

**St. Johns Public Schools
St. Johns, Michigan**

FINANCIAL STATEMENTS

June 30, 2007

St. Johns Public Schools

St. Johns, Michigan

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June 30, 2007

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St. Johns Public Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
St. Johns Public Schools
St. Johns, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Johns Public Schools as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of St. Johns Public 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 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 St. Johns Public Schools as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2007, on our consideration of St. Johns Public Schools' internal control over financial reporting and 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, as identified in the table of contents, 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.

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 3, 2007

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007

As management of the St. Johns Public Schools, we offer readers of the St. Johns Public Schools' financial statements this narrative overview and analysis of the financial activities of the St. Johns Public Schools for the fiscal year ended June 30, 2007.

Financial Highlights

- The assets of the St. Johns Public Schools exceeded its liabilities at the close of the most recent fiscal year by \$11,172,833 (net assets).
- The school district's total net assets increased by \$498,270, as the result of current year activity.
- As of the close of the current fiscal year, the St. Johns Public Schools' governmental funds reported combined ending fund balances of approximately \$3,591,241, an increase of \$294,800 in comparison with the prior year adjusted combined fund balances.
- At the end of the current fiscal year, unreserved and undesignated fund balance for the general fund was \$1,820,061, or 6.9 percent of total general fund expenditures and Other Financing Uses.
- The St. Johns Public Schools' total long-term debt decreased by \$1,423,437 during the current fiscal year. The major factors in the decrease are the retirement of a portion of the bonded long term debt and payments made to the Michigan School Bond Loan Program. The decreases were netted against an increase in long term debt to recognize the obligation for the Early Severance Plan that was offered to the teachers.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the St. Johns Public Schools' basic financial statements. The St. Johns Public Schools' basic financial statements are comprised of three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The *district-wide financial statements* are designed to provide readers with a broad overview of the St. Johns Public Schools' finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the St. Johns Public Schools' assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the St. Johns Public Schools is improving.

The *statement of activities* presents information showing how the school district's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The district-wide financial statements can be found on pages 1 and 2 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The St. Johns Public Schools, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the St. Johns Public Schools can be divided into two categories: governmental funds and fiduciary funds.

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007**

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the district-wide financial statements. However, unlike the district-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a school district's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the district-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the district-wide financial statements. By doing so, readers may better understand the long-term impact of the school district's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The general fund is considered to be the school district's only major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* located in the "Other Supplementary Information" section of the report.

The St. Johns Public Schools adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the school district. Fiduciary funds are *not* reflected in the district-wide financial statement because the resources of those funds are *not* available to support the St. Johns Public Schools' own programs.

The basic fiduciary fund financial statements can be found on pages 7 and 8 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 9 through 24 of the report.

District-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a school district's financial position. In the case of the St. Johns Public Schools, assets exceeded liabilities by \$11,172,833 at the close of the most recent fiscal year. Following is a summary of Net Assets statement for St. Johns Public Schools:

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007**

Summary of Net Assets:

The following table summarizes the districts net assets for the fiscal years ended June 30, 2007 and 2006:

	Net Assets Summary	
	Governmental Activities	
	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Assets		
Current and other assets	\$ 9,891,771	\$ 9,164,418
Capital assets	63,235,655	63,179,571
Less: accumulated depreciation	<u>(17,564,999)</u>	<u>(16,281,493)</u>
Capital assets, net book value	<u>45,670,656</u>	<u>46,898,078</u>
Total assets	<u>\$ 55,562,427</u>	<u>\$ 56,062,496</u>
Liabilities		
Current liabilities	\$ 9,121,176	\$ 8,060,807
Non-current liabilities	<u>35,268,418</u>	<u>37,327,126</u>
Total liabilities	44,389,594	45,387,933
Net Assets		
Invested in capital assets, net of related debt	9,867,351	8,503,660
Restricted for debt service	527,334	695,271
Unrestricted	<u>778,148</u>	<u>1,475,632</u>
Total net assets	<u>11,172,833</u>	<u>10,674,563</u>
Total Liabilities and Net Assets	<u>\$ 55,562,427</u>	<u>\$ 56,062,496</u>

By far the largest portion of the St. Johns Public Schools' net assets (88.3 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The St. Johns Public Schools uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the St. Johns Public Schools' investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the St. Johns Public Schools' net assets (4.7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (7.0 percent) may be used to meet the district's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the St. Johns Public Schools is able to report a positive balance in net assets for the school district.

The value of the school district's net assets increased by \$498,270 for fiscal year 2006-07. The increase represents the degree to which increases in Current Assets have grown more than the increases in the actual Current Liabilities.

St. Johns Public Schools

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007

Results of Operations:

District-wide operating results for the fiscal years ended June 30, 2007 and 2006:

Revenues:	Governmental Activities	
	<u>June 30, 2007</u>	<u>June 30, 2006</u>
General Revenues:		
Property taxes	\$ 6,481,359	\$ 5,989,799
State of Michigan unrestricted foundation aid	20,668,456	21,106,496
County special education allocation	177,990	269,840
County vocational education allocation	537,554	572,363
Other general revenues	<u>751,920</u>	<u>541,167</u>
Total General Revenues	28,617,279	28,479,665
Operating Grants:		
Federal	844,015	763,694
State of Michigan	<u>1,443,296</u>	<u>497,152</u>
Total Operating Grants	2,287,311	1,260,846
Capital Grants:		
Federal	5,199	-
State of Michigan	<u>107</u>	<u>6,994</u>
Total Capital Grants	5,306	6,994
Charges for Services:		
Food service activities	800,606	788,597
Athletic activities	202,666	246,530
Community service activities	124,540	115,755
Other local	<u>490,392</u>	<u>462,194</u>
Total Charges for Services	<u>1,618,204</u>	<u>1,613,076</u>
Total Revenues	32,528,100	31,360,581
Expenses:		
Instruction and instructional support	18,144,741	17,041,401
Support services	8,780,464	8,922,860
Food service activities	1,123,914	1,098,987
Athletic activities	445,877	464,175
Interest on long-term debt	2,073,156	2,054,050
Depreciation (unallocated)	1,461,678	1,521,214
Other	<u>-</u>	<u>73,656</u>
Total Expenses	<u>32,029,830</u>	<u>31,176,343</u>
Net Revenues/(Expenses)	<u>\$ 498,270</u>	<u>\$ 184,238</u>

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007

- The major reasons for the increase in revenues was due to the State's foundation increase of \$210 per student and an equity payment of \$23 per student in recognition of St. Johns being one of the lowest funded schools in the state and property tax revenue increased by \$491,560 for the Debt Retirement and General Fund accounts. Note: the difference in operating grants' amount is due to the recognition of the State Aid for the Special Education being recognized this year as an Operating Grant instead of as being part of the State Foundation Aid amount.
- On the expenditure side major increases were a combination of the savings from reducing expenditures for building supplies; maintaining vacancies for most of the fiscal year; restricting Capital Outlay expenditures; and the lower energy costs netted against the recognition of the sizeable liability the district will incur to those employees that participated in the early severance plan. The severance of \$1,411,934 will be paid during FY2007-2008 and FY2008-2009 (one-half each year).

Financial Analysis of the School District's Funds

As noted earlier, the St. Johns Public Schools uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the St. Johns Public Schools' *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the St. Johns Public Schools' financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a school district's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the St. Johns Public Schools' governmental funds reported combined ending fund balances of \$3,591,241, an increase of \$294,800 in comparison with the prior year adjusted ending fund balances (Note: Fiscal year end for 2006 saw a decrease of \$703,881 in combined ending fund balances). Approximately 50% of this total amount (\$1,820,061) constitutes *unreserved general fund balance*, which is available for spending on operations at the school district's discretion. The remainder of fund balance is *designated or reserved* to indicate that it is not available for new spending because it has already been committed to: 1) cover purchase orders of the prior period and to cover an anticipated FY07-08 shortfall in the budget as passed (\$110,640); 2) pay debt service (\$831,228); and 3) pay for the cost of inventory and prepaids (\$27,136). Additional fund balance amounts have accumulated in other funds, implying a designation for the respective funds' purposes, such as 1) Food Service Operations (\$315,687); 2) Athletic Operations (\$13,418); and 3) Capital Projects (\$473,071).

The general fund is the chief operating fund of the St. Johns Public Schools. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,820,061, while total fund balance was \$1,909,781. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and Other Financing Uses. Unreserved fund balance represents 6.9 percent of total general fund expenditures and Other Financing Uses, while total fund balance represents 7.2 percent of that same amount.

- Total revenues increased approximately \$1,174,445 during the year. This was the result of general fund revenue increases driven mainly by the \$210 per student increase in the foundation grant amount and the \$23 per student equity payment in recognition of St. Johns Public Schools being among those schools that receive the lowest State Foundation Aid amount from the state. The majority of the balance of the increased revenue is property tax revenue increases dedicated for debt service payments.
- The fund balance of the St. Johns Public Schools' general fund increased by \$507,151 from the ending fund balance reported in last year's audit due to the current fiscal year's on-going operations. This follows last years decrease in fund balance of \$630,218. The increase in fund balance for the General Fund is due to several factors. Due to the uncertainty of state funding during FY2006-2007 the following short term steps were taken: expenditures for building supplies were frozen; several positions were held vacant for much of the fiscal year; and Capital Outlay expenditures were restricted. This coupled with a reprieve in energy costs equated to reduced costs for the Fiscal Year. The positions will be filled and it is anticipated that the expenditures for building supplies and energy will return to historic levels during Fiscal Year 2007-2008.

St. Johns Public Schools

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007

The debt service funds have a total fund balance of \$831,228, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current year in the debt service fund was \$175,392.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires the Board of Education approve an original budget for the upcoming year prior to the start of the fiscal year on July 1.

St. Johns Public Schools amends its budget twice each year. For FY2006-07 the budget was amended in March 2007 and June 2007. The June 2007 budget amendment was the final budget for the fiscal year.

Changes in the General Fund Budget from Original, Final Budget, and Actual:

	Original Budget (Adopted <u>June 2006</u>)	Final Budget (Adopted <u>June 2007</u>)	Actual Year Ended <u>June 30, 2007</u>
Total Revenues	\$ 26,668,143	\$ 26,733,400	\$ 26,990,277
Total Expenditures	\$ 26,748,025	\$ 26,504,024	\$ 26,483,126

FY 2006-07 General Fund operations result's impact on Net Assets: \$ 507,151

Revenues:

The district's actual revenues were \$322,134 higher than the original budget projections.

Expenditures:

The district's actual expenditures were \$264,899 lower than the original budget projections.

Debt Administration

At the end of the current fiscal year, St. Johns Public Schools had total bonded debt outstanding of \$31,990,549. The remainder of the District's debt is made of Installment and Michigan School Bond Loans.

St. Johns Public Schools' total debt, including amounts owed to employees for compensated absences, decreased by \$1,423,437 (approximately 3.8 percent) during the current fiscal year.

The school district continued to make payments to the Michigan School Bond Loan Fund program.

Economic Factors and Next Year's Budgets

- The State of Michigan annually establishes a foundation allowance for each enrolled student. The State has not yet passed an appropriation for FY2007-2008 as of the printing of this document.
- Health insurance costs seemed to have stabilized for many of our employees for FY2007-2008. District employees continue to share in the cost of the health insurance package. The cost of providing health insurance to the school district's employees still represents a significant expenditure to the school district.
- The State used a one time adjustment to the value of the assets held by the State's retirement system. The adjustment allowed the State to lower the retirement rate the District uses to calculate the amount we owe for the District's employees. This appears to be a one year reprieve from what had been an annual increase in the retirement rate.

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007**

- The school district anticipates a student blended count decline of 15 students for the 2007-2008 fiscal year. The FY2007-2008 budget was built using this assumption. Local economic factors and the overall economy of the State will impact actual student enrollment.
- The school district, for the tenth consecutive year, will need to borrow money to meet cash flow needs during the early portion of the fiscal year. The amount to be borrowed is \$3.5 million. The funds are used to meet payroll costs and to pay vendors for products and services while we wait for state funds (the fiscal year starts on July 1st and the first state funds are usually received by the District towards the end of October). It is estimated the borrowing costs will be about \$150,000.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, St. Johns Public Schools, 501 W. Sickles, St. Johns, Michigan 48879.

BASIC FINANCIAL STATEMENTS

St. Johns Public Schools

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 5,343,578
Investments	462,951
Accounts receivable	13,921
Due from other governmental units	4,044,185
Inventory	19,093
Prepaid expenses	8,043
	<hr/>
Total current assets	9,891,771
Noncurrent assets	
Capital assets not being depreciated	802,535
Capital assets, net of accumulated depreciation	44,868,121
	<hr/>
Total noncurrent assets	45,670,656
	<hr/>
TOTAL ASSETS	55,562,427
LIABILITIES	
Current liabilities	
Accounts payable	247,670
Accrued payroll	1,463,099
Accrued interest payable	257,062
Other accrued liabilities	959,210
Unearned revenue	19,034
Short-term notes payable	3,611,517
Current portion of compensated absences and termination benefits	762,960
Current portion of long-term debt	1,800,624
	<hr/>
Total current liabilities	9,121,176
Noncurrent liabilities	
Noncurrent portion of accrued interest	46,832
Noncurrent portion of compensated absences and termination benefits	1,218,905
Noncurrent portion of long-term debt	34,002,681
	<hr/>
Total noncurrent liabilities	35,268,418
	<hr/>
TOTAL LIABILITIES	44,389,594
NET ASSETS	
Invested in capital assets, net of related debt	9,867,351
Restricted for debt service	527,334
Unrestricted	778,148
	<hr/>
TOTAL NET ASSETS	\$ 11,172,833

See accompanying notes to financial statements.

St. Johns Public Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Governmental Activities	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Assets
Functions/Programs					Governmental Activities
Instruction	\$ 17,690,385	\$ 299,570	\$ 1,926,429	\$ 5,199	\$ (15,459,187)
Supporting services	8,780,464	190,822	1,627	-	(8,588,015)
Community services	454,356	124,540	-	107	(329,709)
Food services	1,123,914	800,606	359,255	-	35,947
Athletics	445,877	202,666	-	-	(243,211)
Interest on long-term debt	2,073,156	-	-	-	(2,073,156)
Unallocated depreciation	1,461,678	-	-	-	(1,461,678)
TOTAL EXPENSES	\$ 32,029,830	\$ 1,618,204	\$ 2,287,311	\$ 5,306	(28,119,009)
General Revenues					
Property taxes					6,481,359
State school aid - unrestricted					20,668,456
Special Education county allocation					177,990
Vocational Education county allocation					537,554
County-wide career connection consortium					88,100
Investment earnings					207,994
Miscellaneous					455,826
TOTAL GENERAL REVENUES					28,617,279
CHANGE IN NET ASSETS					498,270
Net assets, beginning of year					10,674,563
Net assets, end of year					\$ 11,172,833

See accompanying notes to financial statements

St. Johns Public Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2007

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,954,349	\$ 1,389,229	\$ 5,343,578
Investments	-	462,951	462,951
Accounts receivable	13,921	-	13,921
Due from other funds	142,006	-	142,006
Due from other governmental units	4,033,722	10,463	4,044,185
Inventories	5,789	13,304	19,093
Prepays	8,043	-	8,043
TOTAL ASSETS	<u>\$ 8,157,830</u>	<u>\$ 1,875,947</u>	<u>\$ 10,033,777</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 227,857	\$ 19,813	\$ 247,670
Accrued payroll	1,448,371	14,728	1,463,099
Other accrued liabilities	954,115	5,095	959,210
Due to other funds	-	142,006	142,006
Deferred revenue	6,189	12,845	19,034
Short-term notes payable	3,611,517	-	3,611,517
TOTAL LIABILITIES	6,248,049	194,487	6,442,536
FUND BALANCES			
Reserved for			
Inventories and prepaids	13,832	13,304	27,136
Debt service	-	831,228	831,228
Unreserved			
Designated for:			
Subsequent year's expenditures	75,888	34,752	110,640
Undesignated, reported in:			
General Fund	1,820,061	-	1,820,061
Special Revenue Funds	-	329,105	329,105
Capital Project Fund	-	473,071	473,071
TOTAL FUND BALANCES	<u>1,909,781</u>	<u>1,681,460</u>	<u>3,591,241</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,157,830</u>	<u>\$ 1,875,947</u>	<u>\$ 10,033,777</u>

See accompanying notes to financial statements.

St. Johns Public Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS

June 30, 2007

Total fund balance - governmental funds \$ 3,591,241

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 63,235,655	
Accumulated depreciation is	<u>(17,564,999)</u>	45,670,656

Governmental funds report the difference between the carrying amount of the defeased debt and its reacquisition price when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Net Assets. These amounts consist of:

Unamortized defeased debt		95,184
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds and loans payable	35,898,489	
Accrued interest payable	303,894	
Vacation, severance, and retirement incentive payable	<u>1,981,865</u>	<u>(38,184,248)</u>

Net assets of governmental activities \$ 11,172,833

See accompanying notes to financial statements.

St. Johns Public Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2007

	General	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES			
Local sources	\$ 3,342,722	\$ 5,173,369	\$ 8,516,091
State sources	22,054,180	57,571	22,111,751
Federal sources	542,331	301,684	844,015
TOTAL REVENUES	25,939,233	5,532,624	31,471,857
EXPENDITURES			
Current			
Instruction	16,384,507	-	16,384,507
Supporting services	9,042,992	-	9,042,992
Community services	454,356	-	454,356
Food service activities	-	1,122,456	1,122,456
Athletic activities	-	445,877	445,877
Capital outlay	-	86,104	86,104
Debt service			
Principal retirement	57,256	2,441,651	2,498,907
Interest, fiscal and other charges	147,890	2,024,927	2,172,817
TOTAL EXPENDITURES	26,087,001	6,121,015	32,208,016
EXCESS OF REVENUES (UNDER) EXPENDITURES	(147,768)	(588,391)	(736,159)
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	376,040	376,040
County special education allocation	177,990	-	177,990
County vocational education allocation	537,554	-	537,554
County-wide career connection consortium	88,100	-	88,100
Other transactions	247,400	-	247,400
Transfers to other funds	(376,040)	-	(376,040)
Other	(20,085)	-	(20,085)
TOTAL OTHER FINANCING SOURCES (USES)	654,919	376,040	1,030,959
NET CHANGE IN FUND BALANCES	507,151	(212,351)	294,800
Fund balances, beginning of year	1,402,630	1,893,811	3,296,441
Fund balances, end of year	<u>\$ 1,909,781</u>	<u>\$ 1,681,460</u>	<u>\$ 3,591,241</u>

See accompanying notes to financial statements.

St. Johns Public Schools

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Net change in fund balances - total governmental funds \$ 294,800

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 234,256	
Depreciation expense	<u>(1,461,678)</u>	
Excess of depreciation expense over capital outlay		(1,227,422)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. Also, governmental funds report the effect of the difference between the carrying amount of defeased debt and its reacquisition price when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. In the current year, these amounts consist of:

Amortization of defeased debt	(31,730)	
Bond and loan principal retirement	2,893,247	
Bond and loan proceeds (including SBLF interest)	<u>(270,404)</u>	
Excess of principal retirement over debt proceeds		2,591,113

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. In the current period, these amounts consist of:

Reading is fundamental grant		5,199
------------------------------	--	-------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Reading is fundamental grant expenditure	(5,199)	
Decrease in accrued interest payable	7,455	
(Increase) in accrued vacation, severance, and retirement incentive pay	<u>(1,167,676)</u>	
		<u>(1,165,420)</u>

Change in net assets of governmental activities \$ 498,270

See accompanying notes to financial statements.

St. Johns Public Schools

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	Private Purpose Trust Funds	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 26,454	\$ 395,611
Investments	68,140	-
Accounts receivable	3,268	-
	<u>97,862</u>	<u>-</u>
TOTAL ASSETS	97,862	<u>\$ 395,611</u>
LIABILITIES		
Accounts payable	900	\$ -
Due to individuals		
High School	-	210,905
Middle School	-	114,284
Elementary Schools	-	67,370
Other	-	3,052
Deferred revenue	17,486	-
	<u>18,386</u>	<u>-</u>
TOTAL LIABILITIES	18,386	<u>\$ 395,611</u>
NET ASSETS		
Held in trust for scholarships	65,376	
Held in trust for grants	14,100	
	<u>79,476</u>	
TOTAL NET ASSETS	<u>\$ 79,476</u>	

See accompanying notes to financial statements.

St. Johns Public Schools

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2007

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Investment earnings	
Interest	\$ 4,980
Contributions	<u>52,880</u>
Total additions	57,860
DEDUCTIONS	
Other supporting services	<u>56,079</u>
CHANGE IN NET ASSETS	1,781
Net assets - beginning of year	<u>77,695</u>
Net assets - end of year	<u><u>\$ 79,476</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of St. Johns Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of St. Johns Public Schools (primary government). The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major fund and aggregated nonmajor funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary funds are reported by type.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major fund of the District is:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide and fiduciary private purpose trust fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for fiduciary agency fund since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

5. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

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

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the fund level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- g. The budget, as presented, has been amended in a legally permissible manner. Two (2) supplementary appropriations were made during the year with the last approved June 25, 2007.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking, savings, money market accounts, and pooled investment funds. Cash equivalents are recorded at cost, which approximates market value.

Investments consist of certificates of deposit with an original maturity of greater than 90 days. Certificates of deposit are recorded at cost, which approximates market value.

7. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

8. Inventories

Inventories are stated at cost on a first in/first out basis. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve in the fund financial statements which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2007 to be paid in July and August 2007. Of the total amount of \$4,044,185 due from other governmental units, \$3,754,700 consists of State Aid and the remaining \$289,485 from other governmental grants.

10. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	10 - 50 years
Equipment and furniture	5 - 25 years
Vehicles	8 years
Other capital equipment	5 - 25 years

The District has no assets that would be classified as infrastructure assets.

11. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

12. Deferred Revenues

The unexpended balance of various federal and/or state categorical and local grants is carried forward as deferred revenue until the period in which eligible expenditures are incurred. Other monies collected in advance, such as summer school, community education programs, and summer school lunch, recreational programs are also deferred.

13. Short-Term Note Obligations

Short-term debt is recognized as a liability of a governmental fund and is included on the balance sheet of the applicable fund. During the current year the District borrowed funds to meet short-term cash flow borrowing needs. The final payment is due and payable in August 2007, and anticipated State Aid is expected to be sufficient to cover this commitment.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

15. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements in two components: the portion of accrued interest payable that is due within one year is reported as a current liability, the remaining amount that is not due within one year has been reported as a noncurrent liability. The interest payable on the Durant Resolution bonds that were due May 15, 2003, 2004, 2005, and 2007, and a portion of the payment that is due May 15, 2008, is shown as a noncurrent liability due to the State of Michigan deferring these payments until May 15, 2009.

16. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

The District levies taxes of \$18 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$7 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

17. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are 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 average of pupil membership counts taken in September 2006 and February 2006. The average calculation was weighted 75% for the September 2006 count and 25% for the February 2006 count.

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 nonhomestead 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 nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are recorded when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers on the governmental fund financial statements. Transfers are netted as part of the reconciliation to the district-wide financial statements.

19. Federal Programs

Federal programs are accounted for in the specific governmental funds to which they relate. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

20. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

As of June 30, 2007, the District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 5,343,578	\$ 422,065	\$ 5,765,643
Investments	<u>462,951</u>	<u>68,140</u>	<u>531,091</u>
	<u>\$ 5,806,529</u>	<u>\$ 490,205</u>	<u>\$ 6,296,734</u>

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, the carrying amount of the District's deposits was \$2,431,364 and the bank balance was \$2,904,744 of which \$476,404 was covered by Federal depository insurance. The balance of \$2,428,340 was uninsured and uncollateralized. The District had \$750 of cash on hand.

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents, and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

Investments

As of June 30, 2007, the carrying amounts and market values for each type of investment as reported in the cash, cash equivalents, and investments captions on the financial statements are as follows:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity (years)</u>
Michigan Liquid Asset Fund Plus	<u>\$ 3,864,620</u>	<u>\$ 3,864,620</u>	Less than 12 Months Average

Credit risk

State law limits investments in certain types of investments to a prime or better rating issue by nationally recognized statistical rating organizations (NRSRO'S). As of June 30, 2007, the District's investment in the Michigan Liquid Asset Fund Plus was rated AAA by Standards and Poor's.

Interest rate risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by monitoring the weighted average maturity of its investment portfolio through its financial reports and investment authorizations.

St. Johns Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Concentration of credit risk

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

Custodial credit risk

The District will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments of collateral securities that are in possession of an outside party by diversifying its investments by institution to ensure that potential losses on individual securities do not exceed the income generated by the remainder of the portfolio.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 802,535	\$ -	\$ -	\$ 802,535
Capital assets being depreciated				
Buildings and additions	55,584,854	-	-	55,584,854
Equipment and furniture	481,871	90,709	-	572,580
Vehicles	1,595,680	143,547	(178,172)	1,561,055
Other capital equipment	<u>4,714,631</u>	<u>-</u>	<u>-</u>	<u>4,714,631</u>
Subtotals	62,377,036	234,256	(178,172)	62,433,120
Less accumulated depreciation for:				
Buildings and additions	(11,791,822)	(1,104,594)	-	(12,896,416)
Equipment and furniture	(198,539)	(43,068)	-	(241,607)
Vehicles	(1,191,222)	(116,066)	166,016	(1,141,272)
Other capital equipment	<u>(3,099,910)</u>	<u>(185,794)</u>	<u>-</u>	<u>(3,285,704)</u>
Total accumulated depreciation	<u>(16,281,493)</u>	<u>(1,449,522)</u>	<u>166,016</u>	<u>(17,564,999)</u>
Net capital assets being depreciated	<u>46,095,543</u>	<u>(1,215,266)</u>	<u>(12,156)</u>	<u>44,868,121</u>
Capital assets, net	<u>\$46,898,078</u>	<u>\$(1,215,266)</u>	<u>\$(12,156)</u>	<u>\$45,670,656</u>

The current year depreciation expense of \$1,449,522 has been adjusted by \$12,156 for the disposal of capital assets during the year, in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses be handled as an adjustment to the current period's depreciation expense.

Total depreciation expense of \$1,461,678 was not allocated to governmental functions. The expense appears on the statement of activities as "unallocated".

St. Johns Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE D: SHORT-TERM NOTES

On August 18, 2006, the District issued a short-term State School Aid Anticipation Note in the amount of \$3,500,000 for the purpose of funding operating expenditures until the 2007 State Aid payments resumed. This short-term note, which has a net outstanding balance of \$3,611,517 at June 30, 2007, is reported in the General Fund under the caption short-term notes payable. The outstanding balance is due August 20, 2007.

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2007.

	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2007</u>	Amounts Due Within <u>One Year</u>
1995 School Building and Site General Obligation Bonds	\$ 2,900,000	\$ -	\$ 1,400,000	\$ 1,500,000	\$ 1,500,000
2003 Energy Conservation Bonds	915,000	-	120,000	795,000	120,000
1998 Refunding Bonds	26,315,000	-	90,000	26,225,000	95,000
2004 Refunding Bonds	3,240,000	-	40,000	3,200,000	45,000
1998 Durant Resolution Bonds	270,549	-	-	270,549	-
Installment Loans	253,120	-	44,080	209,040	30,150
Lease Purchase Agreement	-	58,932	13,176	45,756	10,474
Michigan School Bond Loans					
Principal and interest	4,627,663	211,472	1,185,991	3,653,144	-
Severance pay	654,847	-	133,210	521,637	52,164
Vacation pay	159,342	-	111,048	48,294	4,829
Early retirement incentive	-	1,411,934	-	1,411,934	705,967
	39,335,521	1,682,338	3,137,505	37,880,354	2,563,584
Less deferred amounts:					
On refunding	126,914	-	31,730	95,184	-
Total	<u>\$39,208,607</u>	<u>\$ 1,682,338</u>	<u>\$ 3,105,775</u>	<u>\$37,785,170</u>	<u>\$ 2,563,584</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds - The District has issued bonds to finance the acquisition, new construction, and remodeling of existing school facilities. The following summarizes significant details of the bonds payable outstanding at June 30, 2007:

\$42,525,000 School Building and Site General Obligation Bonds dated November 11, 1995, due in an installment of \$1,500,000 on May 1, 2008 with interest of 6.50 percent, payable semi-annually.	\$ 1,500,000
\$26,905,000 1998 Refunding Bonds dated June 15, 1998, due in annual installments ranging from \$95,000 to \$1,780,000 through May 1, 2025 with interest ranging from 4.50 to 5.10 percent, payable semi-annually.	26,225,000

St. Johns Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE E: LONG-TERM DEBT - CONTINUED

General Obligation Bonds - continued

\$1,250,000 2003 Energy Conservation Improvement Bonds dated September 30, 2003, due in annual installments ranging from \$120,000 to \$145,000 through May 1, 2013 with interest ranging from 2.50 to 4.10 percent, payable semi-annually. \$ 795,000

\$3,355,000 2004 Refunding Bonds dated February 18, 2004, due in annual installments ranging from \$45,000 to \$1,610,000 through May 1, 2010 with interest ranging from 2.00 to 3.00 percent, payable semi-annually. 3,200,000

\$31,720,000

Resolution Bonds

\$458,197 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments from \$32,174 to \$155,822, with interest of 4.7615353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan. The State of Michigan has suspended payment until May 15, 2009. \$ 270,549

Installment Loan

\$420,000 Installment Purchase Agreement dated July 16, 1998, due in semi-annual installments ranging from \$14,864 to \$20,226 through May 15, 2013 with interest at 5.68 percent, payable semi-annually. \$ 209,040

Lease Purchase Agreement

\$58,932 Lease Purchase Agreement dated April 25, 2007, due in annual installments ranging from \$1 to \$12,441 through April 25, 2012, with interest at 5.75 percent, payable monthly. \$ 45,756

Michigan School Bond Loans

The School District has borrowed on various occasions from the Michigan School Bond Loan Fund. Repayment is due when the School District has funds available as determined by the State of Michigan. Interest accrues on the unpaid balance. During the year the interest rate ranged from 4.500 to 4.875 percent.

The balances at June 30, 2007, are as follows:

Loan balance	\$ 3,492,349
Interest balance	<u>160,795</u>
	<u>\$ 3,653,144</u>

St. Johns Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE E: LONG-TERM DEBT - CONTINUED

Annual Requirements for Bonded Debt and Installment Loans

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

Year Ending June 30,	<u>Durant Resolution Bonds</u>		<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ -	\$ -	\$ 1,760,000	\$ 1,530,768
2009	155,823	60,364	1,770,000	1,424,173
2010	26,713	5,463	1,840,000	1,373,235
2011	27,985	4,191	1,835,000	1,315,585
2012	29,316	2,858	1,835,000	1,228,140
2013-2017	30,712	1,462	8,935,000	4,798,895
2018-2022	-	-	8,670,000	2,598,700
2023-2025	-	-	5,075,000	516,375
	<u>\$ 270,549</u>	<u>\$ 74,338</u>	<u>\$ 31,720,000</u>	<u>\$ 14,785,871</u>

Year Ending June 30,	<u>Installment Loans</u>		<u>Lease Purchase Agreement</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 30,150	\$ 11,451	\$ 10,474	\$ 2,601
2009	31,887	9,715	11,093	1,976
2010	33,723	7,878	11,747	1,315
2011	35,666	5,935	12,442	615
2012	37,721	3,880	-	-
2013-2017	39,893	1,707	-	-
2018-2022	-	-	-	-
2023-2025	-	-	-	-
	<u>\$ 209,040</u>	<u>\$ 40,566</u>	<u>\$ 45,756</u>	<u>\$ 6,507</u>

It is not possible to project a payment schedule for the Michigan School Bond Loans due to varying interest rates and timing of repayments. As a result, it is not included in the schedule above.

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation. The State of Michigan has suspended payments on these bonds until May 15, 2009. It appears this suspension will have no financial impact on St. Johns Public Schools in the future.

Advance Refunding - Prior

On February 18, 2004 the District defeased the portion of the 1995 School Building and Site Bonds, which are due and payable May 1, 2009 through May 1, 2010. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2004 Refunding Bonds in the amount of \$3,355,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2007, bonds due and payable May 1, 2009 through May 1, 2010 for the 1995 School Building and Site Bonds in the amount of \$3,100,000 are considered defeased. The amount transferred to the escrow agent exceeded the amount defeased by \$222,098. This amount is being netted against the new debt and amortized over the life of the new debt, which is shorter than the life of the refunded debt.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE E: LONG-TERM DEBT - CONTINUED

Advance Refunding - Prior - continued

On June 15, 1998 the District defeased the portion of the 1995 School Building and Site Bonds which are due and payable May 1, 2011 through May 1, 2025. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 1998 Refunding Bonds in the amount of \$26,905,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2007, bonds due and payable May 1, 2011 through May 1, 2025 for the 1995 School Building and Site Bonds in the amount of \$25,225,000 are considered defeased.

Severance Pay

In recognition of services to the District, a severance payment is made to eligible employees with at least ten (10) years of service according to their respective employment contracts.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the terminal and sick leave liabilities. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The sick leave amounts for employees who currently are not vested are calculated by using total unused sick leave amounts at June 30, 2007 for all nonvested employees. The terminal leave amounts for employees who currently are not vested are calculated by taking the sum of nonvested employees' salaries for the year ended June 30, 2007 and multiplying it by the applicable years of service percentage. Both of these amounts are multiplied by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

A summary of the calculated amounts of accrued severance pay and related payroll taxes as of June 30, 2007, which has been recorded in the District-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Severance pay	\$ 339,241	\$ 145,326	\$ 484,567
Payroll taxes	<u>25,952</u>	<u>11,118</u>	<u>37,070</u>
	<u>\$ 365,193</u>	<u>\$ 156,444</u>	<u>\$ 521,637</u>

Vacation Payable

In recognition of services to the District, an accumulated unused vacation days' payment will be made upon termination to eligible employees according to past District practice. This payment will be paid on all unused vacation days at the employee's rate of pay at time of termination.

The vacation liabilities including the related payroll taxes which has been recorded in the District-wide financial statements is \$48,294.

Early Retirement Incentive

The District has entered into voluntary termination benefit arrangements with certain employees. The original agreement provides for a total payment to each individual of approximately \$50,000. This amount will be paid out over two equal payments. There are currently approximately 25 employees entitled to future payments. The liability has been recorded at the face amount, as the discounted present value approximates the face amount of the liability.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2007, are as follows:

Due to General Fund from:	
Nonmajor governmental funds	<u>\$ 142,006</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE G: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to nonmajor governmental funds from:	
General Fund	<u>\$ 376,040</u>

NOTE H: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2006, the last year available, may be obtained by contacting the State of Michigan Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2007, was \$15,773,828 of which \$13,221,430 was for members who have elected the MIP option; the District's total payroll was \$16,020,212.

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. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. 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 credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years 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 (10) or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service, and performed service credit in each of the five (5) 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 (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

St. Johns Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

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

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2006 to September 30, 2006, the District was required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. For the period of October 1, 2006 to June 30, 2007 the District is required by State statute to contribute 17.74% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2007, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>	<u>Total Contributions</u>
2007	\$ 513,395	\$ 2,753,005	\$ 3,266,400
2006	514,792	2,558,811	3,073,603
2005	489,186	2,275,903	2,765,089

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>
2007	4.0 %	17.5 %
2006	4.0	16.0
2005	4.0	14.4

NOTE I: RESTRICTED NET ASSETS

Restrictions of net assets shown in the district-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2007:

Governmental activities	
Restricted for debt service	<u>\$ 527,334</u>

NOTE J: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the District has set aside for specific purposes.

The following are the various fund balance reserves as of June 30, 2007:

General Fund	
Reserved for inventories and prepaids	<u>\$ 13,832</u>
Nonmajor Governmental Funds	
Reserved for inventories and prepaids	\$ 13,304
Reserved for debt service	<u>831,228</u>
	<u>\$ 844,532</u>

St. Johns Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE J: FUND BALANCE RESERVES AND DESIGNATIONS - CONTINUED

The following are the various fund balance designations as of June 30, 2007:

General Fund	
Designated for subsequent year's expenditures	<u>\$ 75,888</u>
Nonmajor Governmental Funds	
Designated for subsequent year's expenditures	<u>\$ 34,752</u>

NOTE K: FLEXIBLE BENEFITS PLAN

In June 1996 the District approved by Board action to implement a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The Plan, available to all employees, permits them to receive cash in lieu of medical benefits. The Plan provides employees with the opportunity to choose among benefits consisting of cash or benefits.

The Plan is administered by St. Johns Public Schools.

NOTE L: RISK MANAGEMENT

The District is exposed to various risks of loss including losses related to the Districts' storage tanks, boilers, and machinery for which the District carries commercial insurance.

The District also participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, equipment breakdown (Boiler and Machinery), fleet, liability, in-land marine, crime, data processing, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

NOTE M: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. St. Johns Public Schools, a nonplaintiff District, was awarded \$916,394 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE M: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT - CONTINUED

b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

NOTE N: SUBSEQUENT EVENT

In August 2007, the District received funds from the Michigan Municipal Bond Authority short-term cash flow borrowing program. The loan in the amount of \$3,500,000 was for the purpose of funding operating expenditures until the fiscal year 2008 State Aid payments resume. Future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

NOTE O: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the body of the budgetary comparison schedules, the District's budgeted expenditures in the General Fund have been shown at the functional classification level but were adopted at the total expenditures level. Budgeted expenditures for nonmajor Special Revenue funds have not been presented.

During the year ended June 30, 2007, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
Nonmajor governmental funds			
Athletics Fund	\$ 420,506	\$ 445,877	\$ 25,371
Food Service Fund	1,098,400	1,122,456	24,056

REQUIRED SUPPLEMENTARY INFORMATION

St. Johns Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 2,950,200	\$ 3,217,400	\$ 3,342,722	\$ 125,322
State sources	22,210,443	22,003,400	22,054,180	50,780
Federal sources	514,500	507,500	542,331	34,831
TOTAL REVENUES	25,675,143	25,728,300	25,939,233	210,933
EXPENDITURES				
Current				
Instruction				
Basic needs	12,116,521	12,528,566	12,505,359	23,207
Added needs	3,691,063	3,887,163	3,879,148	8,015
Total instruction	15,807,584	16,415,729	16,384,507	31,222
Supporting services				
Pupil	863,152	784,344	758,896	25,448
Instructional staff	362,467	332,967	352,647	(19,680)
General administration	610,101	545,101	565,134	(20,033)
School administration	1,699,265	1,786,197	1,764,138	22,059
Business	349,363	287,363	275,235	12,128
Central	46,119	76,119	72,370	3,749
Professional development	30,000	19,600	15,982	3,618
Technology	802,640	733,640	708,601	25,039
Pupil transportation	1,330,517	1,356,517	1,377,791	(21,274)
Operations and maintenance	3,015,803	3,065,303	3,152,198	(86,895)
Total supporting services	9,109,427	8,987,151	9,042,992	(55,841)
Community services				
Care of children	530,266	482,066	454,356	27,710
Adult and continuing education	25,945	-	-	-0-
Total community services	556,211	482,066	454,356	27,710

St. Johns Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Debt service				
Principal retirement	\$ 162,000	\$ 48,000	\$ 57,256	\$ (9,256)
Interest, fiscal, and other charges	170,100	145,000	147,890	(2,890)
Total debt service	332,100	193,000	205,146	(12,146)
TOTAL EXPENDITURES	25,805,322	26,077,946	26,087,001	(9,055)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(130,179)	(349,646)	(147,768)	201,878
OTHER FINANCING SOURCES (USES)				
County special education allocation	266,000	178,000	177,990	(10)
County vocational education allocation	510,000	535,000	537,554	2,554
County-wide career connection consortium	-	-	88,100	88,100
Other revenues	217,000	292,100	247,400	(44,700)
Transfers to other funds	(376,040)	(376,215)	(376,040)	175
Payments to other districts	(566,663)	(29,763)	-	29,763
Other expenditures	-	(20,100)	(20,085)	15
TOTAL OTHER FINANCING SOURCES (USES)	50,297	579,022	654,919	75,897
NET CHANGE IN FUND BALANCE	(79,882)	229,376	507,151	277,775
Fund balance, beginning of year	1,402,630	1,402,630	1,402,630	-0-
Fund balance, end of year	<u>\$ 1,322,748</u>	<u>\$ 1,632,006</u>	<u>\$ 1,909,781</u>	<u>\$ 277,775</u>

OTHER SUPPLEMENTARY INFORMATION

St. Johns Public Schools

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2007

	Special Revenue		Debt	
	Food Service	Athletics	1995 Debt	1998 Refunding Bonds
ASSETS				
Cash	\$ 458,965	\$ 45,129	\$ 450,337	\$ 254,977
Investments	-	-	-	-
Due from other governmental units	9,170	-	633	582
Inventories	13,304	-	-	-
TOTAL ASSETS	<u>\$ 481,439</u>	<u>\$ 45,129</u>	<u>\$ 450,970</u>	<u>\$ 255,559</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 19,813	\$ -	\$ -	\$ -
Accrued payroll	13,158	1,570	-	-
Other accrued liabilities	4,696	399	-	-
Due to other funds	67,436	29,490	22,123	20,170
Deferred revenue	12,845	-	-	-
TOTAL LIABILITIES	117,948	31,459	22,123	20,170
FUND BALANCES				
Reserved for				
Inventories	13,304	-	-	-
Debt service	-	-	428,847	235,389
Unreserved				
Designated for:				
Subsequent year's expenditures	34,500	252	-	-
Undesignated, reported in:				
Special Revenue Funds	315,687	13,418	-	-
Capital Project Funds	-	-	-	-
TOTAL FUND BALANCES	<u>363,491</u>	<u>13,670</u>	<u>428,847</u>	<u>235,389</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 481,439</u>	<u>\$ 45,129</u>	<u>\$ 450,970</u>	<u>\$ 255,559</u>

Service		Capital Projects		Total Nonmajor Governmental Funds
2003 Energy Conservation Bonds	2004 Refunding Bonds	Improvement Projects		
\$ -	\$ 169,701	\$ 10,120	\$ 1,389,229	
-	-	462,951	462,951	
-	78	-	10,463	
-	-	-	13,304	
<u>\$ -0-</u>	<u>\$ 169,779</u>	<u>\$ 473,071</u>	<u>\$ 1,875,947</u>	
\$ -	\$ -	\$ -	\$ 19,813	
-	-	-	14,728	
-	-	-	5,095	
-	2,787	-	142,006	
-	-	-	12,845	
-0-	2,787	-0-	194,487	
-	-	-	13,304	
-	166,992	-	831,228	
-	-	-	34,752	
-	-	-	329,105	
-	-	473,071	473,071	
<u>-0-</u>	<u>166,992</u>	<u>473,071</u>	<u>1,681,460</u>	
<u>\$ -0-</u>	<u>\$ 169,779</u>	<u>\$ 473,071</u>	<u>\$ 1,875,947</u>	

St. Johns Public Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2007

	Special Revenue		Debt	
	Food Service	Athletics	1995 Debt	1998 Refunding Bonds
REVENUES				
Local sources	\$ 807,303	\$ 202,994	\$ 2,025,525	\$ 1,865,656
State sources	57,571	-	-	-
Federal sources	301,684	-	-	-
TOTAL REVENUES	1,166,558	202,994	2,025,525	1,865,656
EXPENDITURES				
Current				
Food service activities	1,122,456	-	-	-
Athletic activities	-	445,877	-	-
Capital outlay	-	-	-	-
Debt service				
Principal retirement	-	-	1,524,151	757,500
Interest, fiscal and other charges	-	-	250,741	1,649,809
TOTAL EXPENDITURES	1,122,456	445,877	1,774,892	2,407,309
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	44,102	(242,883)	250,633	(541,653)
OTHER FINANCING SOURCES				
Transfers from other funds	-	224,600	-	-
NET CHANGE IN FUND BALANCES	44,102	(18,283)	250,633	(541,653)
Fund balances, beginning of year	319,389	31,953	178,214	777,042
Fund balances, end of year	\$ 363,491	\$ 13,670	\$ 428,847	\$ 235,389

<u>Service</u>		<u>Capital Projects</u>		<u>Total Nonmajor Governmental Funds</u>
<u>2003 Energy Conservation Bonds</u>	<u>2004 Refunding Bonds</u>	<u>Improvement Projects</u>		
\$ -	\$ 248,565	\$ 23,326	\$ -	\$ 5,173,369
-	-	-	-	57,571
-	-	-	-	301,684
-0-	248,565	23,326	-	5,532,624
-	-	-	-	1,122,456
-	-	-	-	445,877
-	-	86,104	-	86,104
120,000	40,000	-	-	2,441,651
31,440	92,937	-	-	2,024,927
<u>151,440</u>	<u>132,937</u>	<u>86,104</u>	<u>-</u>	<u>6,121,015</u>
(151,440)	115,628	(62,778)	-	(588,391)
<u>151,440</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>376,040</u>
-0-	115,628	(62,778)	-	(212,351)
-	51,364	535,849	-	1,893,811
<u>\$ -0-</u>	<u>\$ 166,992</u>	<u>\$ 473,071</u>	<u>\$ -</u>	<u>\$ 1,681,460</u>

St. Johns Public Schools

Private Purpose Trust Funds

COMBINING STATEMENT OF NET ASSETS

June 30, 2007

	<u>Scholarships</u>	<u>Grants</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 14,722	\$ 11,732	\$ 26,454
Investments	68,140	-	68,140
Accounts receivable	-	3,268	3,268
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	82,862	15,000	97,862
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	-	900	900
Deferred revenue	17,486	-	17,486
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	17,486	900	18,386
NET ASSETS			
Held in trust for scholarships	65,376	-	65,376
Held in trust for grants	-	14,100	14,100
	<hr/>	<hr/>	<hr/>
TOTAL NET ASSETS	<u>\$ 65,376</u>	<u>\$ 14,100</u>	<u>\$ 79,476</u>

St. Johns Public Schools

Private Purpose Trust Funds

COMBINING STATEMENT OF CHANGES IN NET ASSETS

Year Ended June 30, 2007

	<u>Scholarships</u>	<u>Grants</u>	<u>Total</u>
ADDITIONS			
Investment earnings			
Interest	\$ 4,980	\$ -	\$ 4,980
Contributions	<u>48,362</u>	<u>4,518</u>	<u>52,880</u>
Total additions	53,342	4,518	57,860
DEDUCTIONS			
Other supporting services	<u>51,912</u>	<u>4,167</u>	<u>56,079</u>
CHANGE IN NET ASSETS	1,430	351	1,781
Net assets - beginning of year	<u>63,946</u>	<u>13,749</u>	<u>77,695</u>
Net assets - end of year	<u>\$ 65,376</u>	<u>\$ 14,100</u>	<u>\$ 79,476</u>

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

To the Board of Education
St. Johns Public Schools
St. Johns, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Johns Public Schools as of and for the year ended June 30, 2007, which collectively comprise St. Johns Public Schools' basic financial statements, and have issued our report thereon dated October 3, 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 District'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 District's internal control. Accordingly we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

2007-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the adjustment of lease proceeds and capital outlay were proposed by the auditors. These misstatements were not detected by the District's internal control over financial reporting.

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

2007-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS - CONTINUED

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the District's internal controls.

Recommendation: We recommend that the District take steps to ensure that all material journal entries are recorded prior to the commencement of audit fieldwork.

Corrective Action Response: This was the first time we had entered into a capital lease arrangement. We weren't aware of the need to book more than the amount paid on the lease within FY 2006-07. We are now aware and will make appropriate entries into the accounting system if a similar purchase is made in the future.

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 District's internal control.

Our consideration of 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. We believe that the significant deficiency described above as 2007-1 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the St. Johns Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described below.

2007-2 THE USE OF THE DISTRICT'S NAME AND/OR EMPLOYER IDENTIFICATION NUMBER BY OTHER ENTITIES

Condition: During the course of our audit, we noted that several organizations/entities independent of the District (i.e., PTO, Junior Achievement, boosters, etc.) hold deposit accounts with local banks under the name and/or employer identification number of the District. This issue was noted and reported in our audit comments last year.

Criteria: The District should have under its control all accounts in its name and/or using its employer identification number.

Effect: The District is associated with certain bank accounts, yet the District does not include these accounts in the District's general ledger and does not reconcile and monitor these accounts. Ultimately, the District cannot establish internal controls over such assets.

Recommendation: We recommend the District contact the banks with which it does business and take the necessary steps to have the District's identifying information removed from all accounts not under the control of the District.

Corrective Action Response: It is our intent to contact all the area financial institutions to get a listing of all accounts that are under our Federal Identification number. We will contact those entities that are not under the direct control of the School Board and work with them to discontinue use of our Federal Identification number.

2007-3 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for the Athletic and Food Service Special Revenue funds.

2007-3 UNFAVORABLE BUDGET VARIANCES - CONTINUED

Criteria: The Uniform Budgeting and Accounting Act requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Effect: The District adopted the budgets at the total expenditure level. Having unfavorable budget variances as described above, the District is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the District monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: I believe it is inevitable to have this occur on occasion if you are trying to be as accurate as you can so that the Board has the best information possible when making decisions. The way to alleviate this situation is to make sure that you always overestimate your expenditures to the extreme so as to eliminate the possibility of ending in a deficit position. To me this is not the best solution and is not one I recommend.

2007-4 THE DISTRICT SHOULD ESCHEAT UNCLAIMED PROPERTY TO THE STATE OF MICHIGAN

Condition: During our audit, it was noted that the District had outstanding checks listed on their bank reconciliations that were over two (2) year old. This issue was noted and reported in our audit comments last year.

Criteria: The Michigan Public Act 29 of 1995 provides that the District report and escheat unclaimed property to the State of Michigan in the year after they have been outstanding for more than one year.

Effect: The District is holding unclaimed property that should be escheated to the State of Michigan.

Recommendation: We recommend the District attempt to contact the payees in an effort to clear old outstanding checks. In the event that the rightful property owners cannot be located, we suggest the District review their unclaimed property and escheat funds to the State of Michigan as necessary.

Corrective Action Response: This is an item that we are aware of, is on our list of issues to take care of and we are in the process of developing the letters to the recipients of checks that are still outstanding. It is a matter of this item not being as high a priority as many of the other items our limited staff are required to do. It is our goal to accomplish this task during the 2008 fiscal year.

St. Johns Public Schools' responses to the findings identified in our audit are described above. We did not audit St. Johns Public Schools' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the administration and Board of Education of St. Johns Public Schools, the pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 3, 2007

St. Johns Public Schools

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2007

St. Johns Public Schools

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

To the Board of Education
St. Johns Public Schools
St. Johns, Michigan

Compliance

We have audited the compliance of St. Johns Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2007. St. Johns Public Schools' major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of St. Johns Public Schools' management. Our responsibility is to express an opinion on St. Johns Public Schools' 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 Nonprofit 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 St. Johns Public Schools' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of St. Johns Public Schools' compliance with those requirements.

In our opinion, St. Johns Public 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 St. Johns Public 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 St. Johns Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of St. Johns Public Schools' 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 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 noncompliance 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 preceding paragraph and would not necessarily identify all deficiencies in the entity's 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of St. Johns Public Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated October 3, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise St. Johns Public Schools' basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 3, 2007

St. Johns Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2007

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount	(Memo Only) Prior Years' Expenditures	Balance July 1, 2006 Accrued or (Deferred) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2007 Accrued or (Deferred) Revenue
U.S. DEPARTMENT OF AGRICULTURE								
Passed Through State								
Department of Education								
School Breakfast Program								
2005-06	10.553 ^(f)	061970	\$ 23,017	\$ 20,644	\$ -	\$ 2,373	\$ 2,373	\$ -0-
2006-07		071970	25,556	-	-	25,556	25,556	-0-
			48,573	20,644	-0-	27,929	27,929	-0-
National School Lunch Program								
2005-06	10.555 ^(f)	061950, 061960	200,322	175,414	-	24,948	24,948	-0-
2006-07		071950, 071960	199,026	-	-	199,026	199,026	-0-
			399,348	175,414	-0-	223,974	223,974	-0-
Food Donation (c)								
Entitlement commodities	10.550	19140	49,720	-	-	49,720	49,720 (a)	-0-
Bonus commodities		19140	61	-	-	61	61 (a)	-0-
			49,781	-0-	-0-	49,781	49,781	-0-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			497,702	196,058	-0-	301,684	301,684	-0-
U.S. DEPARTMENT OF EDUCATION								
Passed Through State								
Department of Education								
E.S.E.A. Title I								
2005-06 Regular, Part A	84.010 ^(e)	0615300506	289,219	287,995	90,465	91,689	1,224	-0-
2006-07 Carryover Part A		0615300607	44,634	-	-	44,634	44,634	-0-
2006-07 Regular, Part A		0715300607	302,061	-	-	116,288	302,061	185,773
2005-06 Carryover Part D		0517000506	68,800	19,041	2,356	2,356	-	-0-
2006-07 Regular, Part D		0617000607	56,693	-	-	22,945	54,780	31,835
			761,407	307,036	92,821	277,912	402,699	217,608

St. Johns Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2007

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount	(Memo Only) Prior Years' Expenditures	Balance July 1, 2006 Accrued or (Deferred) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2007 Accrued or (Deferred) Revenue
U.S. DEPARTMENT OF EDUCATION - CONTINUED								
State Plan Self Review	84.027	0604400506	\$ 4,400	\$ 2,948	\$ 2,948	\$ 2,948	\$ -	\$ -0-
Title V	84.298							
2005-06 Regular, Part A		0602500506	1,518	1,518	143	143	-	-0-
2006-07 Regular, Part A		0702500607	748	-	-	748	748	-0-
			2,266	1,518	143	891	748	-0-
Technology Literacy Challenge Grants	84.318							
2005-06 Carryover		0642900506	1,686	-	-	1,686	1,686	-0-
2006-07 Regular		0642900607	4,542	-	-	3,758	4,542	784
2006-07 Carryover		0742900607	690	-	-	-	690	690
			6,918	-0-	-0-	5,444	6,918	1,474
Improving Teacher Quality	84.367							
2005-06 Regular		0605200506	131,617	131,617	25,486	25,486	-	-0-
2006-07 Regular		0705200607	131,687	-	-	84,670	131,687	47,017
			263,304	131,617	25,486	110,156	131,687	47,017
Hurricane Katrina Relief Emergency Impact Aid	84.938	0641201	279	-	-	279	279	-0-
Other Federal Assistance Passed through Reading is Fundamental, Inc. Reading is Fundamental	84.000	MI-037	5,199	-	-	5,199	5,199	-0-
TOTAL U.S. DEPARTMENT OF EDUCATION			1,043,773	443,119	121,398	402,829	547,530	266,099
TOTAL FEDERAL AWARDS			\$ 1,541,475	\$ 639,177	\$ 121,398	\$ 704,513	\$ 849,214	(b) \$ 266,099

(d)

St. Johns Public Schools

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2007

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of June 30, 2007, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) through (f) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The current year expenditures for the Food Donation Program are determined based on the 2002/03 guidance provided in the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports (except as otherwise noted in Note C below). The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the current payment amounts in the Grants Section Auditor's Report.
- (e) Denotes program tested as "major program".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.

NOTE C: RECONCILIATION TO FINANCIAL STATEMENTS

The following reconciles the federal revenues reported in the June 30, 2007 Basic Financial Statements to the expenditures of the District administered federal programs reported on the Schedule of Expenditures of Federal Awards.

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Revenues from federal sources per financial statements	\$ 542,331	\$ 301,684	\$ 844,015
Add: Federal grant activity not recorded in financial statements (RIF Grant)	<u>5,199</u>	<u>-</u>	<u>5,199</u>
Federal expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 547,530</u>	<u>\$ 301,684</u>	<u>\$ 849,214</u>

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

To the Board of Education
St. Johns Public Schools
St. Johns, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Johns Public Schools as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 3, 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 St. Johns Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described as Finding 2007-1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

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 District's internal control.

Our consideration of 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 consider Finding 2007-1 of the significant deficiencies described in the schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2007-2 and 2007-3.

The District's responses to the findings identified in our audit are described above. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the administration, the Board of Education of St. Johns Public Schools, others within the County, the pass-through entities, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 3, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 501(a) of Circular A-133? Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I

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

Auditee qualified as low-risk auditee? X Yes No

Section II - Financial Statement Findings

2007-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the adjustment of lease proceeds and capital outlay were proposed by the auditors. These misstatements were not detected by the District's internal control over financial reporting.

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the District's internal controls.

2007-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS - CONTINUED

Recommendation: We recommend that the District take steps to ensure that all material journal entries are recorded prior to the commencement of audit fieldwork.

Corrective Action Response: This was the first time we had entered into a capital lease arrangement. We weren't aware of the need to book more than the amount paid on the lease within FY 2006-07. We are now aware and will make appropriate entries into the accounting system if a similar purchase is made in the future.

2007-2 THE USE OF THE DISTRICT'S NAME AND/OR EMPLOYER IDENTIFICATION NUMBER BY OTHER ENTITIES

Condition: During the course of our audit, we noted that several organizations/entities independent of the District (i.e., PTO, Junior Achievement, boosters, etc.) hold deposit accounts with local banks under the name and/or employer identification number of the District. This issue was noted and reported in our audit comments last year.

Criteria: The District should have under its control all accounts in its name and/or using its employer identification number.

Effect: The District is associated with certain bank accounts, yet the District does not include these accounts in the District's general ledger and does not reconcile and monitor these accounts. Ultimately, the District cannot establish internal controls over such assets.

Recommendation: We recommend the District contact the banks with which it does business and take the necessary steps to have the District's identifying information removed from all accounts not under the control of the District.

Corrective Action Response: It is our intent to contact all the area financial institutions to get a listing of all accounts that are under our Federal Identification number. We will contact those entities that are not under the direct control of the School Board and work with them to discontinue use of our Federal Identification number.

2007-3 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for the Athletic and Food Service Special Revenue funds.

Criteria: The Uniform Budgeting and Accounting Act requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Effect: The District adopted the budgets at the total expenditure level. Having unfavorable budget variances as described above, the District is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the District monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: I believe it is inevitable to have this occur on occasion if you are trying to be as accurate as you can so that the Board has the best information possible when making decisions. The way to alleviate this situation is to make sure that you always overestimate your expenditures to the extreme so as to eliminate the possibility of ending in a deficit position. To me this is not the best solution and is not one I recommend.

2007-4 THE DISTRICT SHOULD ESCHEAT UNCLAIMED PROPERTY TO THE STATE OF MICHIGAN

Condition: During our audit, it was noted that the District had outstanding checks listed on their bank reconciliations that were over two (2) year old. This issue was noted and reported in our audit comments last year.

Criteria: The Michigan Public Act 29 of 1995 provides that the District report and escheat unclaimed property to the State of Michigan in the year after they have been outstanding for more than one year.

2007-4 THE DISTRICT SHOULD ESCHEAT UNCLAIMED PROPERTY TO THE STATE OF MICHIGAN - CONTINUED

Effect: The District is holding unclaimed property that should be escheated to the State of Michigan.

Recommendation: We recommend the District attempt to contact the payees in an effort to clear old outstanding checks. In the event that the rightful property owners cannot be located, we suggest the District review their unclaimed property and escheat funds to the State of Michigan as necessary.

Corrective Action Response: This is an item that we are aware of, is on our list of issues to take care of and we are in the process of developing the letters to the recipients of checks that are still outstanding. It is a matter of this item not being as high a priority as many of the other items our limited staff are required to do. It is our goal to accomplish this task during the 2008 fiscal year.

Section III - Federal Award Findings and Questioned Costs

None

St. Johns Public Schools

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2007

There were no findings disclosed for the past two years.