

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Swartz Creek Community Schools		County Genessee	
Fiscal Year End June 30, 2007		Opinion Date		Date Audit Report Submitted to State October 24, 2007			

We affirm that:

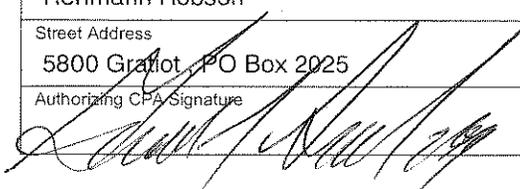
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - The local unit has adopted a budget for all required funds.
 - A public hearing on the budget was held in accordance with State statute.
 - The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - The local unit only holds deposits/investments that comply with statutory requirements.
 - The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - The local unit is free of repeated comments from previous years.
 - The audit opinion is UNQUALIFIED.
 - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - The board or council approves all invoices prior to payment as required by charter or statute.
 - To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)		
Financial Statements		<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>			
Other (Describe)		<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson				Telephone Number (989) 799-9580	
Street Address 5800 Grandt, PO Box 2025				City Saginaw	State MI
Authorizing CPA Signature 				Printed Name Gerald J. Deslover, CPA	
				License Number 1101007126	

Swartz Creek Community Schools
Swartz Creek, Michigan

Financial Statements

For the Year Ended June 30, 2007



REHMANN ROBSON

Certified Public Accountants

SWARTZ CREEK COMMUNITY SCHOOLS

JUNE 30, 2007

ADMINISTRATION

SUPERINTENDENT	JEFF PRATT, PH.D.
ASSISTANT SUPERINTENDENT FOR INSTRUCTION	SHARON FOUTS
ASSISTANT SUPERINTENDENT FOR PERSONNEL/BUSINESS	JAMES BLEAU

BOARD OF EDUCATION

PRESIDENT	JOHN KNICKERBOCKER
VICE PRESIDENT	BRIAN MITCHELL
SECRETARY	MICHAEL BEAN
TREASURER	CHUCK SHULTS
TRUSTEE	NICK CHIROS
TRUSTEE	DALLAS GATLIN
TRUSTEE	BRIAN SEPANAK

SWARTZ CREEK COMMUNITY SCHOOLS

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

October 22, 2007

To the Board of Education
Swartz Creek Community Schools
Swartz Creek, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Swartz Creek Community 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 the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the *Swartz Creek Community Schools*, as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the general fund 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 13, 2006, on our consideration of the District's 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 on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 *Swartz Creek Community School's* basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of *Swartz Creek Community Schools*. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson". The signature is written in black ink and is centered on the page.

Swartz Creek Community School District, Swartz Creek Michigan
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

The Swartz Creek Community School District has implemented Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. Our discussion and analysis of the Swartz Creek Community School Districts' financial performance, a GASB 34 requirement, provides an overview of the School District's financial activities for the fiscal year ended June 30, 2007.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in *Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June, 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's *net assets* – the difference between assets and liabilities, as reported in the Statement of Net Assets, is one way to measure the School District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets, as reported in the Statement of Activities, is one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses indicates the School District's *operating results*. However, the School District's goal is to provide services to its students, not to generate profits as commercial entities do. Many other non-financial factors, such as the quality of the education provided and the safety of the schools must also be considered when assessing the *overall health* of the School District.

The School District's net assets totaled \$12,170,703 and \$11,267,561 at June 30, 2007 and 2006, respectively. Of these amounts, \$1,043,649 and \$1,944,442 were restricted. Restricted net assets are reported separately to show legal constraints from debt covenants and legislation that limits the School District's ability to use those net assets for day-to-day operations. The following is a summary of the District's net assets at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Assets		
Current assets	\$ 10,498,552	\$ 9,809,399
Capital assets net of depreciation	<u>5,202,008</u>	<u>3,910,885</u>
Total assets	\$ <u>15,700,560</u>	\$ <u>13,720,284</u>
Liabilities		
Current liabilities	\$ 2,424,458	\$ 2,044,307
Long-term liabilities	<u>1,105,399</u>	<u>408,416</u>
Total liabilities	3,529,857	2,452,723
Net Assets		
Invested in capital assets	5,202,008	3,910,885
Restricted for capital projects	1,043,649	1,615,801
Restricted for other purposes	-	328,641
Unrestricted	<u>5,925,046</u>	<u>5,412,234</u>
Total net assets	<u>12,170,703</u>	<u>11,267,561</u>
Total liabilities and net assets	\$ <u>15,700,560</u>	\$ <u>13,720,284</u>

Swartz Creek Community School District, Swartz Creek Michigan
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

The \$5,925,046 in unrestricted net assets of governmental activities represents District funds that have not been committed contractually or for debt obligations and are available for future use.

Total net assets increased \$524,720 in 2006-07 the increase in the net assets for the year was attributable to:

➤ Depreciation expense

The provisions of GASB 34 require districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net assets. Depreciation expense is recorded using a straight-line method over the estimated useful lives of the assets. In accordance with generally accepted accounting principles, depreciation expense is recorded based on the original cost of the asset less an estimated salvage value. For the year ended June 30, 2007 the net increase in accumulated depreciation was \$467,625.

➤ Capital acquisitions

Capital outlay for the year ended June 30, 2007, totaled \$1,771,068. Combined with current year depreciation and the effect of disposals, net capital assets increased by \$1,291,123.

➤ Debt repayment

Repayment of debt decreases the District's long-term principal obligations and, as a result, the net assets of the district increase. The District has no long term debt and therefore repaid \$ -0- of long-term debt in the current fiscal year.

Swartz Creek Community School District, Swartz Creek Michigan
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

The results of this year's operations for the School District as a whole are reported in the Statement of Activities. The summaries of the District-wide results of operations for the years ended June 30, 2007 and 2006, are as follows:

	2007	2006
General revenue		
Property taxes levied for general operations	\$ 8,269,438	\$ 7,879,133
State of Michigan aid, unrestricted	21,673,410	20,783,656
Property Taxes levied for building & site	1,817,566	1,662,034
Other – federal, state and local	<u>344,375</u>	<u>350,012</u>
Total general revenue	32,104,789	30,674,835
Program revenue		
Charges for services – local	1,663,901	1,228,616
Operating grants – federal and state	<u>4,065,793</u>	<u>4,640,459</u>
Total revenues	37,834,483	36,543,910
Expenses		
Instruction	19,973,152	20,570,834
Support services	14,451,632	12,686,047
Community education	209,455	162,390
Food services	1,137,692	1,072,568
Athletics	605,195	602,189
Child Care	615,891	701,593
Debt service	-	13,984
Depreciation (unallocated)	<u>316,746</u>	<u>25,275</u>
Total expenses	37,309,763	35,834,880
Increase in net assets	<u>524,720</u>	<u>709,030</u>
Net assets – July 1, as restated	<u>11,645,983</u>	<u>10,558,331</u>
Net assets – June 30	\$ <u><u>12,170,703</u></u>	\$ <u><u>11,267,361</u></u>

GOVERNMENTAL FUNDS FINANCIAL HIGHLIGHTS

Our financial statements provide the following insights about the results of this year's operations:

The financial condition of the governmental funds has improved overall from the prior year.

In the General Fund the fund equity was increased by \$478,327 to \$6,342,495. The equity in the Building and Site Sinking Fund was reduced by \$572,152. The CDC fund decreased by \$74,968 and the Cafeteria Fund improved by \$55,855.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The School District's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year, before student enrollment counts are known. Therefore, it is expected that there will be changes between the initial budget and subsequent budgets, as actual enrollments and resultant staffing requirements are known. Currently, the most significant budgeted funds are the General Fund and the

Swartz Creek Community School District, Swartz Creek Michigan
 Management Discussion and Analysis
 For the Fiscal Year Ended June 30, 2007

Capital Projects Funds. During the fiscal year ended June 30, 2007, The School District amended the budgets of these major governmental funds once in June of 2007.

General Fund

In the general fund, the actual revenue and other financing sources was \$34,007,696. This is above the original budget estimate of \$32,936,099 and \$403,933 above the final amended budgeted amount of \$33,603,763, a variance of 1.19%. The actual expenditures and other financing sources/uses of the general fund were \$33,529,369. This is above the original budget estimate of \$33,655,086 and the final amended budgeted amount of \$34,152,358. The variances between the actual expenditures and the final expenditures budgets are due to individual line items going under budget an average of 1.82%.

The fund balance of the general fund was \$5,864,168 on June 30, 2006, as compared to \$6,342,495 on June 30, 2007.

Building & Site Sinking Fund

The Building & Site Sinking Fund receives revenues from property taxes under a sinking fund levy. The actual revenue in the Building & Site Sinking Fund totaled \$1,885,238 compared with \$1,728,975 in 2006. The current year collection was above the final budget of \$1,801,400. The variance is the result of greater than anticipated tax collection.

The actual expenditures in the capital projects funds totaled \$2,547,392 compared with \$1,698,285 in 2006. The current year expenditures were below the original budget of \$2,535,000 and the amended budget of \$2,566,669. The variance between the actual expenditures and the original and final budgets was due to a delay of capital projects that were started after the end of the fiscal year.

The sinking fund which was approved by voters in June of 2000 is designed for the repair and remodeling of school facilities and sites.

GOVERNMENTAL FUND EXPENDITURES

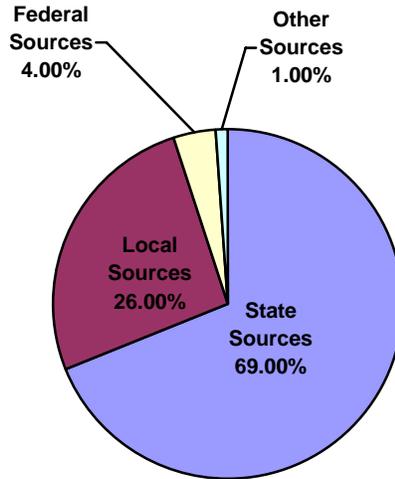
The following chart illustrates that general fund comprises approximately 82.42 of all the equity within the governmental funds of the School District. As of June 30, 2007, the District's program expenditures for all programs totaled \$37,947,421 compared to \$35,551,221 million in 2006. The ending fund balance for all funds was equal to \$7.694 million.

	June 30, 2007 <u>(In millions)</u>	<u>% Of TOTAL</u>
General Fund	\$ 6.342	82.42
Building & Site	1.044	13.56
Other Non-major Funds	<u>.309</u>	<u>4.02</u>
Total	<u>\$ 7.695</u>	<u>100.00 %</u>

TOTAL REVENUES

Revenues for all governmental funds totaled \$37,834,483 compared with \$36,498,725 in 2006. The following graph illustrates the District revenues by source as a percentage of total revenue:

General Fund Revenue by Source



Unrestricted State Aid

The district is predominately funded by State Aid, which has increased on a per-pupil basis between years at a modest rate. State revenues to the District increased by nearly \$942,000 as the result of increased enrollment and a rise in the foundation allowance. State Aid membership was 4259 in 2006-07, 4238 in 2005-06, 4216 in 2004-05, 4157 in 2003-04, 4120 in 2002-03 and 4080 2001-02. The state per-pupil allocation for 2006-07 was approximately \$7,085, \$6,855 in 2005-06 and \$6,700 for 2004-05.

Property Taxes

The District levied 18.000 mills of property taxes on all Non-Homestead property located within the district for General Fund operations. The levy is assessed on the taxable value of the property. The increase in taxable value is limited to the lesser of the inflation rate of the prior year or 5%. When a property is sold, the taxable valuation of the sold property is readjusted to the State Equalized Value, which is approximately 50% of market value. The 2006-07 Non-Homestead property tax levy including delinquent taxes totaled approximately \$8,247,051 compared with \$7,874,860 in 2005-06, \$7,729,592 in 2004-05 and with \$7,539,882 in 2003-2004.

Bonded debt

The District levies -0- mills of property taxes on all classes of property located within the district for bonded debt retirement. This type of levy is not subject to rollback provisions and is used to pay the principal and interest on bond obligations. The total amount levied for debt retirement in the current year was -0-.

Swartz Creek Community School District, Swartz Creek Michigan
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

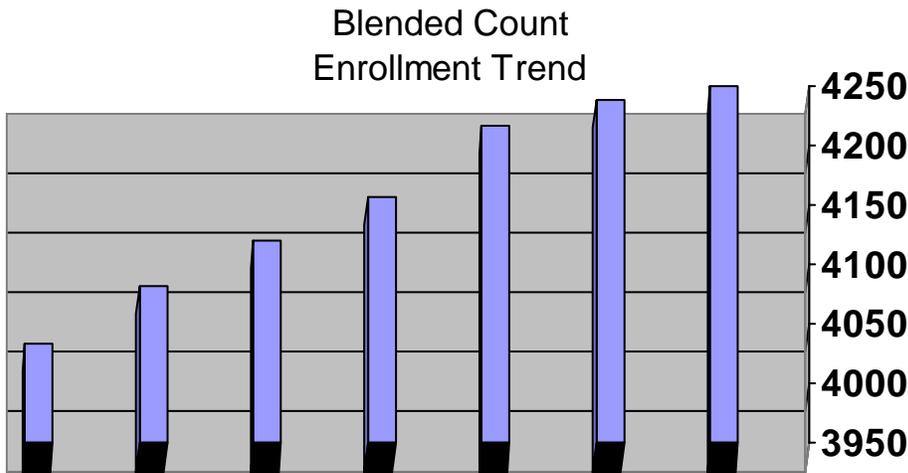
Sinking Fund

In the 2006-07 and 2005-06 school years the district levied 1.8059 mills for the District's sinking fund compared with 1.8169 in 2004-05. This levy was renewed by district voters in June of 2000 with the original levy being 1.8344 mills, which was reduced by Headlee rollbacks in subsequent years. During the 2006-07 school year revenues for the fund were \$1,885,238 which represents the levy along with interest, and penalties that are reinvested into the fund.

Enrollment

The Swartz Creek School District's 2006-2007 Blended FTE count, which is the basis for school funding, totaled 4,259 students. This is an increase in enrollment of 21 students over last year.

This blended enrollment count for 2006-07 has years increased by 230 students over a 6 year time period.



Enrollment is important to the financial health of the District because State funding is based on a per-pupil formula. For the fiscal year ended June 20, 2007, the gross per-pupil revenue was \$7,985.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2007, the School District had \$16.4 million invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, \$11.2 million has been depreciated. Net book value totals \$5.2 million. Total additions for the year were \$1.77 million and were comprised of site improvements, and bus and equipment purchases. The district's academic buildings range in years of construction from 1928 to 1969. The majority of these buildings were constructed in the 1960's. The district is committed to the timely repairs and maintenance of its facilities. Computer purchases are under the District's capitalization threshold of \$5,000 and are expensed accordingly.

Swartz Creek Community School District, Swartz Creek Michigan
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

CAPITAL ASSET AND DEBT ADMINISTRATION- (continued)

Capital Assets

CAPITAL ASSETS AT YEAR END (NET OF DEPRECIATION) (IN MILLIONS)		Governmental <u>Activities</u>
Land and Improvements		\$.47
Construction in Progress		.98
Buildings and Additions		2.53
Furniture and Equipment		.51
Vehicles & Buses		<u>.71</u>
 Total		 <u>\$ 5.20</u>

OUTSTANDING DEBT AT YEAR-END

As part of an agreement from the State of Michigan, Swartz Creek Community Schools received a settlement as a non-plaintiff District. If the State Legislature fails to appropriate funds for the Bond payments, the District is under no obligation for payment and will write off the debt service requirement for that year only. The Durant Bonded Debt for the year ending June 30, 2007, was \$378,422.

For more detailed information regarding capital assets and debt administration, please review the Notes to the Basic Financial Statements located in the financial section of this report.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This report is designed to give an overview of the financial conditions of the Swartz Creek School District. If you should desire additional detailed financial program audits, they can be obtained by contacting the following person:

James F. Bleau
Assistant Superintendent for Personnel and Business Services
Swartz Creek Community Schools
8354 Cappy Lane
Swartz Creek, Michigan 48473
810-591-2300

SWARTZ CREEK COMMUNITY SCHOOLS

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 5,784,354
Receivables	4,283,246
Prepaid expenses	225,586
Inventory	205,366
Capital assets	
Land	361,770
Land improvements	463,399
Construction in progress	980,975
Buildings and improvements	11,127,701
Equipment and furniture	1,284,683
Vehicles	2,199,076
Less: accumulated depreciation	<u>(11,215,596)</u>
Total assets	<u>15,700,560</u>
Liabilities	
Accounts payable and accrued liabilities	2,383,833
Unearned revenue	40,625
Long-term debt:	
Due within one year	70,797
Due in more than one year	<u>1,034,602</u>
Total liabilities	<u>3,529,857</u>
Net assets	
Invested in capital assets	5,202,008
Restricted for:	
Capital projects	1,043,649
Unrestricted	<u>5,925,046</u>
Total net assets	<u><u>\$ 12,170,703</u></u>

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

**SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

<u>Functions / Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction				
Basic programs	\$ 16,626,580	\$ 30,569	\$ 178,399	\$ (16,417,612)
Added needs	3,346,572	296,254	3,150,110	99,792
Supporting services	14,451,632	75,945	63,614	(14,312,073)
Food service	1,137,692	648,996	528,600	39,904
Athletics	605,195	116,346	-	(488,849)
Community education	209,455	106,004	-	(103,451)
Child care	615,891	389,787	145,070	(81,034)
Unallocated depreciation	316,746	-	-	(316,746)
Total	<u>\$ 37,309,763</u>	<u>\$ 1,663,901</u>	<u>\$ 4,065,793</u>	<u>(31,580,069)</u>
General revenues:				
Property taxes				10,087,004
Unrestricted state aid				21,673,410
Unrestricted investment earnings				342,315
Gain on sale of assets				2,060
Total general revenues				<u>32,104,789</u>
Change in net assets				524,720
Net assets, beginning of year, as restated				<u>11,645,983</u>
Net assets, end of year				<u>\$ 12,170,703</u>

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

FUND FINANCIAL STATEMENTS

**SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

<u>ASSETS</u>	<u>General</u>	<u>Durant Debt Service</u>	<u>Building & Site</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Cash and cash equivalents	\$ 4,272,689	\$ -	\$ 1,250,811	\$ 260,854	\$ 5,784,354
Accounts receivable	3,820,823	-	312	36,231	3,857,366
Due from other funds	-	-	-	236	236
Due from other governmental units	23,349	378,422	-	-	401,771
Interest receivable	18,419	-	5,157	533	24,109
Prepaid expenditures	162,086	-	63,500	-	225,586
Inventory	190,782	-	-	14,584	205,366
<u>TOTAL ASSETS</u>	<u>\$ 8,488,148</u>	<u>\$ 378,422</u>	<u>\$ 1,319,780</u>	<u>\$ 312,438</u>	<u>\$ 10,498,788</u>
<u>LIABILITIES AND FUND BALANCES</u>					
LIABILITIES					
Accounts payable	\$ 84,506	\$ -	\$ 276,131	2,910	\$ 363,547
Due to other funds	236	-	-	-	236
Salaries payable	2,020,286	-	-	-	2,020,286
Deferred revenue	40,625	378,422	-	-	419,047
TOTAL LIABILITIES	2,145,653	378,422	276,131	2,910	2,803,116
FUND BALANCES					
Reserved:					
Reserved for prepaid expenditures	162,086	-	63,500	-	225,586
Reserved for capital projects	-	-	980,149	-	980,149
Undesignated	6,180,409	-	-	-	6,180,409
Undesignated, reported in nonmajor:					
Special Revenue Funds	-	-	-	309,528	309,528
TOTAL FUND BALANCES	6,342,495	-	1,043,649	309,528	7,695,672
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 8,488,148</u>	<u>\$ 378,422</u>	<u>\$ 1,319,780</u>	<u>\$ 312,438</u>	<u>\$ 10,498,788</u>

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

**SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
JUNE 30, 2007**

Fund balances - total governmental funds	\$	7,695,672
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Amounts reported for governmental activities in the statement of net assets are different because:

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

Add: capital assets		16,417,604
Deduct: accumulated depreciation		(11,215,596)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds.

Add: deferred long-term Durant Settlement receivable		378,422
--	--	---------

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable		(378,422)
Deduct: compensated absences		(726,977)

Net assets of governmental activities	\$	<u>12,170,703</u>
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The accompanying notes are an integral part of these financial statements.

**SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>General</u>	<u>Durant Debt Service</u>	<u>Building & Site</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
REVENUE					
Local sources:					
Taxes	\$ 8,269,438	\$ -	\$ 1,817,566	\$ -	\$ 10,087,004
Other local sources	1,084,372	-	67,672	1,267,879	2,419,923
State sources	23,373,074	-	-	192,621	23,565,695
Federal sources	1,280,812	-	-	481,049	1,761,861
TOTAL REVENUE	<u>34,007,696</u>	<u>-</u>	<u>1,885,238</u>	<u>1,941,549</u>	<u>37,834,483</u>
EXPENDITURES					
Instruction:					
Basic programs	17,845,761	-	-	-	17,845,761
Added needs	3,345,484	-	-	-	3,345,484
Total instruction	<u>21,191,245</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,191,245</u>
Support services:					
Pupil services	1,790,640	-	-	-	1,790,640
Instructional staff services	1,115,943	-	-	-	1,115,943
General administration	478,081	-	-	-	478,081
School administration	2,085,069	-	-	-	2,085,069
Business services	784,749	-	-	-	784,749
Operation & maintenance	3,402,125	-	-	-	3,402,125
Pupil transportation	1,432,269	-	-	-	1,432,269
Central services	645,123	-	-	-	645,123
Community services	-	-	-	825,346	825,346
Sinking fund building repairs	-	-	2,457,390	-	2,457,390
Other supporting services	-	-	-	1,739,441	1,739,441
Total support services	<u>11,733,999</u>	<u>-</u>	<u>2,457,390</u>	<u>2,564,787</u>	<u>16,756,176</u>
TOTAL EXPENDITURES	<u>32,925,244</u>	<u>-</u>	<u>2,457,390</u>	<u>2,564,787</u>	<u>37,947,421</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>1,082,452</u>	<u>-</u>	<u>(572,152)</u>	<u>(623,238)</u>	<u>(112,938)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	604,125	604,125
Transfers (out)	(604,125)	-	-	-	(604,125)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(604,125)</u>	<u>-</u>	<u>-</u>	<u>604,125</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	478,327	-	(572,152)	(19,113)	(112,938)
FUND BALANCES, BEGINNING OF YEAR	<u>5,864,168</u>	<u>-</u>	<u>1,615,801</u>	<u>328,641</u>	<u>7,808,610</u>
FUND BALANCES, END OF YEAR	<u>\$ 6,342,495</u>	<u>\$ -</u>	<u>\$ 1,043,649</u>	<u>\$ 309,528</u>	<u>\$ 7,695,672</u>

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

**SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Net change in fund balances - total governmental funds	\$ (112,938)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	1,771,068
Deduct: depreciation expense	(479,945)

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

Deduct: increase in the accrual for compensated absences	<u>(653,465)</u>
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Change in net assets of governmental activities	<u><u>\$ 524,720</u></u>
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The accompanying notes are an integral part of these financial statements.

**SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
REVENUES				
Local sources	9,021,959	\$ 8,983,261	\$ 8,970,108	\$ (13,153)
State sources	22,323,058	22,964,405	23,373,074	408,669
Federal sources	1,251,368	1,300,385	1,280,812	(19,573)
Other sources	<u>339,714</u>	<u>355,712</u>	<u>383,702</u>	<u>27,990</u>
 TOTAL REVENUES	 <u>32,936,099</u>	 <u>33,603,763</u>	 <u>34,007,696</u>	 <u>403,933</u>
EXPENDITURES				
Education				
Instruction				
Basic programs	17,935,276	18,294,999	17,845,761	(449,238)
Added needs	3,468,585	3,420,077	3,345,484	(74,593)
Supporting services				
Pupil services	1,652,738	1,815,790	1,790,640	(25,150)
Instructional staff	1,149,716	1,092,527	1,115,943	23,416
General administration	578,124	482,501	478,081	(4,420)
School administration	1,939,091	2,148,224	2,085,069	(63,155)
Business services	637,213	776,239	784,749	8,510
Operation and maintenance	3,434,037	3,419,650	3,402,125	(17,525)
Transportation	1,490,020	1,434,138	1,432,269	(1,869)
Central services	<u>716,220</u>	<u>634,811</u>	<u>645,123</u>	<u>10,312</u>
 TOTAL EXPENDITURES	 <u>33,001,020</u>	 <u>33,518,956</u>	 <u>32,925,244</u>	 <u>(593,712)</u>
 REVENUES OVER (UNDER) EXPENDITURES	 (64,921)	 84,807	 1,082,452	 997,645
OTHER FINANCING USES				
Transfers to other funds	<u>(654,066)</u>	<u>(633,402)</u>	<u>(604,125)</u>	<u>29,277</u>
 NET CHANGE IN FUND BALANCE	 (718,987)	 (548,595)	 478,327	 1,026,922
 FUND BALANCE, BEGINNING OF YEAR	 <u>5,864,168</u>	 <u>5,864,168</u>	 <u>5,864,168</u>	 <u>-</u>
 FUND BALANCE, END OF YEAR	 <u>\$ 5,145,181</u>	 <u>\$ 5,315,573</u>	 <u>\$ 6,342,495</u>	 <u>\$ 1,026,922</u>

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

**SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2007**

	Private Purpose Trust Funds	Agency Funds
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 53,983	\$ 135,713
Investments		90,000
		<u>\$ 225,713</u>
 Liabilities		
Due to student and other groups	<u>-</u>	<u>\$ 225,713</u>
 Net assets held in trust	<u>\$ 53,982</u>	

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

**SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007**

	Private Purpose Trust Funds
Additions	
Gifts and contributions	\$ 1,394
Earnings on investments and deposits	1,465
Total additions	2,859
Deductions	
Scholarships awarded	4,788
Change in net assets	(1,929)
Net assets, beginning of year	55,911
Net assets, end of year	\$ 53,982

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

NOTES TO THE FINANCIAL STATEMENTS

SWARTZ CREEK COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Swartz Creek Community Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include entities for which the District is considered to be financially accountable.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2007.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus.

SWARTZ CREEK COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Durant debt service fund* accounts for the payment of principal and interest on the Durant debt.

The *Building & Site capital project fund* accounts for the district's renovation and construction costs.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations, specifically food services, athletics, and community service activities.

SWARTZ CREEK COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

The *private purpose trust funds* are used to account for the activity of a scholarship and memorial fund.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. Deposits

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

3. Inventories

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

SWARTZ CREEK COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

4. *Compensated absences and other termination benefits*

It is the District's policy to permit employees to accumulate various earned but unused vacation and sick pay benefits. These are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Benefits are accrued based on various contract stipulations and lengths of service for the various bargaining units. In addition, certain contracts require the District to provide employees with 10 or more years of service that are eligible for retirement a lump sum payment upon retirement ranging from \$1,000 to \$3,000.

5. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Vehicles	5-10
Equipment and Furniture	5-20

SWARTZ CREEK COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

6. *Long-term obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. **Budgetary information**

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.

SWARTZ CREEK COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

B. Excess of expenditures over appropriations for budgetary funds

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures that are in excess of the amount appropriated. During the year ended June 30, 2007, the District incurred expenditures in the General Fund, which were in excess of the amounts appropriated in various activities as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
GENERAL FUND			
Instructional staff	\$1,092,527	\$1,115,943	\$ 23,416
Business Services	776,239	784,749	8,510
Central Services	634,811	645,123	10,312

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets

Cash and cash equivalents	\$ 5,784,354
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Statement of Fiduciary Net Assets

Cash and cash equivalents	189,696
Investments	<u>90,000</u>

Total	<u>\$ 6,064,050</u>
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SWARTZ CREEK COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements:

Deposits	\$ 6,051,750
Investments	<u>12,300</u>
Total	<u>\$ 6,064,050</u>

The District chooses to disclose its investments by specifically identifying each. As of June 30, 2007, the District had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Merrill Lynch Blackrock Basic Value Fund	n/a	<u>\$ 12,300</u>	Morningstar ★★★

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments below. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investments held at year end do not have maturity dates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments below. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end \$6,726,319 of the District's bank balance of \$7,026,319 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk 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 or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial

SWARTZ CREEK COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments below. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above and are external investment pools.

Michigan law authorizes the District to deposit and invest in:

- a. 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. In a primary or fourth class school district, the bonds, bills or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposits 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.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

SWARTZ CREEK COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

B. Receivables

The District's receivables at year end consist of the following:

	<u>General</u>	<u>Building & Site</u>	<u>Durant</u>	<u>Nonmajor Funds</u>	<u>Total</u>	<u>Amount Not Expected to be Collected Within One Year</u>
Receivables:						
Intergovernmental	\$3,816,629	\$ -	\$ -	\$ -	\$ 3,816,629	\$ -
Accounts	2,300	-	-	36,231	38,531	-
Taxes	25,243	312	-	-	25,555	-
Interest	18,419	5,157	-	533	24,109	-
Durant settlement	-	-	<u>378,422</u>	-	<u>378,422</u>	<u>378,422</u>
Total receivables	<u>\$3,862,591</u>	<u>\$ 5,469</u>	<u>\$378,422</u>	<u>\$ 36,764</u>	<u>\$ 4,283,246</u>	<u>\$ 378,422</u>

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

	<u>Unavailable</u>	<u>Unearned</u>
Durant Settlement receivable	\$ 378,422	\$ -
Grant drawdowns prior to meeting all eligibility requirements	-	40,625
Total	<u>\$ 378,422</u>	<u>\$ 40,625</u>

SWARTZ CREEK COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

C. Capital assets

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

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 361,770	\$ -	\$ -	\$ 361,770
Construction in progress	-	980,975	-	980,975
 Total capital assets not being depreciated	 361,770	 980,975	 -	 1,342,745
Capital assets being depreciated:				
Land improvements	451,574	11,825	-	463,399
Buildings and improvements	10,581,509	546,192	-	11,127,701
Vehicles	2,108,705	102,691	(12,320)	2,199,076
Equipment and furniture	1,155,298	129,385	-	1,284,683
 Total capital assets being depreciated	 14,297,086	 790,093	 (12,320)	 15,074,859
Less accumulated depreciation				
Land improvements	(338,593)	(12,967)	-	(351,560)
Buildings and improvements	(8,361,710)	(245,809)	-	(8,607,519)
Vehicles	(1,349,516)	(147,928)	12,320	(1,485,124)
Equipment and furniture	(698,152)	(73,241)	-	(771,393)
 Total accumulated depreciation	 (10,747,971)	 (479,945)	 12,320	 (11,215,596)
 Total capital assets being depreciated, net	 3,549,115	 310,148	 -	 3,859,263
 Governmental activities capital assets, net	 \$ 3,910,885	 \$1,291,123	 \$ -	 \$ 5,202,008

SWARTZ CREEK COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

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

Supporting services - Transportation	\$ 147,928
Food service	15,271
Depreciation - unallocated	<u>316,746</u>
Total depreciation expense – governmental activities	<u>\$ 479,945</u>

Construction commitments

The District has one active construction project as of June 30, 2007. The Swartz Creek-Science Wing Renovations Project has a remaining balance of approximately \$498,177 to completion.

D. Payables

Accounts payable and accrued liabilities as of June 30, 2007, for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>Building & Site</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Payables:				
Accounts	\$ 84,506	\$276,131	\$ 2,910	\$ 363,547
Accrued payroll	2,019,369	-	-	2,019,369
Other	<u>917</u>	<u>-</u>	<u>-</u>	<u>917</u>
Total receivables	<u>\$2,104,792</u>	<u>\$ 276,131</u>	<u>\$ 2,910</u>	<u>\$ 2,383,833</u>

SWARTZ CREEK COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

E. Interfund receivables, payables and transfers

At June 30, 2007, interfund receivables and payables in the fund financial statements consisted of the following:

<u>Due to</u>	<u>Due from General Fund</u>
Nonmajor Funds	\$ <u>236</u>

The District often reports interfund balances between many of its funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year then ended, interfund transfers consisted of the following:

Transfer from General Fund to:

Non major funds:	
Athletic	\$ 500,674

Transfer from General Fund to:

Non major funds:	
Community Education	<u>103,451</u>

Total Transfers	<u>\$ 604,125</u>
------------------------	--------------------------

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2007, the District transferred General Fund funds to subsidize the athletics program and community education program.

SWARTZ CREEK COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

F. Long-term debt

The following is a summary of bond and loan transactions of the District for the year ended June 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Durant settlement	\$ 378,422	\$ -	\$ -	\$ 378,422	\$ -
Compensated absences	<u>73,512</u>	<u>653,465</u>	<u>-</u>	<u>726,977</u>	<u>70,797</u>
	<u>\$ 451,934</u>	<u>\$ 653,465</u>	<u>\$ -</u>	<u>\$ 1,105,399</u>	<u>\$ 70,797</u>

Bonds payable at June 30, 2007, are comprised of the following individual issues:

1998 Durant bonds are due in annual installments ranging from \$45,002 to \$302,384 through May 15, 2013; interest rate of 4.76%.

\$ 378,422

The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

Compensated absences and the accrued retirement incentive are generally liquidated by the general fund.

SWARTZ CREEK COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ -	\$ -	\$ -
2009	35,668	9,339	45,007
2010	219,648	82,736	302,384
2011	39,144	5,862	45,006
2012	41,005	3,998	45,003
2013	<u>42,957</u>	<u>2,045</u>	<u>45,002</u>
Totals	<u>\$ 378,422</u>	<u>\$ 103,980</u>	<u>\$ 482,402</u>

G. Commitments and Contingencies

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, management does not believe such disallowances, if any, will be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2007.

SWARTZ CREEK COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and employee injuries. The District is self-insured for health claims up to \$1,500 per person or \$3,000 per family. Any claims above those amounts are covered by the District's third-party administrator, Michigan Employee Benefits Services, Inc.

B. School code sinking fund requirements

The District's Building & Site Fund is required to expend monies in accordance with the Michigan Revised School Code Section 1212(1). Based on our testing of the fund's expenditures, the District is in compliance with Section 1212(1).

C. Property taxes

Property taxes are assessed as of December 31 each year and attach as an enforceable lien on property as of the following July 1. School property taxes are levied on December 1 each year, based on the previous years assessment, by Township governments whose boundaries include property within the District, and are due by February 28. Delinquent real taxes are advanced to the District by the Counties involved. Taxes are recorded as revenue in the year levied. Taxes receivable are recorded for property taxes collected within 60 days of year end, if any.

D. Defined Benefit Pension Plan

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS.

SWARTZ CREEK COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 17.74% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPERS for the years ended June 30, 2007, 2006, and 2005, were \$2,934,534, \$3,246,848, and \$2,794,969, respectively, equal to the required contributions for each year.

Other Post Employment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980, with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

E. Economic Dependency

SWARTZ CREEK COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

The District received approximately 69% of its General Fund revenue from the Michigan Department of Education Membership Allowance. Due to the significance of this revenue source to the District, the District is considered to be economically dependent.

F. Restatement

During the year ended June 30, 2007, a prior period adjustment in the amount of \$378,422 was necessary to properly account for the understatement of the Durant Debt Service receivable during the year ended June 30, 2006. The effect on Statement of Net Assets was as follows:

Net Assets, beginning of year, as previously stated	\$ 11,267,561
Prior period adjustment for Durant Debt Service receivable	<u>378,422</u>
Net Assets, beginning of year, as restated	<u>\$ 11,645,983</u>

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**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

**SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
GENERAL FUND
DETAILS OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2007
(With Comparative Totals for the Year Ended June 30, 2006)**

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
REVENUES		
Local Sources:		
Property tax levy	\$ 8,269,438	\$ 7,879,155
Earnings on investments	267,897	200,096
Other local revenue	<u>432,773</u>	<u>412,350</u>
Total revenues from local sources	<u>8,970,108</u>	<u>8,491,601</u>
State Sources:		
State school aid - Section 21	21,673,410	20,738,651
Special education	1,092,110	1,041,164
At risk	446,966	491,370
Headlee 5%	64,089	64,089
Career development	82,431	82,209
Vocational/adult education	<u>14,068</u>	<u>18,883</u>
Total revenues from state sources	<u>23,373,074</u>	<u>22,436,366</u>
Federal Sources:		
Special education-I.D.E.A.	840,030	864,350
Title I	258,509	263,303
Indian education	38,828	37,622
Medicaid outreach	17,990	19,601
Title II	113,442	116,750
Other federal sources	<u>12,013</u>	<u>14,013</u>
Total revenues from federal sources	<u>1,280,812</u>	<u>1,315,639</u>
Other Revenue Sources:		
GISD transportation	43,926	39,865
Charges for services - medicaid	56,232	-
County special education tax	281,484	362,706
Sale of school assets	<u>2,060</u>	<u>6,012</u>
Total revenues from other sources	<u>383,702</u>	<u>408,583</u>
Total revenues	<u><u>\$ 34,007,696</u></u>	<u><u>\$ 32,652,189</u></u>

**SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
GENERAL FUND
DETAILS OF EXPENDITURES AND OTHER FINANCING USES -
FOR THE YEAR ENDED JUNE 30, 2007
(With Comparative Totals for the Year Ended June 30, 2006)**

	Salaries & Benefits	Purchased Services	Supplies & Materials	Other Expenses	Totals	
					June 30, 2007	June 30, 2006
EXPENDITURES						
Instruction:						
Basic Programs:						
Elementary	5,137,741	1,679	208,885	-	5,348,305	5,291,257
Middle School	2,878,724	453	138,165	-	3,017,342	2,739,468
High School	3,791,073	18,387	191,697	-	4,001,157	3,902,527
Employee Benefits	4,996,159	-	-	-	4,996,159	4,788,358
Added Needs:						
Special Education	1,892,071	585	15,526	-	1,908,182	2,058,678
Compensatory Education	320,049	90,554	66,244	-	476,847	467,804
Vocational Education	-	2,115	2,361	-	4,476	4,350
Employee Benefits	955,979	-	-	-	955,979	995,101
Total Instruction	19,971,796	113,773	622,878	-	20,708,447	20,247,543
Support Services:						
Pupil:						
Guidance Services	432,638	-	-	-	432,638	393,273
Psychologist	57,990	-	-	-	57,990	55,913
Speech Services	339,101	-	-	-	339,101	338,109
Other Pupil Services	419,279	70,555	-	-	489,834	380,558
Employee Benefits	471,077	-	-	-	471,077	352,672
Instructional Staff:						
Improvement of Instruction	210,238	53,268	39,889	3,426	306,821	239,542
Library	210,800	-	31,847	-	242,647	242,756
Supervision	295,852	-	-	-	295,852	307,337
Employee Benefits	268,483	-	-	-	268,483	270,061
General Administration:						
Board of Education	11,340	46,640	-	-	57,980	56,638
Executive Administration	180,744	114,434	13,454	31,886	340,518	359,604
Employee Benefits	78,833	-	-	-	78,833	76,134

(Continued)

**SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
GENERAL FUND
DETAILS OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007
(With Comparative Totals for the Year Ended June 30, 2006)**

EXPENDITURES (CONTINUED):	<u>Salaries & Benefits</u>	<u>Purchased Services</u>	<u>Supplies & Materials</u>	<u>Other Expenses</u>	<u>2007</u>	<u>2006</u>
Support Services (Continued):						
School Administration:						
Office of Principal	\$ 1,421,938	\$ 45,405	\$ -	\$ 15,633	\$ 1,482,976	\$ 1,383,229
Employee Benefits	602,093	-	-	-	602,093	570,284
Business:						
Fiscal Services	174,784	100,970	-	-	275,754	277,996
Other Business Services	156,111	19,454	4,318	158,821	338,704	198,725
Employee Benefits	170,291	-	-	-	170,291	167,169
Central:						
Staff Services	318,344	123,038	11,063	3,570	456,015	293,551
Employee Benefits	149,284	1,153	-	-	150,437	88,763
Operation & Maintenance:						
Operation & Maintenance of Plant	1,129,209	181,758	1,396,248	-	2,707,215	2,736,322
Employee Benefits	660,875	-	-	-	660,875	643,187
Pupil Transportation:						
Pupil Transportation Services	644,700	155,886	296,378	-	1,096,964	995,567
Employee Benefits	255,679	-	-	-	255,679	257,981
Total Support Services	<u>8,659,683</u>	<u>912,561</u>	<u>1,793,197</u>	<u>213,336</u>	<u>11,578,777</u>	<u>10,685,371</u>
Capital Outlay:						
Instruction	-	-	-	482,798	482,798	404,065
Support Services	-	-	-	155,222	155,222	264,312
Total Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>638,020</u>	<u>638,020</u>	<u>668,377</u>
Total Expenditures	<u>28,631,479</u>	<u>1,026,334</u>	<u>2,416,075</u>	<u>851,356</u>	<u>32,925,244</u>	<u>31,601,291</u>
Other Financing Uses:						
Transfers out	-	-	-	-	604,125	573,829
Total Expenditures & Other Financing Uses	<u>\$ 28,631,479</u>	<u>\$ 1,026,334</u>	<u>\$ 2,416,075</u>	<u>\$ 851,356</u>	<u>\$ 33,529,369</u>	<u>\$ 32,175,120</u>

**SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>Special Revenue</u>				<u>Totals</u>
	<u>School Lunch Fund</u>	<u>Athletics Fund</u>	<u>Child Development Fund</u>	<u>Community Education Fund</u>	
<u>ASSETS</u>					
Cash	\$ 139,107	\$ -	\$ 121,747	\$ -	\$ 260,854
Accounts receivable	13,000	-	23,231	-	36,231
Due from other funds	-	-	-	236	236
Interest receivable	75	-	458	-	533
Inventory	14,584	-	-	-	14,584
<u>TOTAL ASSETS</u>	<u>\$ 166,766</u>	<u>\$ -</u>	<u>\$ 145,436</u>	<u>\$ 236</u>	<u>\$ 312,438</u>
 <u>LIABILITIES AND FUND BALANCES</u>					
LIABILITIES					
Accounts payable	\$ 20	\$ -	\$ 2,654	\$ 236	\$ 2,910
FUND BALANCES					
Reserved for inventory	14,584	-	-	-	14,584
Unreserved	152,162	-	142,782	-	294,944
TOTAL FUND BALANCES	166,746	-	142,782	-	309,528
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 166,766</u>	<u>\$ -</u>	<u>\$ 145,436</u>	<u>\$ 236</u>	<u>\$ 312,438</u>

**SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR FUNDS
 FOR THE YEAR ENDED JUNE 30, 2007**

	Special Revenue				Totals
	School Lunch Fund	Athletics Fund	Child Development Fund	Community Education Fund	
REVENUES					
Local Sources:					
Food sales	\$ 648,996	\$ -	\$ -	\$ -	\$ 648,996
Athletics revenue	-	116,346	-	-	116,346
Tuition/fees	-	-	364,918	106,004	470,922
Other local sources	680	-	30,935	-	31,615
State Sources	70,521	-	122,100	-	192,621
Federal Sources	458,079	-	22,970	-	481,049
TOTAL REVENUES	<u>1,178,276</u>	<u>116,346</u>	<u>540,923</u>	<u>106,004</u>	<u>1,941,549</u>
EXPENDITURES					
Salaries	331,030	370,180	351,409	117,602	1,170,221
Employee benefits	143,930	102,895	112,060	30,541	389,426
Purchased services	189	9,331	8,282	33,009	50,811
Supplies and materials	581,463	90,792	123,141	17,603	812,999
Capital outlay	21,922	-	2,689	323	24,934
Other	43,887	43,822	18,310	10,377	116,396
TOTAL EXPENDITURES	<u>1,122,421</u>	<u>617,020</u>	<u>615,891</u>	<u>209,455</u>	<u>2,564,787</u>
REVENUES OVER (UNDER) EXPENDITURES	55,855	(500,674)	(74,968)	(103,451)	(623,238)
OTHER FINANCING SOURCES (USES)					
Transfer from General Fund	-	500,674	-	103,451	604,125
NET CHANGE IN FUND BALANCES	55,855	-	(74,968)	-	(19,113)
FUND BALANCES, BEGINNING OF YEAR	<u>110,891</u>	<u>-</u>	<u>217,750</u>	<u>-</u>	<u>328,641</u>
FUND BALANCES, END OF YEAR	<u>\$ 166,746</u>	<u>\$ -</u>	<u>\$ 142,782</u>	<u>\$ -</u>	<u>\$ 309,528</u>

**SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
 AGENCY FUNDS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2007**

	Balances July 1, 2006	Additions	Deductions	Balances June 30, 2007
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Assets				
Cash and cash equivalents	\$ 137,993	\$ 584,324	\$ 586,604	\$ 135,713
Investments	90,000	-	-	90,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 227,993</u>	<u>\$ 584,324</u>	<u>\$ 586,604</u>	<u>\$ 225,713</u>
 Liabilities				
Due to student and other groups	<u>\$ 227,993</u>	<u>\$ 584,324</u>	<u>\$ 586,604</u>	<u>\$ 225,713</u>

**SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
AGENCY FUNDS
SCHEDULE OF RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

School Accounts	Cash Balance 7/1/2006	Receipts	Disbursements	Cash Balance 6/30/2007
Alt Ed/Basketball	\$ 17	\$ -	\$ -	\$ 17
Alt Ed/Student Council	285	342	-	627
Alt Ed/Volleyball	1	-	-	1
Alt Ed/Yearbook	(1,860)	245	-	(1,615)
Alt Ed Fundraising	317	1,635	4,129	(2,177)
Art Club	818	195	789	224
Art Resale	-	8,430	8,430	-
Athletic Juice	3,332	6,533	5,382	4,483
Band Account	(160)	1,093	985	(52)
Boys Basketball	150	11,205	11,274	81
Boys/Girls State	651	-	651	-
Boys Track	604	2,962	3,274	292
Boys Soccer	292	2,774	2,692	374
Cheerleaders	342	7,286	11,777	(4,149)
Chemistry/Physics	2,385	9,039	8,872	2,552
Chorus Club	916	5,299	6,560	(345)
Cheerleaders/JV	5	38	38	5
Business Prof of America	692	-	-	692
Class of 1960	254	-	254	-
Class of 2010	6	3,001	1,307	1,700
Class of 2003	41	-	-	41
Class of 2004	1	-	-	1
Class of 2005	7,180	914	8,093	1
Class of 2006	1,340	343	-	1,683
Class of 2007	12,094	21,075	29,448	3,721
Class of 2008	3,112	26,011	21,780	7,343
Class of 2009	447	533	152	828
Alumni Museum	318	-	318	-
Co-Op Club	117	2,160	2,009	268
Drama Club	2,852	6,542	5,011	4,383
Drivers Education	3,300	37,955	39,772	1,483
Exchange Acct	12,892	56,729	60,491	9,130
Football Club	885	4,142	4,311	716
French Club	160	-	-	160
Girls Basketball	2,600	6,130	6,628	2,102
Girls Cross Country	4,613	7,789	5,815	6,587
Co-Ed Swimming	5,112	8,313	6,506	6,919
Girls Track	3,676	3,301	3,258	3,719
Hockey	2,569	8,429	8,082	2,916
Home Ec Fees	(20)	2,091	2,071	-
HS Fund	2,451	5,925	4,981	3,395
Investment Club	54	-	-	54
Jr Achievement	105	-	-	105
Girls Soccer	793	1,133	781	1,145
Varsity Golf	9	630	630	9
Key Club	1,189	4,604	4,257	1,536
Varsity Poms	8,194	4,172	11,771	595
Law Day	92	1,130	445	777
Library Copier	124	67	33	158
Library Fines	465	614	581	498
Mathematics Club	199	-	-	199
National Honor Society	(136)	6,030	3,835	2,059

**SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
AGENCY FUNDS
SCHEDULE OF RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

<u>School Accounts (continued)</u>	<u>Cash Balance 7/1/2006</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash Balance 6/30/2007</u>
Peers Who Care	\$ 377	\$ 1,200	\$ 1,479	\$ 98
Project Close Up	147	-	-	147
Paid Advertising	4,380	6,976	2,443	8,913
Princ Pop Mach	222	11,663	10,606	1,279
Science Olympiad	695	849	916	628
Roadrunners/Cross Ctry	552	752	1,082	222
S A D D	1,194	501	993	702
Softball Club	1,314	9,614	4,099	6,829
English Field Trips	356	5,944	5,971	329
Science	104	40	-	144
Student Council	3,839	14,538	13,871	4,506
Tennis/Girls JV	-	2,009	2,171	(162)
Teachers Fund	1,109	860	717	1,252
Textbook Fines	3,375	7,611	9,638	1,348
Transcript Fees	652	-	368	284
Varsity Baseball	(206)	9,048	8,830	12
Volleyball Club	774	4,193	4,566	401
Workbook Acct	2,112	-	1,500	612
Yearbook Acct	9,732	13,492	8,408	14,816
Parking Permits	-	3,294	3,294	-
Donations	(522)	7,118	6,007	589
MS Volleyball	1,502	6,690	7,794	398
MS Wrestling	834	-	-	834
MS Band Resale	(1,625)	7,072	4,729	718
MS Soccer	300	1,587	1,788	99
MS Gen Activities	7,678	13,360	12,524	8,514
MS Intramurals	349	262	23	588
MS Drama	1,701	355	227	1,829
MS Flower Fund	115	724	576	263
MS Library Resale	7,872	3,409	4,122	7,159
MS School Store	49	-	49	-
MS NJHS	10	-	-	10
MS Lost Books	202	534	491	245
MS Student Council	8,066	8,905	7,010	9,961
MS Textbook	5,810	2,720	3,546	4,984
MS Trip	648	-	648	-
MS Teams	1,530	6,160	5,590	2,100
MS Yearbook	1,029	5,334	5,824	539
Dieck Teacher's Fund	9,137	10,143	10,942	8,338
Dieck Activity Account	7,032	15,810	9,534	13,308
Elms Fifth Grade	1,429	24,753	25,481	701
Elms Special Project	2,493	11,218	9,412	4,299
Elms Activity	710	4,484	4,372	822
Shannon Rushing Memorial/Elm	3,895	-	-	3,895
Morrish 5th Grade	5,512	11,269	10,022	6,759
Morrish Projects	15,589	29,490	26,939	18,140
Syring Projects	16,580	11,336	17,007	10,909
Gaines Projects	13,465	32,168	33,522	12,111
Total School Accounts	\$ 227,993	\$ 584,324	\$ 586,604	\$ 225,713

**SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF OUTSTANDING BONDED INDEBTEDNESS
JUNE 30, 2007**

Date of Issue - November 24, 1998 (refinanced March 25, 2003 and May 10, 2007)

Original amount of issue - \$640,890

Purpose of issue - To finance improvements within the buildings of the District.

<u>Interest Rate</u>	<u>Fiscal Year</u>	<u>Annual Interest Payments May 15</u>	<u>Annual Maturity May 15</u>	<u>Total Fiscal Year Requirements</u>
4.76 %	2008-09	\$ 9,339	\$ 35,668	\$ 45,007
4.76 %	2009-10	82,736	219,648	302,384
4.76 %	2010-11	5,862	39,144	45,006
4.76 %	2011-12	3,998	41,005	45,003
4.76 %	2012-13	2,045	42,957	45,002
		<u>\$ 103,980</u>	<u>\$ 378,422</u>	<u>\$ 482,402</u>

SINGLE AUDIT

SWARTZ CREEK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2006	Current Year Cash Payments/ In-Kind Received	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2007
U.S. Department of Agriculture						
Nutrition Cluster:						
Passed Through Michigan Department of Education:						
Food Distribution:						
Entitlement commodities	10.550	\$ 57,063	\$ -	\$ 38,059	\$ 38,059	\$ -
Bonus commodities	10.550	-	-	476	476	-
Total		57,063	-	38,535	38,535	-
National School Lunch Breakfast						
061970 - Breakfast	10.553	7,065	-	7,065	7,065	-
071970 - Breakfast	10.553	60,043	-	60,043	60,043	-
Total		67,108	-	67,108	67,108	-
National School Lunch Program						
061950 - Section 4 All lunches	10.555	9,443	-	9,443	9,443	-
071950 - Section 4 All lunches	10.555	62,880	-	62,880	62,880	-
061960 - Section 11 Free & Reduced	10.555	32,167	-	32,167	32,167	-
071960 - Section 11 Free & Reduced	10.555	232,386	-	232,386	232,386	-
Total		336,876	-	336,876	336,876	-
Total Nutrition Cluster		461,047	-	442,519	442,519	-
Child Care Food Program						
061920 - CCFP Meals	10.558	4,791	-	4,791	4,791	-
071920 - CCFP Meals	10.558	15,996	-	15,996	15,996	-
062010 - Child Care Cash in Lieu	10.558	529	-	529	529	-
072010 - Child Care Cash in Lieu	10.558	1,654	-	1,654	1,654	-
Total		22,970	-	22,970	22,970	-
Total U.S. Department of Agriculture		484,017	-	465,489	465,489	-
U.S. Department of Labor						
Passed Through Genesee Intermediate School District:						
Workforce Investment Act	17.258	369	-	369	369	-
U.S. Department of Education						
Special Education Cluster						
Passed Through Genesee Intermediate School District:						
70450 IDEA Flowthrough	84.027	825,882	-	825,882	825,882	-
Special Education Transition	84.027	1,576	-	1,576	1,576	-
70460 Preschool Incentive	84.027	14,148	-	14,148	14,148	-
Total		840,030	-	841,606	841,606	-
Passed Through Michigan Department of Education:						
70440 Handicapped Preschool	84.027	5,000	-	2,592	2,592	-
Total Special Education Cluster		845,030	-	844,198	844,198	-

Passed through Michigan Department of Education:							
ESEA Title I Part A							
061530 0506 Carryover	84.010	253,303	10,000	10,000	-	-	
061530 0607 Regular	84.010	20,000	-	20,000	20,000	-	
071530 0607 Regular	84.010	252,145	-	215,628	238,509	22,881	
	Total	525,448	10,000	245,628	258,509	22,881	
Direct Federal:							
Indian Education - B060A050843	84.060	38,828	-	38,828	38,828	-	
Passed Through Genesee Intermediate School District:							
Safe and Drug Free Schools	84.186A	498	-	498	498	-	
ESEA Title V LEA Allocation							
070250 0607 Title V Part A Innovation	84.298	868	-	400	868	468	
Technology Literacy Challenge Grants							
074290 0607 Regular	84.318	2,588	-	2,588	2,588	-	
Title II A - Improving Teacher Quality							
070520 0607 Regular	84.367	110,854	-	110,854	110,854	-	
Emergency Impact Aid-Hurricane Katrina Grant							
064120 1 Hurricane Katrina Relief	84.938	2,470	-	2,470	2,470	-	
Total U.S. Department of Education		1,526,584	10,000	1,245,464	1,258,813	23,349	
U.S. Department of Health and Human Services							
Passed Through Genesee County:							
Head Start Food Reimbursement	93.600	15,560	-	15,560	15,560	-	
Passed Through Genesee Intermediate School District:							
Medicaid Assistance Program Title XIX							
Medicaid Outreach	93.778	17,990	-	17,990	17,990	-	
Total U.S. Department of Health and Human Services		33,550	-	33,550	33,550	-	
U.S. Department of Homeland Security							
Direct Federal:							
ER and Crisis Management Grant	97.004	-	-	3,640	3,640	-	
Total Federal Programs		\$ 2,044,520	\$ 10,000	\$ 1,748,512	\$ 1,761,861	\$ 23,349	

- 1 The accounting policies used in preparing this schedule conform to generally accepted accounting principles applicable to governments. The District utilized the modified accrual basis of accounting in preparing this schedule.
- 2 Expenditures in this schedule are in agreement with amounts reported in the financial statements and the financial reports submitted to MDE.
- 3 The amounts reported on the R7120 (Grant Section Auditor's Report) reconcile with this schedule.
- 4 The amounts reported on the Recipient Entitlement Balance Report (PAL) agree with this schedule for USDA donated food commodities and are reported in the cash receipts column. Spoilage or pilferage, if any, is included in expenditures.



**INDEPENDENT AUDITORS' 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**

October 22, 2007

To the Board of Education
Swartz Creek, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Swartz Creek Community Schools*, as of and for the year ended June 30, 2007, which collectively comprise the *Swartz Creek Community Schools'* basic financial statements, and have issued our report thereon dated October 22, 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 *Swartz Creek Community School's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the *Swartz Creek Community Schools'* internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *Swartz Creek Community Schools'* 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 *Swartz Creek Community Schools'* 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 *Swartz Creek Community Schools'* financial statements that is more than inconsequential will not be prevented or detected by the *Swartz Creek Community Schools'* internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-1 and 2007-2 to be significant deficiencies 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 *Swartz Creek Community Schools'* internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the 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, of the significant deficiencies described above, we consider items 2007-1 and 2007-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether *Swartz Creek Community Schools'* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of *Swartz Creek Community Schools*, in a separate letter dated October 22, 2007.

Swartz Creek Community Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit *Swartz Creek Community Schools'* responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, the governing board, management, others within the organization, 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.





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

October 22, 2007

To the Board of Education
Swartz Creek, Michigan

Compliance

We have audited the compliance of *Swartz Creek Community 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. *Swartz Creek Community Schools'* major federal programs are identified in the summary of auditors' 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 *Swartz Creek Community Schools'* management. Our responsibility is to express an opinion on *Swartz Creek Community 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 Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about *Swartz Creek Community Schools'* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on *Swartz Creek Community Schools'* compliance with those requirements.

In our opinion, *Swartz Creek Community 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 October 22, 2007.

Internal Control Over Compliance

The management of *Swartz Creek Community Schools* is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered *Swartz Creek Community 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

Our consideration of 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 as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-1 and 2007-2 to be significant deficiencies.

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. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2007-1 and 2007-2 to be material weaknesses.

Swartz Creek Community Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit *Swartz Creek Community Schools'* responses and, accordingly, we express no opinion on them.

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



**SWARTZ CREEK COMMUNITY SCHOOLS
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *Unqualified on basic financial statements*

Internal controls over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiencies identified not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted?

 yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? X yes no

Significant deficiencies identified not considered to be material weaknesses? 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 in accordance with Circular A-133, Section 510(a)?

 X yes no

Identification of Major Programs:

CFDA Number

Name of Federal Program or Cluster

#10.553 and #10.555

Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 X yes no

**SWARTZ CREEK COMMUNITY SCHOOLS
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

SECTION II – FINANCIAL STATEMENT FINDINGS

2007-1 Lack of Adequate Controls to Produce Full-Disclosure GAAP Basis Financial Statements

- Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
- Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.
- Cause: This condition was caused by the District's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
- Effect: As a result of this condition, the District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
- View of Responsible Officials: The District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in its best interests to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

**SWARTZ CREEK COMMUNITY SCHOOLS
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

2007-2 Segregation of Duties

- Criteria:** Management is responsible for establishing and maintaining effective internal control over financial reporting safeguarding the District's assets.
- Condition:** During the course of our audit, we noted instances where multiple key financial duties were being performed by the same individual and there were no mitigating controls in place to ensure effective internal controls. Specifically, we found that the following incompatible functions are being performed by the same individual:
- (1) The physical receipting of cash and checks is done by an individual who also prepares and makes bank deposits, reconciles the bank statements and has access to the general ledger.
 - (2) The individual who prepares checks to pay vendors and employees also has access to the general ledger.
 - (3) Journal entries are not reviewed by an independent employee.
- Cause:** As is the case with many organizations of similar size, the District lacks a sufficient number of personnel in order to ensure a complete segregation of duties within its accounting function.
- Effect:** The District's current system of internal control does not appear to have sufficient safeguards in place to ensure that fraud or abuse is prevented or can be detected in a timely manner. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and be able to conceal it.
- Recommendation:** While there are no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible. These would include approval of manual journal entries prepared and posted by the bookkeeper by the Assistant Superintendent before posting, review of the bank reconciliations and any ACH or EFT transfers by the Assistant Superintendent, and depositing into all bank accounts by an individual other than the bookkeeper.

**SWARTZ CREEK COMMUNITY SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

There were no findings published for the audit of the year ended June 30, 2006.



October 22, 2007

To the Board of Education
Swartz Creek Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Swartz Creek Community Schools for the year ended June 30, 2007, and have issued our report thereon dated October 22, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated March 26, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Swartz Creek Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Swartz Creek Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Swartz Creek Community Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to

each of its major federal programs for the purpose of expressing an opinion on Swartz Creek Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Swartz Creek Community Schools' compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Swartz Creek Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Swartz Creek Community Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

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

Disagreements with Management

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

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

This information is intended solely for the use of the Audit Committee, the governing body, and management of the Swartz Creek Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive style with a large, prominent 'L' and 'J'.

Swartz Creek Community Schools
Comments and Recommendations
June 30, 2007

October 22, 2007

Swartz Creek Community Schools
Swartz Creek, Michigan

In planning and performing our audit of the financial statements of *Swartz Creek Community Schools* as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Swartz Creek Community School's internal control over financial reporting (internal control) 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 Entity's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following items summarize our comments and suggestions regarding those matters. A separate report dated October 22, 2007, contains our report on significant deficiencies in the Entity's internal control. This letter does not affect our report dated October 22, 2007, on the financial statements of *Swartz Creek Community Schools*.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Accounting and Control Over Student Group Accounts

Each year a Schedule of Receipts and Disbursements for Agency Funds is prepared for the District's financial statements. That schedule reports the beginning cash balance, cash receipts, cash disbursements and ending cash balance for each student group at the District. During our audit procedures, we observed that certain student groups have negative cash balances. A negative cash balance indicates that these groups have expended more cash than was available for their group. These groups include the Alternative Education Yearbook and Fundraising, the Band, the Cheerleaders, the Chorus Club and Tennis. Additionally, we observed the District has not implemented any formal control procedures over cash disbursements from the internal accounts. Checks are drawn on student group accounts based upon verbal requests and are not controlled with source documents such as approved check requests or other similar documents to maintain accountability over disbursements.

We recommend that the District implement procedures to ensure that individual student groups do not overspend their available funds. We also recommend the District implement additional control

procedures over disbursements from the agency fund that require documentation of each request and approval of the disbursement from the student group.

Controls Over Cash Receipts and Bank Deposits for Athletic Activities

The Athletics department utilizes “count sheets” to maintain control and accountability over cash received at sporting events. The count sheets are used to verify the beginning and ending admission ticket numbers, the amount and denomination of the cash received and the total amount of cash received by the ticket takers. The count sheets are labeled with areas to be signed by both the ticket seller and a supervisor, indicating that both parties have verified the attendance numbers and the amount of cash received. During our procedures, we noted instances where count sheets were not signed by both the seller and the supervisor. Without adequate documentation of a control procedure (signatures), it is not possible to verify that the control procedure was performed.

In addition, the District appears to have implemented controls to provide reasonable security and accountability of athletic admissions cash receipts up until the receipts are deposited with the bank. However, the District does not require that the actual amount deposited with the bank is verified by a person independent of the person that made the deposit, nor are the deposit tickets retained as part of the control procedures.

We recommend that (1) the District implement procedures to ensure that control procedures are adequately documented (count sheets are signed by the seller and the supervisor), (2) a person independent of making the bank deposit verifies the amount that was deposited with the bank by examining bank deposit tickets, that (3) should be retained in a file for future reference and be initialed by the person that verified the deposit amount.

School Lunch Fund Timecards

Hourly employees of the School Lunch Fund are required to complete timecards for hours worked. Timecards are to be punched by the District’s timecard machine at the start and completion of each shift. During our procedures, we noted instances where timecards were not punched by the machine at either the start or completion of a shift. Without adequate documentation of timekeeping, it is not possible to verify actual time worked.

We recommend that (1) all hourly employees complete timecards properly for all shifts, including punching the card at both the start and completion of each shift, and (2) each timecard is approved at the end of each pay period by the appropriate supervisor and that the approval is visible on the timecard.

This communication is intended solely for the information and use of the Audit Committee, the governing Board, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Swartz Creek Community Schools
Schedule of Adjustments Passed (SOAP)
For the June 30, 2007 Audit

	Effect of Passed Adjustment - Over(Under)Statement					Ending Equity
	Assets	Liabilities	Beginning Equity	Revenue	Expenses/ Expenditures	
General Fund						
Unrecorded claims payable at 6-30-06	\$ -	\$ -	\$ 229,592	\$ -	\$ 229,592	\$ -
Unrecorded claims payable at 6-30-07	-	(217,377)	-	-	(217,377)	217,377
Unrecorded prepaid items at 6-30-06	-	-	(132,914)	-	(132,914)	-
Unrecorded prepaid items at 6-30-07	(144,908)	-	-	-	144,908	(144,908)
Total Fund Statements	<u>\$ (144,908)</u>	<u>\$ (217,377)</u>	<u>\$ 96,678</u>	<u>\$ -</u>	<u>\$ 24,209</u>	<u>\$ 72,469</u>
No passed ajes to only the GWFS	-	-	-	-	-	-
Total GWFS	<u><u>\$ (144,908)</u></u>	<u><u>\$ (217,377)</u></u>	<u><u>\$ 96,678</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 24,209</u></u>	<u><u>\$ 72,469</u></u>