



Linden, Michigan

FINANCIAL STATEMENTS

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



REHMANN ROBSON

Certified Public Accountants

LINDEN COMMUNITY SCHOOLS

For the Year Ended June 30, 2007

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LINDEN COMMUNITY SCHOOLS

For the Year Ended June 30, 2007

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

November 5, 2007

Board of Education
Linden Community Schools
Linden, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **LINDEN 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 Linden 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 November 5, 2007, 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 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 3-15 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 Linden Community Schools' basic financial statements. The combining and individual fund financial statements 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 Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Linden 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".

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis

As management of Linden Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$9,488,005 (*net assets*). Of this amount, \$2,744,693 (*unrestricted net assets*) may be used to meet the government's ongoing obligations for district programs.
- The government's total net assets increased by \$46,159 from the prior year.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$4,519,524, a decrease of \$2,112,301 in comparison with the prior year. Approximately 96.0% or \$4,339,362 is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,914,904 or 12.2% of total general fund expenditures.
- Investments in school facilities and related equipment were accomplished by spending approximately \$2.7 million from the voter approved bond issue and sinking fund millage.

Overview of the Financial Statements

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

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

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

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

Both of the District-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, support services, food service, athletics and community service. The District has no business-type activities as of and for the year ended June 30, 2007.

The District-wide financial statements can be found on pages 16-17 of this report.

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

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

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

The District maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and 2003 capital projects funds, each of which are considered to be a major fund. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided for the general fund herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 18-22 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 23-24 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found on pages 25-39 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements and can be found on pages 40-43 of this report.

District-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$9,488,005 at the close of the most recent fiscal year.

By far the largest portion of the District's net assets (70 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

District's Net Assets

	Governmental Activities	
	2006-07	2005-06
	<u> </u>	<u> </u>
Current and other assets	\$ 7,959,818	\$ 9,698,437
Capital assets, net	<u>39,862,501</u>	<u>38,935,500</u>
Total assets	<u>47,822,319</u>	<u>48,633,937</u>
Long-term liabilities outstanding	34,890,814	36,152,150
Other liabilities	<u>3,443,500</u>	<u>3,039,941</u>
Total liabilities	<u>38,334,314</u>	<u>39,192,091</u>
Net assets:		
Invested in capital assets, net of related debt	6,614,398	6,420,730
Restricted	128,914	354,872
Unrestricted	<u>2,744,693</u>	<u>2,666,244</u>
Total net assets	<u><u>\$ 9,488,005</u></u>	<u><u>\$ 9,441,846</u></u>

An additional portion of the District's net assets (6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (29 percent or \$2,744,693) may be used to meet the District's ongoing obligations to its programs.

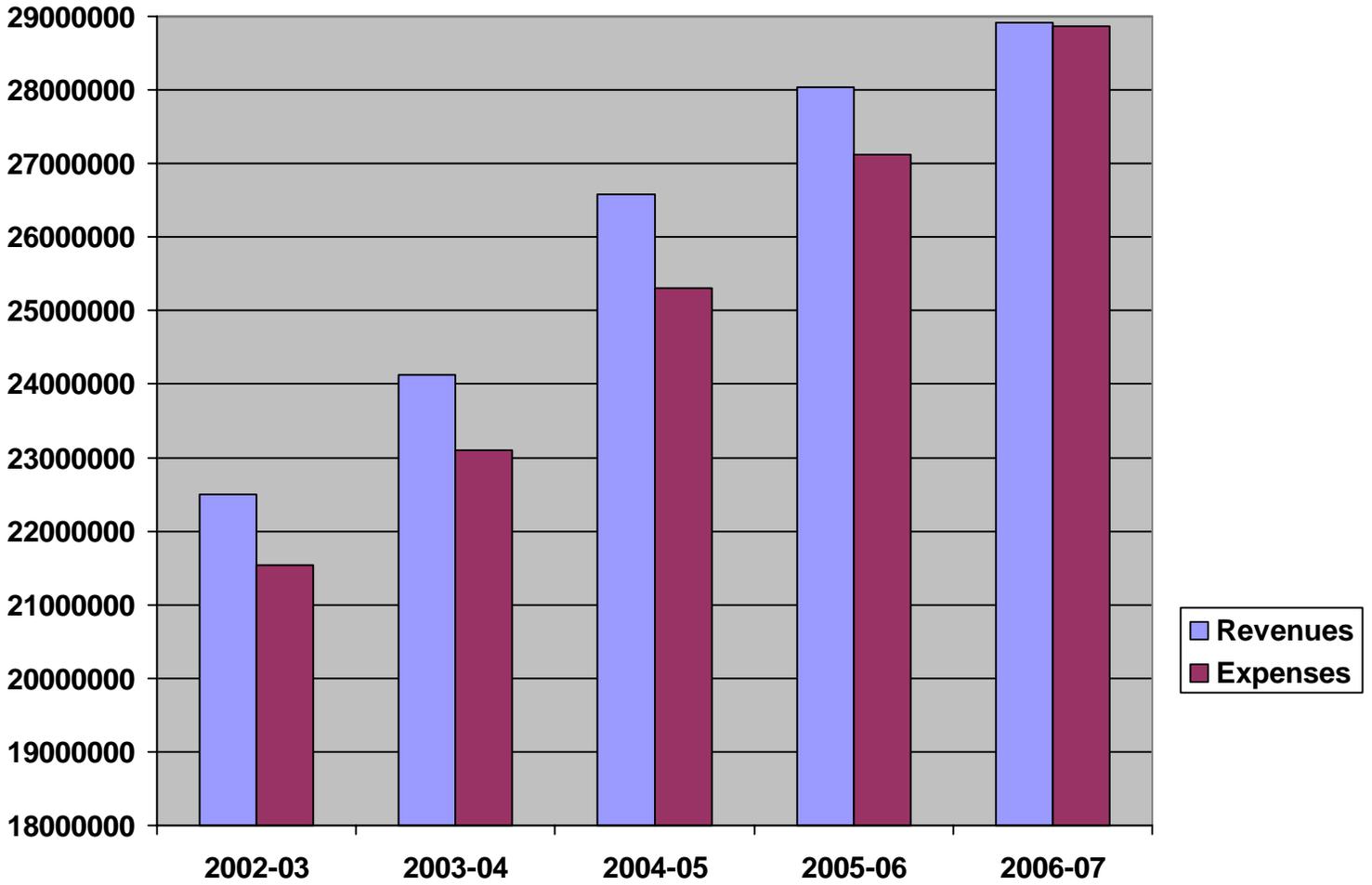
At the end of the current fiscal year, the District was able to report positive balances in all three categories of net assets.

The District's net assets increased by \$46,159 during the current fiscal year. This is compared to an increase of \$915,014 in the prior year. Operationally, the past two fiscal years have been similar; however, the results for the 2005-06 fiscal year were improved when the District recognized the sale of excess land (\$790,000). Overall, the District's financial condition has changed very little from the prior year, yet the current results from operations are nothing like the larger increases in net assets seen prior to the 2005-06 fiscal year. If the current trend of expenses outpacing revenue is to continue, the District will begin to see an erosion of its financial condition in the coming years.

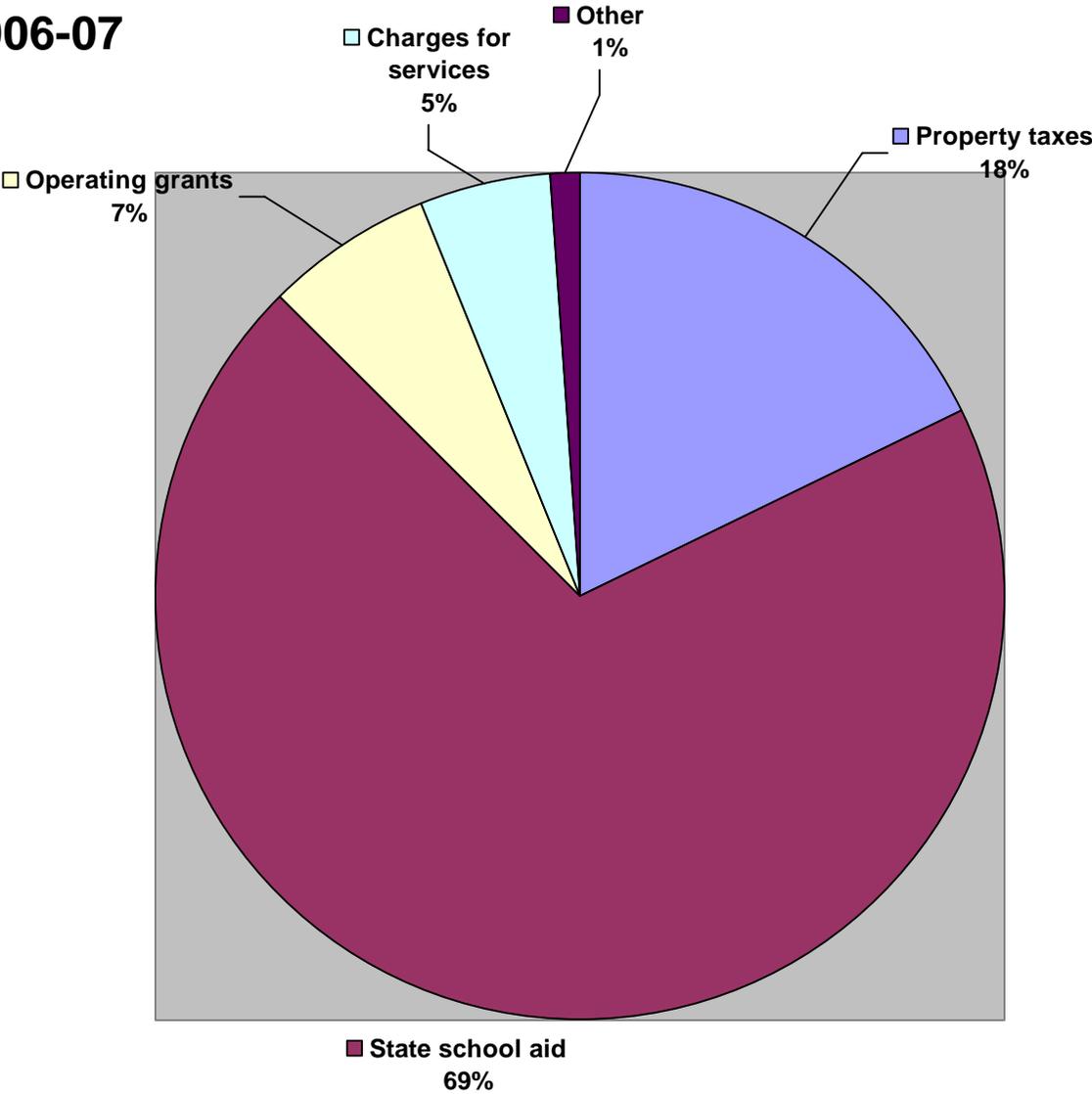
District's Changes in Net Assets

	Governmental Activities	
	<u>2006-07</u>	<u>2005-06</u>
Revenue:		
Program revenue:		
Charges for services	\$ 1,427,857	\$ 1,073,330
Operating grants and contributions	1,908,825	1,633,579
General revenue:		
Property taxes	5,171,741	4,616,274
State school aid	20,104,428	19,308,812
Other	309,107	1,408,355
Total revenue	<u>28,921,958</u>	<u>28,040,350</u>
Expenses:		
Instruction	14,659,762	13,393,796
Supporting services	9,367,699	9,752,966
Community service	385,701	350,064
Athletics	572,471	562,820
Food service	1,010,148	974,035
Interest on long-term debt	1,545,475	1,580,925
Unallocated depreciation	1,334,543	510,730
Other transactions	-	-
Total expenses	<u>28,875,799</u>	<u>27,125,336</u>
Increase (decrease) in net assets	46,159	915,014
Net assets, beginning of year	<u>9,441,846</u>	<u>8,526,832</u>
Net assets, end of year	<u><u>\$ 9,488,005</u></u>	<u><u>\$ 9,441,846</u></u>

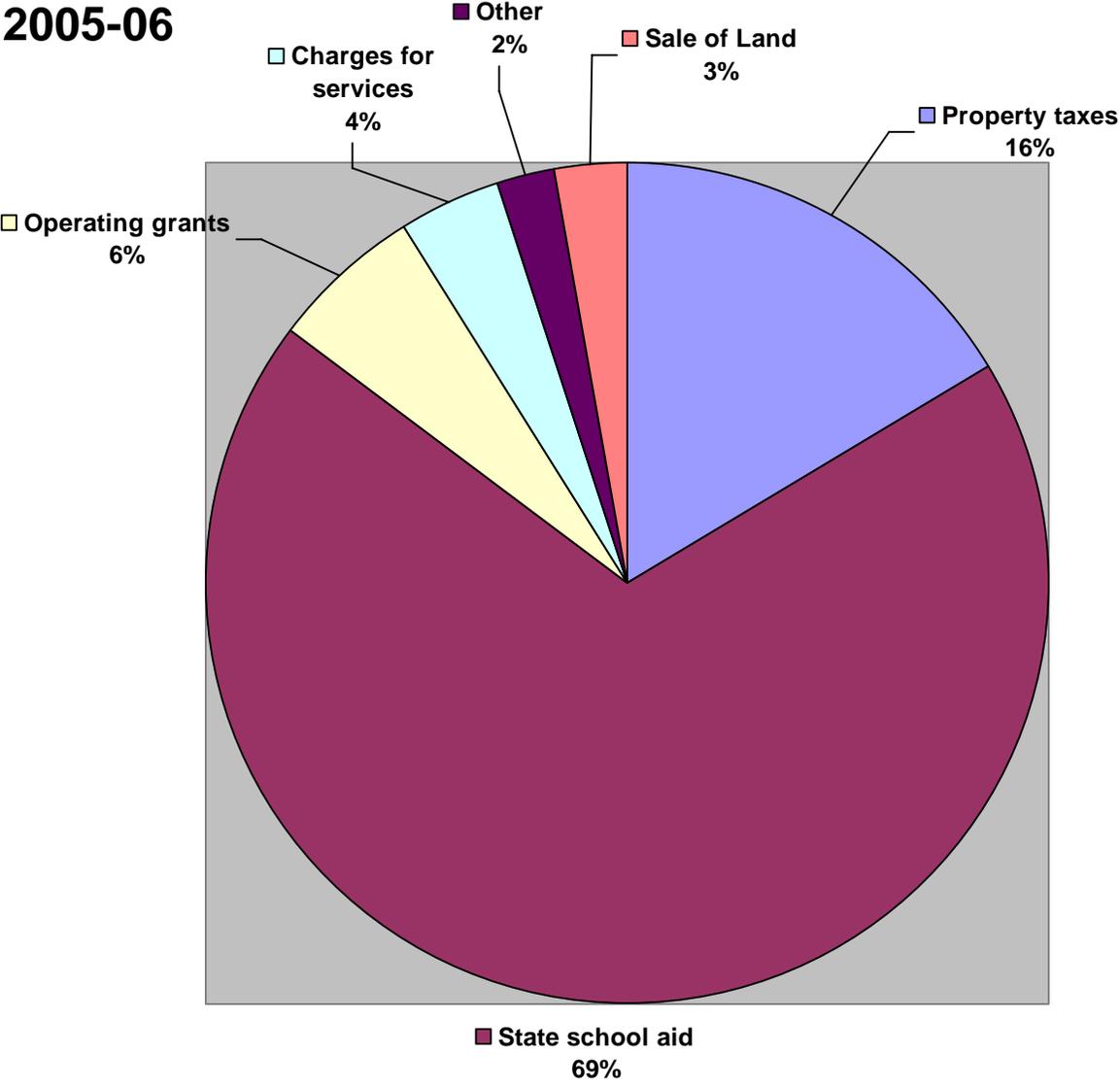
Total Expenses vs. Total Revenues – Governmental Activities



2006-07



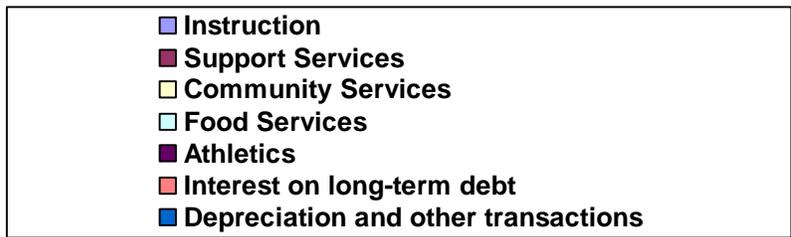
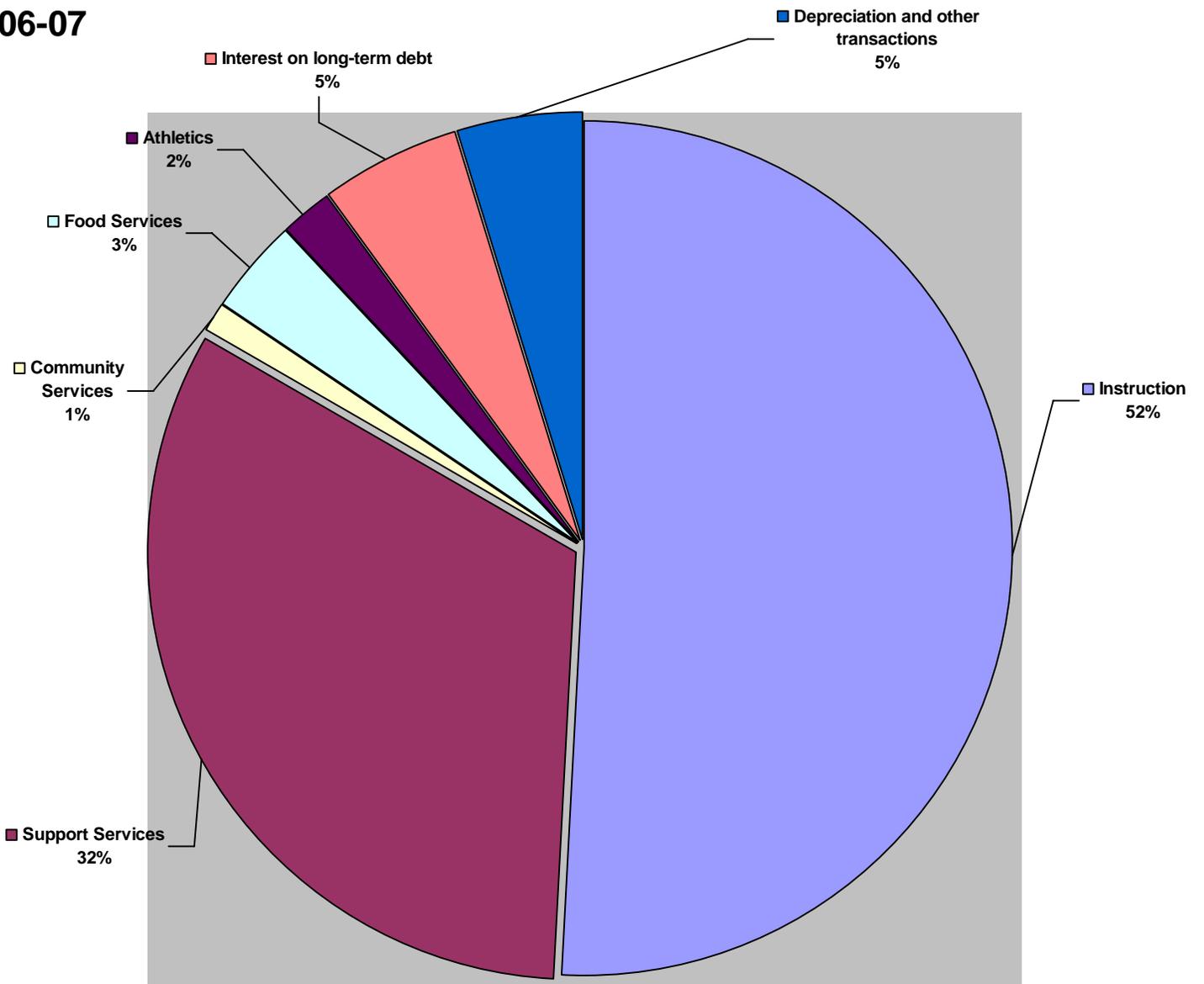
2005-06



Property taxes	State school aid	Operating grants
Charges for services	Other	Sale of Land

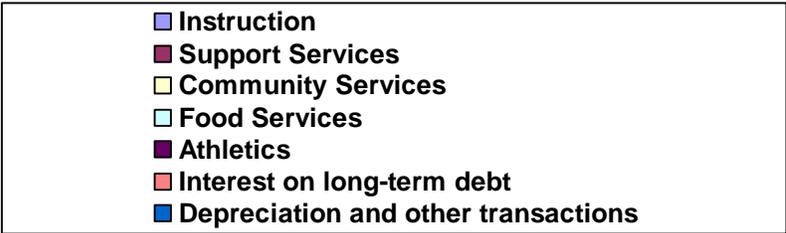
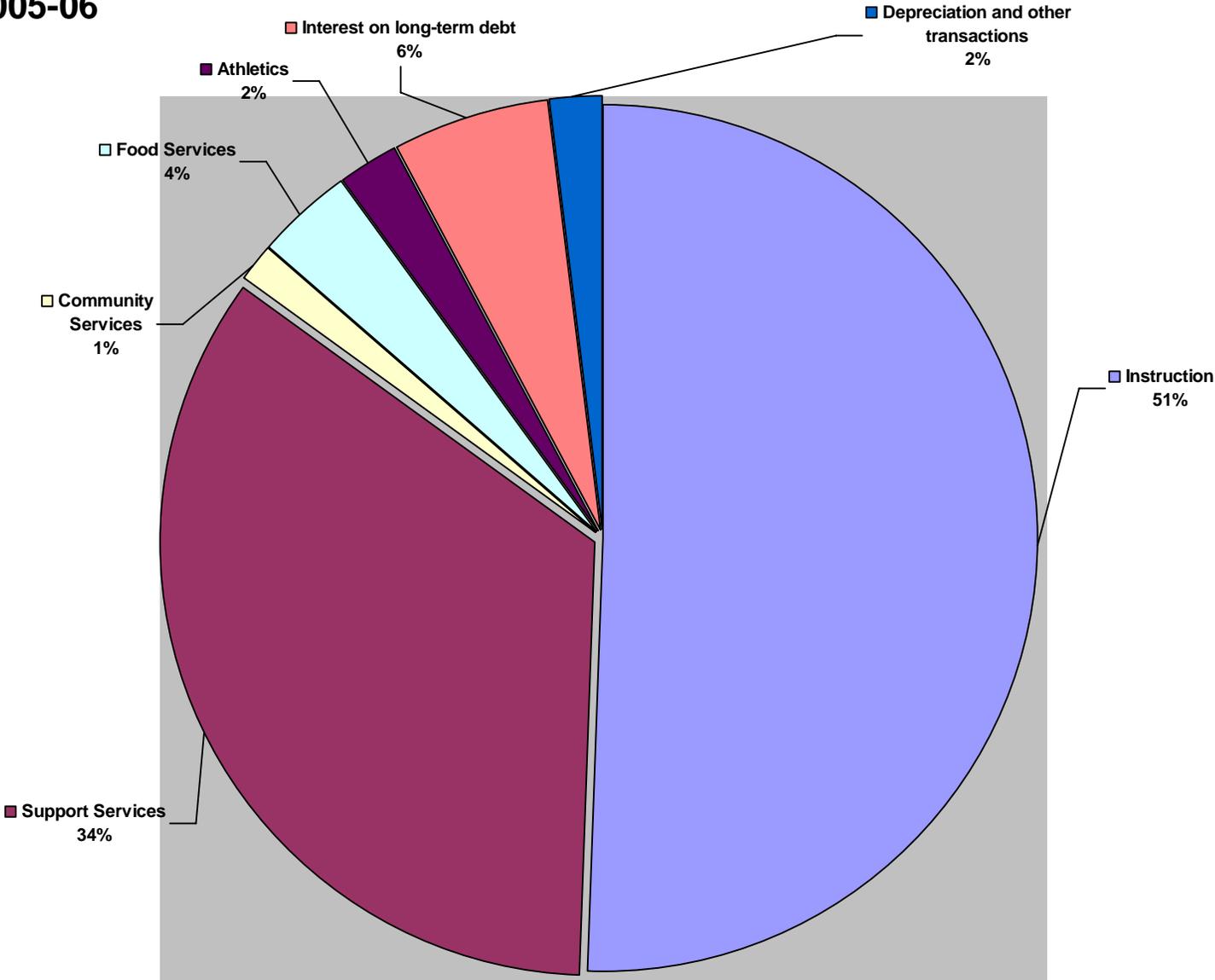
Expenses by Function – Governmental Activities

2006-07

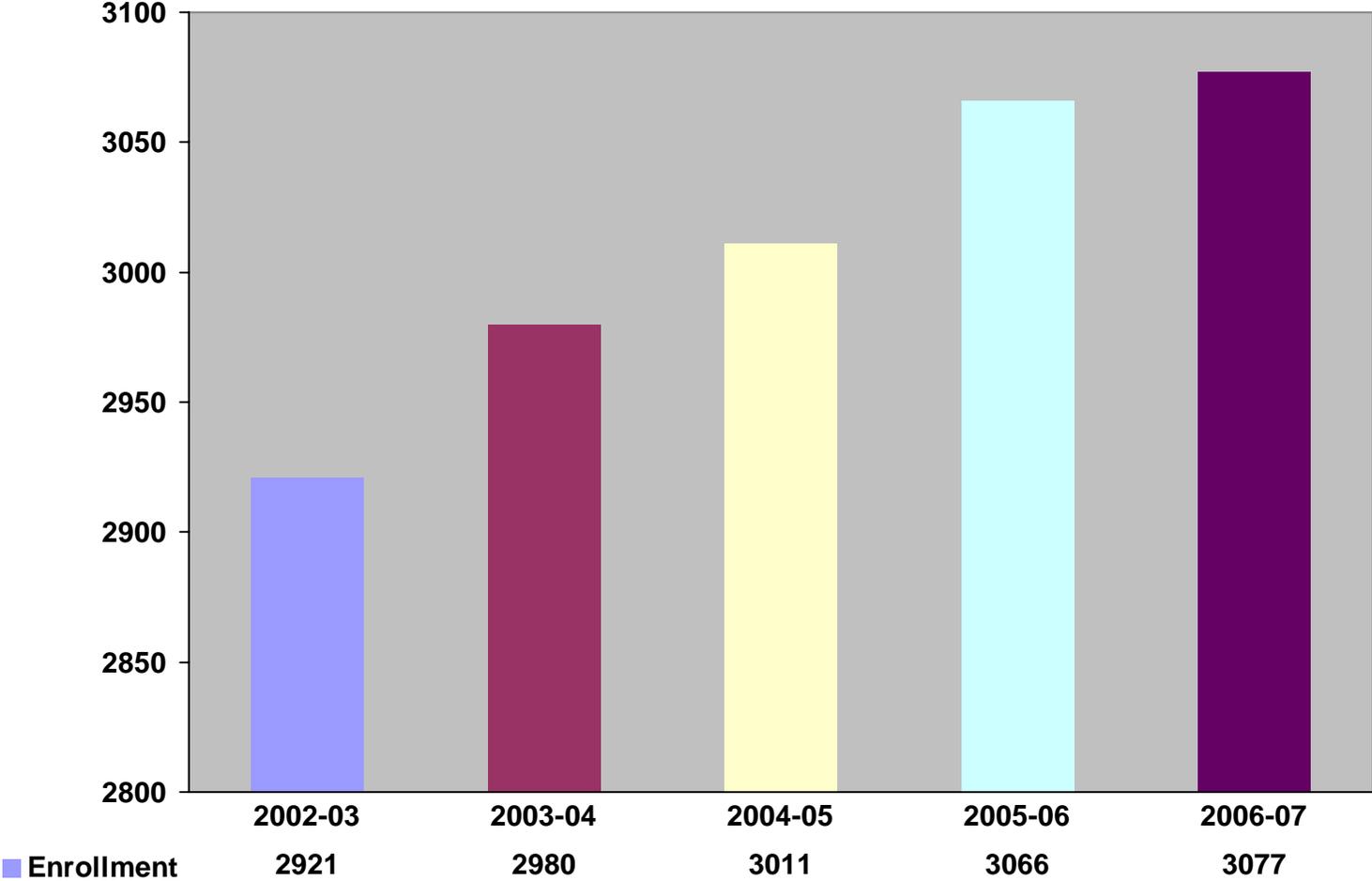


Expenses by Function – Governmental Activities

2005-06



Enrollment - Blended Pupil Counts



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$4,519,524 a decrease of \$2,112,301 in comparison with the prior year. Approximately 96% of this total amount (\$4.34 million) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are included in inventory and are not available for current expenditure.

The general fund is the chief operating fund of the District, and represents the bulk of the District's unreserved fund balance. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,914,904. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents approximately 12.2 percent, or 1 1/2 months, of total general fund expenditures.

During the current fiscal year, the fund balance in the District's general fund decreased by \$158,049. This is a relatively small change in the fund's financial position and is actually better than the District anticipated (see Budgetary Highlights below). The decrease amounts to less than a 5% change in available resources, and less than 1% of the total budget.

The 2003 capital projects fund incurred approximately \$1.8 million of expenditures while completing the renovation of the old middle school into a new elementary building and finishing capital improvements to many of the District's existing structures. These expenditures helped to bring the total fund balance down to \$1,091,049.

General Fund Budgetary Highlights

Differences between the original and final amended budgets were relatively minor in comparison to the overall budgeted amount. When additional information was known, subsequent budget amendments adjusted revenue as necessary. Expenditure needs and the use of fund balance were adjusted accordingly. Final amended budget amounts for total revenues and expenditures varied from original estimates by less than 2%.

Actual results were better than expected and exceeded anticipated final amended budget amounts by approximately \$475,000. While the factors affecting such a variance are too numerous to list individually, the following constitute the most significant events contributing to this variance:

- Due to the State of Michigan's increased enforcement of Sections 18 and 19 of the Uniform Budgeting and Accounting Act, the District has chosen to budget conservatively to avoid violations of the Act.

- Approximately \$90,000 of unanticipated additional funding was provided by the Intermediate School District for Medicaid fee-for-service and Act 18 (special education) programs.
- Prior year State Aid adjustments totaling approximately \$117,000 were received during 2006-07 and were recorded in the period received. These adjustments amount to a timing issue as local municipalities are anticipated to request these funds, which they are entitled to, that will need to be paid from future budgets.
- Hiring to fill several non-mandated positions was delayed in an effort to conserve financial resources.
- Some of the grants that overlap fiscal years were budgeted to be fully spent in 2006-07; however portions of these grants were deferred for spending in a subsequent period.
- Certain utilities came in under the anticipated amounts.
- Inter-district revenues exceeded, while expenditures were less than expected for the consortium programs operated jointly with the Fenton and Lake Fenton school districts.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2007, amounted to \$39,862,501 (net of accumulated depreciation), which is an increase over the prior year's investment of \$38,935,501. This investment in capital assets includes land, buildings, vehicles and equipment. The total increase in the District's investment in capital assets for the current fiscal year was due mainly to the construction work being completed in the District from the 2003 bond issue. The majority of the increase is due to the remodeling of the district's former middle school into a new elementary school (Hyatt Elementary), which opened in August 2006.

District's Capital Assets (net of depreciation)

	<u>2006-07</u>	<u>2005-06</u>
Land, Buildings and additions	\$ 34,746,314	\$ 33,970,707
Site improvements	4,968,184	3,913,503
Equipment and furniture	133,698	147,240
Vehicles	14,305	16,093
Construction in progress	<u>-</u>	<u>887,957</u>
Total	<u>\$ 39,862,501</u>	<u>\$ 38,935,500</u>

Additional information on the District's capital assets can be found in note III.C on page 33 of this report.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$34,470,103. Of this amount \$204,759 is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations, and is payable solely from state aid payments from the State of Michigan.

The District's total debt decreased by \$1,331,848 during the current fiscal year. Total debt outstanding was generally reduced by regularly scheduled principal payments.

Additional information on the District's long-term debt can be found in note III.F on pages 35-36 of this report.

Factors Bearing on the District's Future

The following factors will affect the District in the future and were considered in preparing the District's budget for the 2007-08 fiscal year:

- Health insurance related benefits (i.e. medical, dental and vision) have seen significant increases over the past few years. This is not isolated to the District and can be seen across the country. Management does not anticipate a sustained decline in these increases in the near future. With no full time staff contributing to the costs of these benefits, such increases threaten the District's financial position.
- The contribution rate for retirement services has been decreased by the State of Michigan for the State's 2007-08 fiscal year from an originally enacted 18.56% to 16.72% of gross salaries. This represents a sizable cost decrease to the District.
- Large rate increases in the District's utilities (natural gas, electric, diesel fuel) have been seen in the last few years. These increases are based on market and weather conditions and always place a certain level of uncertainty on the District's budget projections.
- The District saw a significant decrease in the number of students enrolled for the February 2007 count day. This trend (a February decrease) was similar to the one seen the previous year. Local housing data, state economic data and various factors lead the District to project a flat enrollment for the 2007-08 budget. The state's economic outlook is bleak and could have an undetermined effect on the enrollment of the District in future years.
- The state's economy continues to struggle leaving revenues well below anticipated amounts. Continued economic stagnation threatens the State's ability to adequately fund its local schools at a continued level of support. Continuing reports forced the District to budget for no increase in the per pupil amount determined by the State.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Superintendent, 7205 West Silver Lake Rd, Linden, MI 48451.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

LINDEN COMMUNITY SCHOOLS
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 3,961,141
Investments	74,837
Receivables	3,743,678
Prepaid items and other assets	180,162
Capital assets being depreciated, net	<u>39,862,501</u>
Total assets	<u>47,822,319</u>
 Liabilities	
Accounts payable and accrued liabilities	2,425,885
State aid note payable	990,000
Unearned revenue	27,615
Noncurrent liabilities:	
Due within one year	1,385,000
Due in more than one year	<u>33,505,814</u>
Total liabilities	<u>38,334,314</u>
 Net assets	
Invested in capital assets, net of related debt	6,614,398
Restricted for:	
Construction projects	29,383
Other purposes	99,531
Unrestricted	<u>2,744,693</u>
Total net assets	<u><u>\$ 9,488,005</u></u>

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

LINDEN COMMUNITY SCHOOLS
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	\$ 14,659,762	\$ 362,185	\$ 1,421,047	\$ (12,876,530)
Supporting services	9,367,699	-	43,834	(9,323,865)
Community service	385,701	322,566	49,153	(13,982)
Athletics	572,471	61,628	-	(510,843)
Food service	1,010,148	681,478	394,791	66,121
Interest on long-term debt	1,545,475	-	-	(1,545,475)
Unallocated depreciation	1,334,543	-	-	(1,334,543)
Total	<u>\$ 28,875,799</u>	<u>\$ 1,427,857</u>	<u>\$ 1,908,825</u>	<u>(25,539,117)</u>

General revenues:	
Property taxes	5,171,741
Unrestricted state aid	20,104,428
Grants and contributions not restricted to specific programs	120,163
Unrestricted investment earnings	<u>188,944</u>
Total general revenues	<u>25,585,276</u>
 Change in net assets	 46,159
 Net assets, beginning of year	 <u>9,441,846</u>
 Net assets, end of year	 <u>\$ 9,488,005</u>

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

FUND FINANCIAL STATEMENTS

LINDEN COMMUNITY SCHOOLS

Balance Sheet

Governmental Funds

June 30, 2007

<u>ASSETS</u>	<u>General</u>	<u>2003 Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Assets				
Cash and cash equivalents	\$ 2,590,803	\$ 1,016,212	\$ 354,126	\$ 3,961,141
Investments	-	74,837	-	74,837
Accounts receivable	3,200	-	11,357	14,557
Due from other governments	3,514,823	-	214,298	3,729,121
Inventory	-	-	9,446	9,446
Prepaid items	170,716	-	-	170,716
	<u>\$ 6,279,542</u>	<u>\$ 1,091,049</u>	<u>\$ 589,227</u>	<u>\$ 7,959,818</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 111,178	\$ -	\$ 393	\$ 111,571
Salaries and benefits payable	2,045,692	-	25,980	2,071,672
Deferred revenue	47,052	-	219,999	267,051
Notes payable	990,000	-	-	990,000
	<u>3,193,922</u>	<u>-</u>	<u>246,372</u>	<u>3,440,294</u>
 Fund balances				
Reserved for inventory	-	-	9,446	9,446
Reserved for prepaid items	170,716	-	-	170,716
Unreserved:				
Designated for capital improvements	551,778	-	-	551,778
Designated for future operations	291,834	-	-	291,834
Undesignated	2,071,292	1,091,049	-	3,162,341
Undesignated, reported in nonmajor:				
Special revenue funds	-	-	90,085	90,085
Debt service funds	-	-	213,941	213,941
Capital projects funds	-	-	29,383	29,383
	<u>3,085,620</u>	<u>1,091,049</u>	<u>342,855</u>	<u>4,519,524</u>
	<u>\$ 6,279,542</u>	<u>\$ 1,091,049</u>	<u>\$ 589,227</u>	<u>\$ 7,959,818</u>

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

LINDEN COMMUNITY SCHOOLS
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	\$ 4,519,524
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	47,375,678
Deduct: accumulated depreciation	(7,513,177)
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, and thus are not included in fund balance.	
Add: deferred long-term receivables	239,436
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct: bonds and loans payable	(35,074,759)
Add: unamortized bond issuance costs	313,924
Add: unamortized loss on refunding	848,463
Deduct: unamortized bond premium	(586,911)
Add: unamortized bond discount	29,180
Deduct: accrued interest on bonds payable	(242,642)
Deduct: compensated absences	(180,711)
Deduct: early retirement incentives	(240,000)
Net assets of governmental activities	\$ 9,488,005

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

LINDEN COMMUNITY SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	<u>General</u>	<u>2003 Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Revenue				
Local sources	\$ 2,346,328	\$ 75,873	\$ 4,228,578	\$ 6,650,779
State sources	20,463,228	-	121,140	20,584,368
Federal sources	821,239	-	322,804	1,144,043
Transfers from other districts	577,446	-	-	577,446
		-		
Total revenue	<u>24,208,241</u>	<u>75,873</u>	<u>4,672,522</u>	<u>28,956,636</u>
Expenditures				
Education:				
Instruction	14,952,291	-	-	14,952,291
Support services	9,010,633	-	-	9,010,633
Food service activities	-	-	1,010,148	1,010,148
Athletic programs	-	-	572,471	572,471
Community services	-	-	223,717	223,717
Debt service:				
Principal	-	-	1,085,000	1,085,000
Interest	-	-	1,517,569	1,517,569
Capital outlay	-	1,787,691	909,417	2,697,108
Total expenditures	<u>23,962,924</u>	<u>1,787,691</u>	<u>5,318,322</u>	<u>31,068,937</u>
Revenue over (under) expenditures	<u>245,317</u>	<u>(1,711,818)</u>	<u>(645,800)</u>	<u>(2,112,301)</u>
Other financing sources (uses)				
Transfers in	109,368	-	512,734	622,102
Transfers out	(512,734)	-	(109,368)	(622,102)
Total other financing sources (uses)	<u>(403,366)</u>	<u>-</u>	<u>403,366</u>	<u>-</u>
Net change in fund balances	(158,049)	(1,711,818)	(242,434)	(2,112,301)
Fund balances, beginning of year	<u>3,243,669</u>	<u>2,802,867</u>	<u>585,289</u>	<u>6,631,825</u>
Fund balances, end of year	<u>\$ 3,085,620</u>	<u>\$ 1,091,049</u>	<u>\$ 342,855</u>	<u>\$ 4,519,524</u>

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

LINDEN COMMUNITY SCHOOLS
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 \$ (2,112,301)

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	2,261,544
Deduct: depreciation expense	(1,209,283)
Deduct: gain on disposal of capital assets	(125,260)

The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.

Deduct: payments received on deferred long-term receivables	(34,678)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	1,085,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: change in accrued interest payable on bonds and loans	4,801
Deduct: amortization of bond issuance costs and loss on refunding	(32,707)
Deduct: increase in the accrual for compensated absences	(30,957)
Add: decrease in early retirement incentives payable	240,000
	240,000

Change in net assets of governmental activities	\$ 46,159
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The accompanying notes are an integral part of these financial statements.

LINDEN COMMUNITY SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund
For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Revenue				
Local sources	\$ 2,354,844	\$ 2,343,998	\$ 2,346,328	\$ 2,330
State sources	20,364,352	20,345,584	20,463,228	117,644
Federal sources	846,796	895,490	821,239	(74,251)
Transfers from other districts	369,438	454,438	577,446	123,008
Total revenue	<u>23,935,430</u>	<u>24,039,510</u>	<u>24,208,241</u>	<u>168,731</u>
Expenditures				
Instruction				
Basic programs	11,474,022	11,871,663	11,838,332	(33,331)
Added needs	2,137,082	2,704,562	2,651,974	(52,588)
Transfers to other districts	553,964	475,000	461,985	(13,015)
Total instruction	<u>14,165,068</u>	<u>15,051,225</u>	<u>14,952,291</u>	<u>(98,934)</u>
Supporting services				
Pupil services	1,349,121	1,210,162	1,184,370	(25,792)
Instructional support	1,181,271	1,082,225	1,050,773	(31,452)
General administration	806,740	795,567	776,168	(19,399)
School administration	1,541,150	1,528,623	1,523,371	(5,252)
Business services	509,086	558,899	538,990	(19,909)
Operations and maintenance	2,617,436	2,251,312	2,154,239	(97,073)
Transportation	1,297,100	1,351,750	1,349,761	(1,989)
Technology	256,839	271,363	270,977	(386)
Community Services	163,222	169,800	161,984	(7,816)
Total supporting services	<u>9,721,965</u>	<u>9,219,701</u>	<u>9,010,633</u>	<u>(209,068)</u>
Total expenditures	<u>23,887,033</u>	<u>24,270,926</u>	<u>23,962,924</u>	<u>(308,002)</u>
Revenue over (under) expenditures	<u>48,397</u>	<u>(231,416)</u>	<u>245,317</u>	<u>476,733</u>
Other financing sources (uses)				
Transfers in	111,000	109,000	109,368	368
Transfers out	(542,734)	(512,734)	(512,734)	-
Total other financing sources (uses)	<u>(431,734)</u>	<u>(403,734)</u>	<u>(403,366)</u>	<u>368</u>
Net change in fund balance	<u>(383,337)</u>	<u>(635,150)</u>	<u>(158,049)</u>	<u>477,101</u>
Fund balances, beginning of year	<u>3,243,669</u>	<u>3,243,669</u>	<u>3,243,669</u>	<u>-</u>
Fund balances, end of year	<u>\$ 2,860,332</u>	<u>\$ 2,608,519</u>	<u>\$ 3,085,620</u>	<u>\$ 477,101</u>

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

LINDEN COMMUNITY SCHOOLS
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	<u>Private- Purpose Trust Fund</u>	
	<u>Scholarships</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ -	\$ 184,963
Investments	253,469	-
	<hr/>	<hr/>
Total assets	253,469	<u>\$ 184,963</u>
Liabilities		
Due to student groups	-	\$ 184,963
	<hr/>	<hr/>
Net assets		
Unrestricted	<u>\$ 253,469</u>	

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

LINDEN COMMUNITY SCHOOLS
Statement of Changes in Fiduiary Net Assets
Private-Purpose Trust Fund
For the Year Ended June 30, 2007

	Scholarships
Additions	
Local revenue - interest	\$ 40,874
Deductions	
Scholarships	1,500
Increase in net assets	39,374
Net assets, beginning of year	214,095
Net assets, end of year	\$ 253,469

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

NOTES to the FINANCIAL STATEMENTS

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Linden Community Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statements No. 14 and No. 39 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 significant operational or financial relationships with the District.

B. District-wide and fund financial statements

The District-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 District-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 District-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. 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.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

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, or within one year for expenditure-driven grants. 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 revenue, 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 *2003 capital projects fund* accounts for the construction of a new middle school building, as well as, the acquisition of capital assets and the renovation of certain other District facilities. These projects are funded by a general obligation unlimited tax bond issue.

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, athletics, food service and community service (i.e. fee-based early childhood programs).

The *debt service funds* are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The *capital projects funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities and improvements.

The *private-purpose trust funds* account for amounts entrusted to the District for scholarship awards and similar trust activities.

The *agency funds* account for assets held for student activity groups and organizations and are custodial in nature.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District-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 and investments

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.

Investments for the District are reported at fair value.

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 "due to/from other 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.

3. Inventories and prepaid items

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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both District-wide and fund financial statements.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. 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>
Land improvements	10-20
Buildings and improvements	25-50
Equipment	5-20
Licensed vehicles	8

5. *Compensated absences*

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 District-wide financial statements. A liability for sick pay amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. There are no contract provisions for the payment of unused vacation.

Benefits are accrued based on various contract stipulations and lengths of service. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

6. *Long-term obligations*

In the District-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 in 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 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 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.

B. Excess of expenditures over appropriations

P. A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2007, the District reported no expenditures in excess of the amounts appropriated at the legal level of budgetary control—the functional level.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

C. Related Party Transactions

During the fiscal year, as in other years, the District entered into two separate contracts for lawn mowing services with companies owned by the President of the Board of Education and one of his brothers. The contracts, which totaled an immaterial \$21,345 for 2006-07, were awarded after undergoing a formal bid process that was open to the public. The Board of Education voted on the contracts, with the President and Secretary (another brother) abstaining from the vote. At June 30, 2007 no payables were reported in the Statement of Net Assets related to these transactions.

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	\$ 3,961,141
Investments	74,837
Statement of Fiduciary Net Assets	
Cash and cash equivalents	184,963
Investments	<u>253,469</u>
	<u>\$ 4,474,410</u>
Cash on hand	\$ 2,300
Deposits	1,650,210
Investments	<u>2,821,900</u>
	<u>\$ 4,474,410</u>

Statutory Authority

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.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

- (b) Certificates of deposit insured 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 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.

The District's investment policy allow for all of these types of investments.

Investments

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Franklin Templeton Money Market Fund	n/a	\$ 253,469	n/a
Fifth Third Money Market Fund	n/a	1,007,876	n/a
Michigan Liquid Asset Fund (MILAF)	n/a	<u>1,560,555</u>	S&P-AAAm
		<u>\$ 2,810,900</u>	

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. 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.

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 above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings on investments are noted above.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

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, \$1,982,492 of the District's bank balance of \$2,085,134 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 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 above. 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.

B. Receivables

For the year ended June 30, 2007, receivables for the governmental activities are approximately 99 percent due from the State of Michigan and 1 percent other receivables. Except for \$204,759 of other receivables, the balance is expected to be collected within the next fiscal year.

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 yet earned. As of June 30, 2007 the District's governmental funds reported \$239,436 of *deferred revenue* related to long-term receivables recorded in connection with the Durant settlement (see Section F - Long-term debt), and \$27,615 of *unearned revenue* from prepayments on fee-based programs.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

C. Capital assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Adjustments/ Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated – Construction in Progress	\$ 887,957	\$ -	\$(887,957)	\$ -
Capital assets being depreciated:				
Land Improvements	4,083,207	1,283,865	-	5,367,072
Construction	40,220,850	1,865,636	(317,300)	41,769,186
Buses & Other Vehicles	17,881	-	-	17,881
Machinery & Equipment	<u>221,539</u>	<u>-</u>	<u>-</u>	<u>221,539</u>
Total capital assets being depreciated	<u>44,543,477</u>	<u>3,149,501</u>	<u>(317,300)</u>	<u>47,375,678</u>
Less accumulated depreciation for:				
Land Improvements	(169,704)	(229,184)	-	(398,888)
Construction	(6,250,143)	(964,769)	(192,040)	(7,022,872)
Buses & Other Vehicles	(1,788)	(1,788)	-	(3,576)
Machinery & Equipment	<u>(74,299)</u>	<u>(13,542)</u>	<u>-</u>	<u>(87,841)</u>
Total accumulated depreciation	<u>(6,495,934)</u>	<u>(1,209,283)</u>	<u>(192,040)</u>	<u>(7,513,177)</u>
Total capital assets being depreciated, net	<u>38,047,543</u>	<u>1,940,218</u>	<u>(125,260)</u>	<u>39,862,501</u>
Governmental activities capital assets, net	<u>\$ 38,935,500</u>	<u>\$ 1,940,218</u>	<u>\$(1,013,217)</u>	<u>\$ 39,862,501</u>

Depreciation expense of \$1,209,283 was charged to the function “Unallocated Depreciation”, and not allocated to other functions. In addition, the District included a net loss on the disposal of capital assets in the amount of \$125,260 with unallocated depreciation on the statement of activities.

Land is not included in the above amounts, as the historical cost for the District's land is not material to these financial statements.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

D. Payables

For the year ended June 30, 2007, accounts payable and accrued liabilities for the governmental activities are approximately 85 percent salaries and benefits payable, 10 percent due to vendors and 5 percent accrued interest on long-term debt.

E. Interfund receivables, payables and transfers

At June 30, 2007, no interfund receivables and payables were reported.

The District, from time to time, will report interfund balances between some of its funds. These interfund balances result 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 ended June 30, 2007, interfund transfers consisted of the following:

	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$ 512,734	\$ 109,368
Nonmajor governmental funds	<u>109,368</u>	<u>512,734</u>
	<u>\$ 622,102</u>	<u>\$ 622,102</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 funds to subsidize the athletics program, and to recapture costs incurred by the General Fund for the benefit of other funds.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

F. Long-term debt

The following is a summary of long-term debt 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>
Governmental activities					
General obligation					
bonds	\$ 36,159,759	\$ -	\$ 1,085,000	\$ 35,074,759	\$ 1,145,000
Deferred items	(637,363)	-	(32,707)	(670,070)	-
Compensated absences	149,754	30,957	-	180,711	-
Early retirement incentives	480,000	-	240,000	240,000	240,000
	<u>\$ 36,152,150</u>	<u>\$ 30,957</u>	<u>\$ 1,292,293</u>	<u>\$ 34,825,400</u>	<u>\$ 1,385,000</u>

Compensated absences and early retirement incentives are typically liquidated by the general fund.

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

General Obligation Bonds:

* \$346,777 1998 Durant School Improvement Bonds, due in annual installments of \$17,580 to \$23,243 through 2013; interest at 4.80%	\$ 204,759
\$1,710,000 2004 Energy Bonds, due in annual installments of \$155,000 to \$200,000 through 2014; interest at 3.58%	1,260,000
\$35,000,000 2003 Building and Site Bonds, due in annual installments of \$865,000 to \$2,300,000 through 2029; interest at 2.50% to 5.25%	18,145,000
2005 Refunding Bonds, due in annual installments of \$40,000 to \$1,965,000 through 2026; interest at 3.50% to 4.25%	7,750,000
2006 Refunding Bonds, due in annual installments of \$25,000 to \$2,120,000 through 2027, interest at 2.0% to 4.0%.	<u>7,715,000</u>
	<u>\$ 35,074,759</u>

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

* 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.

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

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,145,000	\$ 1,488,202	\$ 2,633,202
2009	1,199,299	1,462,251	2,661,550
2010	1,338,849	1,465,159	2,804,008
2011	1,281,180	1,380,536	2,661,716
2012	1,322,187	1,333,841	2,656,028
2013-2017	6,818,244	5,800,881	12,619,125
2018-2022	7,985,000	4,073,050	12,058,050
2023-2027	9,460,000	2,295,092	11,755,092
2028-2029	<u>4,525,000</u>	<u>324,188</u>	<u>4,849,188</u>
Totals	<u>\$ 35,074,759</u>	<u>\$ 19,623,200</u>	<u>\$ 54,697,959</u>

During the 2003-04 fiscal year, the District offered an early retirement incentive program to employees meeting certain eligibility criteria. The terms of this incentive will require the District to make a final annual payment of \$240,000 in fiscal year 2008.

Advance Refunding

In a prior year, the District defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts for the purpose of generating resources for all future debt service payments on the refunded debt. As a result, the refunded bonds are considered to be defeased and the trust fund assets and related liabilities have been removed from the statement of net assets.

The balance of defeased bonds outstanding as of June 30, 2007 was \$14,410,000, which represents \$7,290,000 and \$7,120,000 placed in escrow as part of the 2005 and 2006 debt refundings, respectively.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

G. Short-Term Debt

During the year, the District financed certain of its operations through the issuance of property tax and State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly are recorded as liabilities of the respective funds from which they were issued.

Changes in short-term state aid notes for the year ended June 30, 2007, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
State aid note	<u>\$ 197,247</u>	<u>\$ 990,000</u>	<u>\$ 197,247</u>	<u>\$ 990,000</u>

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 health claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method the District must reimburse the Employment Commission for all benefits paid out. No unemployment expense is recorded in the Statement of Activities and no provision has been made for possible future claims.

B. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1, and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14, and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

C. Defined benefit pension plan

Plan Description

The Linden Community Schools 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, and death benefits to plan members and beneficiaries. Benefit provisions are established and must 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. 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 1-800-381-5111.

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 Linden Community Schools 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 Linden Community Schools are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2007, 2006 and 2005 were \$2,326,315, \$1,986,686 and \$1,698,412, respectively, equal to the required contributions for each year.

Other Postemployment 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).

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

D. Bonded Construction Costs

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code.

E. Sinking Fund

The Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the District has complied with the applicable provisions of §1212(1) of the Michigan Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

F. Subsequent Events

On August 9, 2007, the District entered into an operating lease for certain office equipment in the amount of \$284,144 at a rate of 5.71% for a term of 60 months.

* * * * *

COMBINING FINANCIAL STATEMENTS

LINDEN COMMUNITY SCHOOLS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

	Special Revenue		
<u>ASSETS</u>	Athletics	Food Service	Community Service
Assets			
Cash and cash equivalents	\$ 19,608	\$ 81,487	\$ 9,707
Accounts receivable	-	-	11,357
Due from other governments	-	9,539	-
Inventory	-	9,446	-
<u>TOTAL ASSETS</u>	<u>\$ 19,608</u>	<u>\$ 100,472</u>	<u>\$ 21,064</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ 50	\$ 210	\$ 133
Salaries payable	5,295	17,607	3,078
Deferred revenue	-	-	15,240
Total liabilities	5,345	17,817	18,451
Fund balances			
Reserved for inventory	-	9,446	-
Unreserved, undesignated	14,263	73,209	2,613
Total fund balances	14,263	82,655	2,613
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 19,608</u>	<u>\$ 100,472</u>	<u>\$ 21,064</u>

Debt Service				Capital Projects	Total
2003 Debt Service	2005 Debt Service	2006 Debt Service	Durant Debt Service	Sinking Fund	
\$ 185,689	\$ 3,593	\$ 24,659	\$ -	\$ 29,383	\$ 354,126
-	-	-	-	-	11,357
-	-	-	204,759	-	214,298
-	-	-	-	-	9,446
<u>\$ 185,689</u>	<u>\$ 3,593</u>	<u>\$ 24,659</u>	<u>\$ 204,759</u>	<u>\$ 29,383</u>	<u>\$ 589,227</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 393
-	-	-	-	-	25,980
-	-	-	204,759	-	219,999
-	-	-	204,759	-	246,372
-	-	-	-	-	9,446
<u>185,689</u>	<u>3,593</u>	<u>24,659</u>	<u>-</u>	<u>29,383</u>	<u>333,409</u>
<u>185,689</u>	<u>3,593</u>	<u>24,659</u>	<u>-</u>	<u>29,383</u>	<u>342,855</u>
<u>\$ 185,689</u>	<u>\$ 3,593</u>	<u>\$ 24,659</u>	<u>\$ 204,759</u>	<u>\$ 29,383</u>	<u>\$ 589,227</u>

LINDEN COMMUNITY SCHOOLS
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

	<u>Special Revenue</u>		
	<u>Athletics</u>	<u>Food Service</u>	<u>Community Service</u>
Revenue			
Local sources	\$ 61,628	\$ 681,542	\$ 258,029
State aid	-	71,987	49,153
Federal sources	-	322,804	-
Total revenue	<u>61,628</u>	<u>1,076,333</u>	<u>307,182</u>
Expenditures			
Food service activities	-	1,010,148	-
Athletic programs	572,471	-	-
Community services	-	-	223,717
Debt service:			
Principal repayment	-	-	-
Interest and fiscal charges	-	-	-
Capital outlay	-	-	-
Total expenditures	<u>572,471</u>	<u>1,010,148</u>	<u>223,717</u>
Revenue over (under) expenditures	<u>(510,843)</u>	<u>66,185</u>	<u>83,465</u>
Other financing sources (uses)			
Transfers in	512,734	-	-
Transfers out	-	(28,516)	(80,852)
Total other financing sources (uses)	<u>512,734</u>	<u>(28,516)</u>	<u>(80,852)</u>
Net change in fund balances	1,891	37,669	2,613
Fund balances, beginning of year	<u>12,372</u>	<u>44,986</u>	<u>-</u>
Fund balances, end of year	<u>\$ 14,263</u>	<u>\$ 82,655</u>	<u>\$ 2,613</u>

2003 Debt Service	Debt Service			Durant Debt Service	Capital Projects	Total
	2005 Debt Service	2006 Debt Service			Sinking Fund	
\$ 1,673,434	\$ 353,501	\$ 353,501	\$ -	\$ 846,943	\$ 4,228,578	
-	-	-	-	-	121,140	
-	-	-	-	-	322,804	
<u>1,673,434</u>	<u>353,501</u>	<u>353,501</u>	<u>-</u>	<u>846,943</u>	<u>4,672,522</u>	
-	-	-	-	-	1,010,148	
-	-	-	-	-	572,471	
-	-	-	-	-	223,717	
865,000	40,000	25,000	-	155,000	1,085,000	
829,769	322,894	314,249	-	50,657	1,517,569	
-	-	-	-	909,417	909,417	
<u>1,694,769</u>	<u>362,894</u>	<u>339,249</u>	<u>-</u>	<u>1,115,074</u>	<u>5,318,322</u>	
<u>(21,335)</u>	<u>(9,393)</u>	<u>14,252</u>	<u>-</u>	<u>(268,131)</u>	<u>(645,800)</u>	
-	-	-	-	-	512,734	
-	-	-	-	-	(109,368)	
-	-	-	-	-	403,366	
<u>(21,335)</u>	<u>(9,393)</u>	<u>14,252</u>	<u>-</u>	<u>(268,131)</u>	<u>(242,434)</u>	
<u>207,024</u>	<u>12,986</u>	<u>10,407</u>	<u>-</u>	<u>297,514</u>	<u>585,289</u>	
<u>\$ 185,689</u>	<u>\$ 3,593</u>	<u>\$ 24,659</u>	<u>\$ -</u>	<u>\$ 29,383</u>	<u>\$ 342,855</u>	

SINGLE AUDIT

LINDEN COMMUNITY SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Pass- Through Grantor's Number	Approved Award/Grant Amount	Accrued Revenue Beginning of Year	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue End of Year
U.S. Department of Agriculture							
Direct Program - Food Distribution:							
Entitlement Commodities	10.550	-n/a-	\$ 69,502	\$ -	\$ 69,502	\$ 69,502	\$ -
Bonus Commodities	10.550	-n/a-	843	-	843	843	-
				-	70,345	70,345	-
Passed-through Michigan Department of Education:							
2005-2006 School Breakfast	10.553	061970	2,847	-	2,847	2,847	-
2006-2007 School Breakfast	10.553	071970	31,812	-	31,812	31,812	-
				-	34,659	34,659	-
National School Lunch:							
2005-2006 Section 4	10.555	061950	6,681	-	6,681	6,681	-
2006-2007 Section 4	10.555	071950	58,648	-	58,648	58,648	-
2005-2006 Section 11	10.555	061960	13,997	-	13,997	13,997	-
2006-2007 Section 11	10.555	071960	138,474	-	138,474	138,474	-
				-	217,800	217,800	-
Total U.S. Department of Agriculture				-	322,804	322,804	-
U.S. Department of Education							
Passed-through Michigan Department of Education:							
2006-2007 Title I, Part A	84.010	071530-0607	45,475	-	22,000	21,744	(256)
2006-2007 Title II, Part A	84.367	070520-0607	64,385	-	35,000	43,834	8,834
Passed-through Genesee Intermediate School District:							
2006-2007 IDEA Flowthrough	84.027	070450-0607	728,129	-	728,129	728,129	-
2006-2007 Safe and Drug Free Schools and Communities	84.184L	n/a	13,916	-	13,916	13,916	-
Total U.S. Department of Education				-	799,045	807,623	8,578
U.S. Department of Health and Human Services							
Passed-through Genesee Intermediate School District							
2006-07 Medicaid Outreach	93.778	n/a	56,208	-	13,616	13,616	-
Total Expenditures of Federal Awards				\$ -	\$ 1,135,465	\$ 1,144,043	\$ 8,578

LINDEN COMMUNITY SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

1. SECTION I - SUMMARY OF AUDITORS' RESULTS

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of Linden Community Schools (the "District"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The reporting entity of Linden Community Schools is defined in Note I of the District's basic financial statements.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting which is described in Note I of the District's basic financial statements.

The District has utilized the Michigan Department of Education's Grant Section Auditors Report (Form R7120) in preparing this schedule.



**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**

November 5, 2007

Board of Education
Linden Community Schools
Linden, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *LINDEN COMMUNITY SCHOOLS*, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents and have issued our report thereon dated November 5, 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 Linden Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Linden Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Linden Community Schools' internal control over financial reporting.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Linden 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*.

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

A handwritten signature in cursive script that reads "Lehmann Johnson".



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

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

November 5, 2007

Board of Education
Linden Community Schools
Linden, Michigan

Compliance

We have audited the compliance of **LINDEN 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. Linden Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Linden Community Schools' management. Our responsibility is to express an opinion on Linden 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 Linden 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 Linden Community Schools' compliance with those requirements.

In our opinion the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Linden 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 Linden 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 Linden Community Schools' internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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

A handwritten signature in cursive script that reads "Lehmann Johnson".

LINDEN COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) 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? _____ yes X no

Significant deficiency(ies) identified
not considered to be material weaknesses? _____ yes X none reported

Type of auditors' 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)? _____ yes X no

LINDEN COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded) FOR THE YEAR ENDED JUNE 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Special Education Cluster

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

Auditee qualified as low-risk auditee? X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV – PRIOR YEAR FINDINGS

No matters were reported.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



November 6, 2007

To the Board of Education of
Linden Community Schools
Linden, Michigan

We have audited the financial statements of Linden Community Schools for the year ended June 30, 2007, and have issued our report thereon dated November 6, 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 June 22, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that 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 Linden Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion 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 Linden 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 the Linden 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 Linden Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Linden 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 advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Linden 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 Linden 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 Linden 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 Linden Community Schools, either individually or in the aggregate, indicate matters that could have a significant effect on Linden Community Schools' financial reporting process.

In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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 governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards

require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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 Linden 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 difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum is intended for the use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.