA Impact Aid	84.041
---	--------
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Baraga Area Schools was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

07-01 – ASSIST IN PREPARING FINANCIAL STATEMENTS AND FOOTNOTES

Condition/Criteria: Statement on Auditing Standards #112 requires us to communicate in writing when a client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Effect: We assisted management with the external financial reporting responsibility to ensure their financial statements are in accordance with GAAP.

Cause of Condition: The staff of the district does not have adequate time to prepare all the information included in the annual financial statements. Therefore, we assisted in the preparing the financial statements and related footnotes.

Recommendation: We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - Sue Wilson, Business Manager
- Corrective Action Planned:
 - We are aware of this deficiency and believe it is not cost beneficial in our situation to allocate the time need to prepare the audit report in the current fiscal year.
- Anticipated Completion Date:
 - June 30, 2008

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDIT

NONE

BARAGA AREA SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year June 30, 2006

NONE



PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

Baraga Area Schools
Report to Management Letter
For the Year Ended June 30, 2007

Board of Education
Baraga Area Schools
210 Lyons Street
Baraga, MI 49908

In planning and performing our audit of the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Baraga Area Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Baraga Area School's internal control over financial reporting (internal control) 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 the Baraga Area School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Baraga Area School's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiencies in internal control that we consider to be significant deficiencies.

07-01 – ASSIST IN PREPARING FINANCIAL STATEMENTS AND FOOTNOTES.

Condition/Criteria: Statement on Auditing Standards #112 requires us to communicate in writing when a client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Effect: We assisted management with the external financial reporting responsibility to ensure their financial statements are in accordance with GAAP.

Cause of Condition: The staff of the district does not have adequate time to prepare all the information included in the annual financial statements. Therefore, we assisted in the preparing the financial statements and related footnotes.

Recommendation: We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Management Response – Corrective Action Plan:

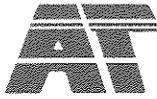
- Contact Person(s) Responsible for Correction:
 - Sue Wilson, Business Manager
- Corrective Action Planned:
 - We are aware of this deficiency and believe it is not cost beneficial in our situation to allocate the time need to prepare the audit report in the current fiscal year.
- Anticipated Completion Date:
 - June 30, 2008

This communication is intended solely for the information and use of the management, audit committee, Baraga Area School's Board of Education, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate and would like to thank the Baraga Area School's staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

Anderson, Tackman + Company, PLLC
Certified Public Accountants

October 2, 2007



ANDERSON, TACKMAN & COMPANY, P.L.C.
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DANIEL E. BIANCHI, CPA

October 2, 2007

Board of Education
Baraga Area Schools
P.O. Box 428
Baraga, Michigan 49908

We have audited the financial statements of the Baraga Area Schools for the year ended June 30, 2007, and have issued our report thereon dated October 2, 2007. 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 OMB Circular A-133

As stated in our engagement letter our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Baraga Area School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with 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.

As part of obtaining reasonable assurance about whether Baraga Area School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Baraga Area School's compliance with the types of compliance requirements described in the *U.S. Office Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Baraga Area School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Baraga Area School's compliance with those requirements.

Significant Accounting Policies

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the Baraga Area Schools are described in Footnotes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Baraga Area Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Baraga Area School's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Baraga Area Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the Baraga Area School's financial reporting process.

Disagreements with Management

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

Consultation 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.

Board of Education
Baraga Area Schools

Issues Discussed Prior to Retention of Independent Auditors

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 Baraga Area School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Conclusion

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

Anderson, Jackman & Company, PLLC

Board of Education
Baraga Area Schools
Certified Public Accountants