

LESLIE PUBLIC SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with additional information)
FOR THE YEAR ENDED JUNE 30, 2007

CONTENTS

	<u>Page</u>
Independent auditors' report	1
Management's discussion and analysis	2-12
Basic financial statements:	
Government-wide financial statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund financial statements:	
Balance sheet – Governmental funds	15
Reconciliation of the governmental funds balance sheet with the statement of net assets	16
Statement of revenues, expenditures and changes in fund balance – Governmental funds	17-18
Reconciliation of the statement of revenues, expenditures and changes in fund balance to the statement of activities	19-20
Statement of fiduciary net assets	21
Schedule of receipts, disbursements and liabilities – agency funds	22
Notes to financial statements	23-37
Required Supplementary Information	
Schedule of revenues, expenditures and changes in fund balance – budget and actual:	
General fund	38
1998 Debt Service Fund	39

CONTENTS - continued

Other Supplementary Information:

Combining balance sheet – nonmajor governmental funds	40
Combining statement of revenues, expenditures and changes in fund balances – nonmajor governmental funds	41
Schedule of revenues, expenditures and changes in fund balance – budget and actual:	
Food Service Special Revenue Fund	42
Athletic Activities Special Revenue Fund	43
Schedule of bonded debt service requirement – 1998 debt	44
Schedule of bonded debt service requirement – Durant debt	45
Report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	46



HARRIS GROUP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

October 24, 2007

Board of Education
Leslie Public Schools
Leslie, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Leslie Public Schools as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Leslie Public Schools as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 24, 2007 on our consideration of Leslie Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The managements discussion and analysis and required budgetary comparison information identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally if inquires 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 Leslie Public School's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants

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Leslie Public Schools Management's Discussion and Analysis

This section of Leslie Public School's annual financial report presents its discussion and analysis of the district's financial performance during the fiscal year ending June 30, 2007. Please read it in conjunction with the transmittal letter at the front of this report and the district's financial statements, which immediately follow this section.

Financial Highlights

- The assets of the district exceeded its liabilities on June 30, 2007 by \$2,201,275.
- Compared to the previous year, the district's total net assets decreased by \$220,242, or 9.1%.
- Governmental Fund expenditures were \$14 million, which exceeded revenues by approximately \$500,000.
- Student enrollment decreased by 30 to 1,396 students.
- The district's tax base increased by 5.4% compared with 7.3% in the prior year.
- Outlays for new capital assets were \$152,000, which is \$93,000 less than the prior year.
- The district reduced its outstanding long-term debt by \$793,000 or 4.7% percent.

Overview of the Financial Statements

This annual report consists of three parts: 1) management's discussion and analysis (this section), 2) the basic financial statements, and 3) required supplementary information. The basic financial statements include two kinds of statements that present different views of the district.

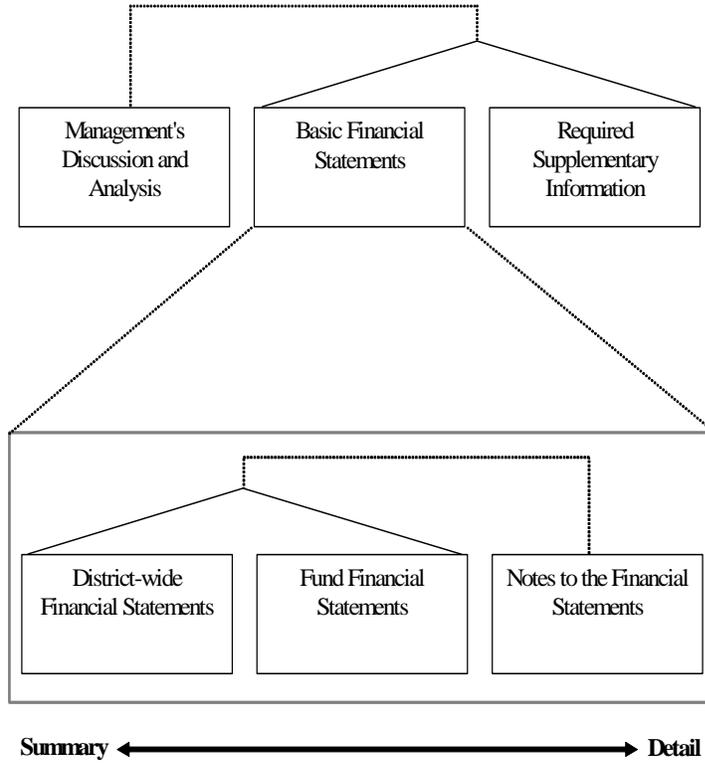
- 1) The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the district's *overall* financial status.
- 2) The remaining statements are *fund financial statements* that focus on *individual parts* of the district, reporting the district's operations in more detail than the district-wide statements.
 - a) The *governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - b) *Fiduciary funds* statements provide information about the financial relationships in which the district acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the district's financial statements, including the portion of the district's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**Leslie Public Schools
Management's Discussion and Analysis**

Figure A-1
Organization of Leslie Public Schools Annual Financial Report



**Leslie Public Schools
Management’s Discussion and Analysis**

Figure A-2 summarizes the major features of the district’s financial statements, including the portion of the district’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2

Major Features of the District-Wide and Fund Financial Statements

	District-Wide Statements	Fund Financial Statements	
		<i>Governmental Funds</i>	<i>Fiduciary Funds</i>
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required Financial Statements	1) Statement of net assets 2) Statement of activities	1) Balance Sheet 2) Statement of revenues, expenditures, and changes in fund balances	1) Statement of fiduciary net assets 2) Statement of changes in fiduciary net assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of Asset / Liability Information	All assets and liabilities both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of Inflow / Outflow Information.	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Leslie Public Schools Management's Discussion and Analysis

District-wide Financial Statements

The district-wide statements report information about the district as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the district's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the district's *net assets* and how they have changed. Net assets, the difference between the district's assets and liabilities, is one way to measure the district's financial health or *position*.

- Over time, increases or decreases in the district's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the districts overall health, you need to consider additional non-financial factors such as changes in the district's property tax base and the condition of school buildings and other facilities.

Fund Financial Statements

The fund financial statements provide more detailed information about the district's funds, focusing on its most significant or "major" funds: not the district as a whole. Funds are accounting devices the district uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The district establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues.

The district has two kinds of funds:

1. *Governmental funds*: Most of the district's basic services are included in governmental funds, which generally focus on: a) how cash and other financial assets that can readily be converted to cash flow in and out, and b) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the district's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, this report includes reconciliation schedules that explain the relationship, or differences, between the District-wide Statements and the Fund Financial Statements.
2. *Fiduciary funds*: The district is the trustee, or fiduciary, for assets that belong to others, such as student activities funds. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The district excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

**Leslie Public Schools
Management's Discussion and Analysis**

Financial Analysis of the District as a Whole

As noted earlier, net assets are the difference between assets and liabilities. On June 30, 2007, the district had total assets of \$21.2 million, liabilities of \$19 million, and net assets of \$2.2 million. Figure A-3, below, provides a summary of net assets for the years ending on June 30, 2007 and June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	<u>2007</u>	<u>2006</u>	<u>Change</u>	
Assets				
Current	\$ 4,397,802	\$ 4,825,880	\$ (428,078)	(8.8) %
Non-Current	16,814,367	17,321,742	(507,375)	(2.9)
	<u>\$ 21,212,169</u>	<u>\$ 22,147,622</u>	<u>\$ (935,453)</u>	<u>(4.2) %</u>
Liabilities				
Current	\$ 3,897,056	\$ 3,701,913	\$ 195,143	5.2 %
Non-Current	15,113,830	16,024,192	(910,354)	(5.7)
	<u>19,010,894</u>	<u>19,726,105</u>	<u>(715,211)</u>	<u>(3.6)</u>
Net Assets				
Invested in capital assets, net of related debt	763,210	409,339	353,871	86.4
Restricted	290,034	447,204	(157,170)	(35.1)
Unrestricted	1,148,031	1,564,974	(416,943)	(26.6)
	<u>2,201,275</u>	<u>2,421,517</u>	<u>(220,242)</u>	<u>(9.1)</u>
Liabilities and Net Assets	<u>\$ 21,212,169</u>	<u>\$ 22,147,622</u>	<u>\$ (935,453)</u>	<u>(4.2) %</u>

The above table shows the district's net assets on June 30, 2007, when compared to the prior year, declined by \$220,242, or 9.1%. The primary reason for this significant decrease is due to a 19% reduction in operating grants. The reduction is evident in Figure A-4, and the reader will note that while expenses increased slightly by \$27,825, the district's revenues decreased significantly by \$211,729.

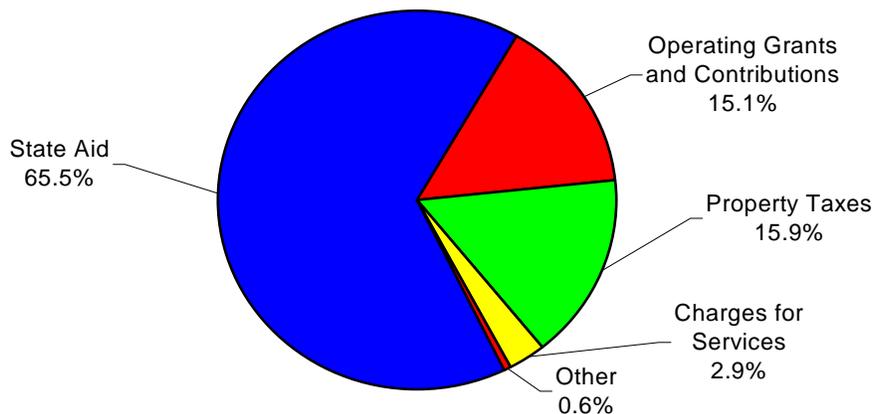
**Leslie Public Schools
Management's Discussion and Analysis**

Figure A-4
Changes in Net Assets from Operating Results

	<u>2007</u>	<u>2006</u>	<u>Change</u>	
Revenues				
Charges for Services	\$ 389,535	\$ 362,102	\$ 27,433	7.6 %
Operating Grants and Contributions	2,036,226	2,521,824	(485,598)	(19.3)
Capital Grants and Contributions	9,708	13,230	(3,522)	(26.6)
Property Taxes	2,145,428	2,051,343	94,085	4.6
State Aid	8,867,395	8,695,144	172,251	2.0
Other	80,548	96,926	(16,378)	(16.9)
	<u>13,528,840</u>	<u>13,740,569</u>	<u>(211,729)</u>	<u>(1.7)</u>
Expenses				
Instruction	7,211,026	7,206,253	4,773	0.1
Pupil & Instructional Services	891,423	959,584	(68,161)	(7.1)
Administration & Business	1,457,968	1,511,498	(53,530)	(3.5)
Operations & Maintenance	1,353,604	1,293,966	59,638	4.6
Transportation	587,359	570,912	16,447	2.9
Facilities Acquisition	429,955	426,350	3,605	0.8
Interest on Long Term Debt	793,030	789,035	3,995	0.5
Other	1,024,717	963,659	61,058	6.3
	<u>13,749,082</u>	<u>13,721,257</u>	<u>27,825</u>	<u>0.2 %</u>
Increase / (Decrease) in Net Assets	<u>\$ (220,242)</u>	<u>\$ 19,312</u>	<u>\$ (239,554)</u>	

Revenues The district's total revenues of \$13.5 million were less than expenses; decreasing net assets by \$220,242 over last year (see Figure A-4). State formula aid accounted for most of the district's revenue, contributing about 63 cents of every dollar raised. Another 15 percent came from property taxes levied by the district. Operating grants and contributions comprised State and federal aid for special education and other added needs programs accounted for 7.6 percent of the revenue (see Figure A-5).

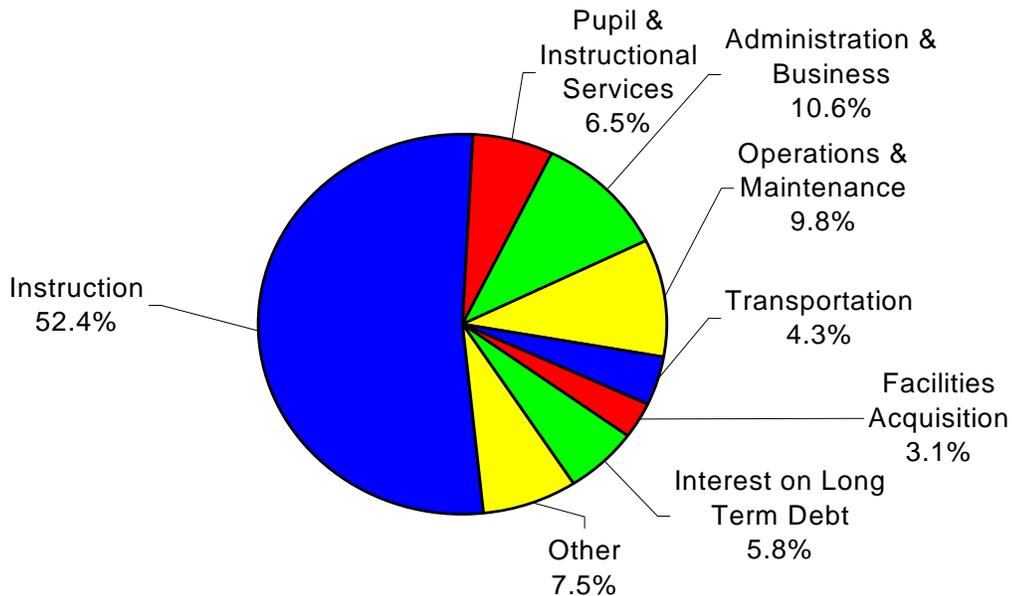
Figure A-5
Sources of Revenues for Fiscal Year Ending June 30, 2007



**Leslie Public Schools
Management's Discussion and Analysis**

Expenses Approximately 59% of the district's \$13.7 million of expenses were used for instruction, pupil services, and instructional services. These expenses comprised 60% of the prior year expenses. The school and district administrative and business activities accounted for 10.6% of total costs; which is a slight decrease from last year. Operations and Maintenance comprised 9.8% of current year expenses compared to 9.4% of the prior year expenses. (see Figure A-6).

Figure A-6
Expenses for Fiscal Year Ending June 30, 2007



Financial Analysis of the District's Funds

While the district's net assets decreased by over \$220,000 per the district-wide statements, the district's combined governmental fund balances decreased approximately \$500,000 per the governmental fund financial statements. A detail explanation for the discrepancy is provided in the financial statements. The specific report is entitled "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities" Two of the most noteworthy items that cause the discrepancy between the fund financial statements and the district-wide statements are:

1. The fund financial statements treat repayment of bond principal as fund expenditures, whereas the district-wide statements consider the repayment as a reduction of long-term liabilities. The district-wide statements do not include such repayment as an expense.
2. The district-wide statements include depreciation as an expense, whereas the fund financial statements do consider depreciation as an expenditure.

**Leslie Public Schools
Management's Discussion and Analysis**

General Fund Budgetary Highlights

Over the course of the year, the district revised the annual operating budget four times. The significant items causing budget adjustments are enumerated below:

Revenues:

- Changes in delivery of Special Education services caused \$200,000 reduction in funding from the Intermediate School district.
- Actual enrollment was about 30 students fewer than projected. Actual funding per pupil was greater than projected. The net effect caused a \$75,000 reduction in State Aid Revenue

Expenditures:

- The district increased the elementary teaching staff by one, and also increased the instructional aide staff by one. The addition of these two positions increased the expenditures by \$70,000.
- Lightning strikes caused about \$20,000 of unplanned repairs.
- \$8,000 was added due to the engineering costs for the planned replacement of the boiler in the elementary school during the subsequent fiscal year.

Although the district's final budget for the general fund anticipated that expenditures would exceed revenues by \$621,000, the actual results for the year show a \$332,000 deficit. The chart presented in Figure A-7 compares the general fund budgeted and actual revenues and expenditures.

Figure A-7
General Fund Expenditures - Budget versus Actual

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	
Revenues:				
Local sources	\$ 848,585	\$ 875,569	\$ 26,984	3.2 %
Intermediate sources	797,600	755,773	(41,827)	(5.2)
State sources	9,534,342	9,581,478	47,136	0.5
Federal sources	265,383	268,071	2,688	1.01
Other sources	15,600	12,470	(3,130)	(20.1)
	<u>11,461,510</u>	<u>11,493,361</u>	<u>31,851</u>	<u>0.3</u>
Expenditures:				
Salaries and Benefits	10,233,401	10,094,401	139,000	1.4
Utilities, Phones, etc	440,496	437,829	2,667	0.6
Purchased Services	592,759	540,183	52,576	8.9
Supplies and Materials	386,464	339,764	46,700	12.1
Capital Outlay	175,855	168,307	7,548	4.3
Miscellaneous	75,435	67,426	8,009	10.6
Transfers to Other Funds	178,000	177,461	539	0.3
	<u>12,082,410</u>	<u>11,825,371</u>	<u>257,039</u>	<u>2.1 %</u>
Net change in fund balances	<u>\$ (620,900)</u>	<u>\$ (332,010)</u>	<u>\$ 288,890</u>	

**Leslie Public Schools
Management's Discussion and Analysis**

Capital Asset and Debt Administration

Capital Assets

By the end of 2007, the district had invested \$26.4 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and school buses. This amount is virtually unchanged from the prior year. Total depreciation expense for the year was approximately \$660,000. Figure A-8 details the historical costs, accumulated depreciation, and book value of the district's capital assets.

Figure A-8
Statement of Capital Assets

	<u>Historical Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Asset Value</u>
Land and Buildings			
Land	\$ 300,000	\$	\$ 300,000
Buildings	22,962,450	7,645,908	15,316,542
Building Improvements	257,847	50,167	207,680
Site Improvements	160,874	44,998	115,876
	<u>23,681,171</u>	<u>7,741,073</u>	<u>15,940,098</u>
Equipment			
Athletic Equipment	10,522	2,704	7,818
Audio Visual Equipment	99,546	48,055	51,491
Business Machines	4,745	4,446	299
Communications Equipment	41,470	26,343	15,127
Computer Hardware	574,323	491,481	82,842
Computer Software	40,253	31,495	8,758
Copier Equipment	66,720	48,305	18,415
Custodial Equipment	57,926	32,350	25,576
Electrical/Plumbing	9,019	2,706	6,313
Flooring Replacement	87,109	34,356	52,753
Furniture	201,577	201,577	
Grounds Equipment	88,002	34,901	53,101
HVAC Systems	19,566	4,141	15,425
Instructional Equipment	5,807	2,803	3,004
Kitchen Equipment	61,409	19,056	42,353
Lockers	41,859	36,976	4,883
Maintenance Equipment	7,099	6,599	500
Music/stage Equipment	161,598	91,406	70,192
Outdoor Equipment	164,079	67,927	96,152
Surveillance/Security Equipment	74,511	43,620	30,891
Transportation Equipment	3,300	1,815	1,485
	<u>1,820,440</u>	<u>1,233,062</u>	<u>587,378</u>
Vehicles	<u>856,811</u>	<u>569,920</u>	<u>286,891</u>
	<u>\$ 26,358,422</u>	<u>\$ 9,544,055</u>	<u>\$ 16,814,367</u>

**Leslie Public Schools
Management's Discussion and Analysis**

Long Term Debt

At year-end, the district had approximately \$16.1 million in general obligation bonds and other long-term debt outstanding – a reduction of over 4.7 percent from last year, as shown in Figure A-9.

Figure A-9
Statement of Long Term Debt

	<u>Beginning Value</u>	<u>Net Increase / (Decrease)</u>	<u>Ending Value</u>
Bonded Debt			
1998 Debt, Refinanced portion of 95 Durant Bonds, Limited Obligation	\$ 11,200,000 143,851	\$ (630,000)	\$ 10,570,000 143,851
Subtotal Bonded Debt	<u>11,343,851</u>	<u>(630,000)</u>	<u>10,713,851</u>
School Bond Loan Fund			
Borrowings from the SBLF	4,181,342		4,181,342
Interest charges on SBLF Borrowings	1,322,604	(166,640)	1,155,964
Subtotal SBLF	<u>5,503,946</u>	<u>(166,640)</u>	<u>5,337,306</u>
Compensated Absences			
Terminal Leave for Professional Staff	47,433	619	48,052
Terminal Leave for Classified Staff	3,283	754	4,037
Unused Vacation for Classified Staff	13,890	1,702	15,592
Subtotal Compensated Absences	<u>64,606</u>	<u>3,075</u>	<u>67,681</u>
Total Long-term Debt	<u>\$ 16,912,403</u>	<u>\$ (793,565)</u>	<u>\$ 16,118,838</u>

**Leslie Public Schools
Management's Discussion and Analysis**

Factors Bearing on the District's Future

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

1. The average annual increase in revenues per pupil has been 1.69% during the 4-year period ending June 30, 2007. This is barely half the annual increase in inflation of 3.18% as measured per the Consumer Price Index-All Urban Consumers. While the State of Michigan has not yet enacted a budget for the 2007-08 School Year, the district believes its per pupil funding increases will continue to be less than the rate of inflation for the foreseeable future.
2. The district is currently negotiating with the union representing members of the faculty, for their contract expired on June 30, 2007. The salary and benefits for this group represented 64% of the district's expenditures in its General Fund.
3. The district's tax base increased at a greater rate than originally assumed when voters passed a \$15 million bond issue in 1995. The higher rate of increase in the tax base will not result in additional operating revenues. However, it will mean the district will be able to reduce long-term debt more quickly than estimated when the bond issue passed.

Contacting the District's Financial Management

This financial report is designed to provide the district's citizens, taxpayers, customers, and investors and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Leslie Public Schools Business Office, 432 North Main St., Leslie, MI 49251.

Basic Financial Statements

LESLIE PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2007

ASSETS	<u>Governmental Activities</u>
Current assets:	
Cash and cash equivalents	\$ 1,212,289
Investments	1,244,406
Other Receivables	16,772
Due from other governmental units	1,873,882
Inventory and prepaid items	<u>50,453</u>
Total current assets	<u>4,397,802</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>16,814,367</u>
	<u>\$ 21,212,169</u>
 LIABILITIES AND NET ASSETS 	
Current liabilities:	
Accounts payable and other current liabilities	\$ 1,485,456
Note payable	1,400,000
Deferred revenue	6,600
Current portion of long term debt	<u>1,005,000</u>
Total current liabilities	3,897,056
Noncurrent liabilities:	
Noncurrent portion of long-term liabilities	<u>15,113,838</u>
Total liabilities	<u>19,010,894</u>
Net assets:	
Invested in capital assets, net of related debt	763,210
Restricted for:	
Capital projects	992
Debt retirement	289,042
Unrestricted	<u>1,148,031</u>
Total net assets	<u>2,201,275</u>
	<u>\$ 21,212,169</u>

See notes to financial statements.

**LESLIE PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (expenses) And changes in Net assets
		Charges for Services	Operating Grants and Contributions	Contributions	Total
Governmental activities:					
Instruction:					
Basic programs	\$ 6,083,159	\$ 15,839	\$ 243,407	\$	\$ (5,823,913)
Added needs	1,127,867		1,426,806		298,939
	7,211,026	15,839	1,670,213		(5,524,974)
Supporting services:					
Pupil	627,408		7,622		(619,786)
Instructional staff	264,015		17,866		(246,149)
General administration	391,802				(391,802)
School administration	810,446				(810,446)
Business	255,720		5,574		(250,146)
Operation and maintenance	1,353,604	24,323	32,823		(1,296,458)
Pupil transportation services	587,359	4,087	44,452		(538,820)
Central support services	175,207				(175,207)
Other support services	806,640	345,286	257,676	9,708	(193,970)
	5,272,201	373,696	366,013	9,708	(4,522,784)
Other activities:					
Community Services	16,386				(16,386)
Facilities acquisition	429,955				(429,955)
Interest on long term debt	793,030				(793,030)
Depreciation, unallocated	26,484				(26,484)
	1,265,855				(1,265,855)
Total governmental activities	\$ 13,749,082	\$ 389,535	\$ 2,036,226	\$ 9,708	(11,313,613)
General revenues:					
Property taxes, levied for general purposes					726,794
Property taxes, levies for debt services					1,418,634
Unrestricted state aid					8,867,395
Interest and investment earnings					74,483
Miscellaneous					2,881
Special Items – Gain / (Loss) on Sale of Equipment					3,184
Total General revenues and special items					11,093,371
CHANGES IN NET ASSETS					(220,242)
Net assets – beginning of year					2,421,517
Net assets – end of year					\$ 2,201,275

See notes to financial statements.

**LESLIE PUBLIC SCHOOLS
BALANCE SHEETS
GOVERNMENTAL FUNDS
JUNE 30, 2007**

ASSETS	<u>General</u>	<u>1998 Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 921,106	\$ 282,942	\$ 8,241	\$ 1,212,289
Investments	1,244,406			1,244,406
Taxes receivable	1,435			1,435
Interest receivable	14,548			14,548
Other receivables			789	789
Due from other funds	24,710	6,100	1,470	32,280
Due from other governmental units	1,826,384		11,097	1,837,481
Inventory			12,495	12,495
Prepaid items	37,958			37,958
	<u>\$ 4,070,547</u>	<u>\$ 289,042</u>	<u>\$ 34,092</u>	<u>\$ 4,393,681</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Note payable	\$ 1,400,000	\$	\$	\$ 1,400,000
Accrued interest payable	44,468			44,468
Accounts payable and accrued expenses	53,153		442	53,595
Due to other funds	103,302		26,010	129,312
Payroll Deductions and Withholdings	675,815			675,815
Deferred revenue	6,600			6,600
Salaries payable	571,160		848	572,008
Total liabilities	<u>2,854,498</u>		<u>27,300</u>	<u>2,881,798</u>
Fund balances:				
Reserved for:				
Prepaid items	37,958			37,958
Capital projects			992	992
Debt retirement		289,042		289,042
Unreserved:				
Undesignated	1,178,091		5,800	1,183,891
Total fund balances	<u>1,216,049</u>	<u>289,042</u>	<u>6,792</u>	<u>1,511,883</u>
	<u>\$ 4,070,547</u>	<u>\$ 289,042</u>	<u>\$ 34,092</u>	<u>\$ 4,393,681</u>

See notes to financial statements.

**LESLIE PUBLIC SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS
JUNE 30, 2007**

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

Total Fund Balance - Governmental Funds		\$ 1,511,883
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.</p>		
	The cost of capital assets is	26,358,422
	Accumulated depreciation is	<u>(9,544,055)</u>
		16,814,367
<p>Amounts due from Intermediate sources (governmental unit) were earned this year but won't be collected soon enough for the current period's expenditures, and therefore are not included in the funds. They are reported in the statement of activities as program revenues, and in the net assets as due from governmental units.</p>		
		36,401
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:</p>		
	Bonds Payable	10,713,851
	Accrued interest payable	42,538
	School Bond Loan Fund Proceeds Payable	4,181,342
	Accrued interest on the School Bond Loan Funds Proceeds	1,155,964
	Compensated absences (vacations)	15,592
	Special Termination Benefits Payable	<u>52,089</u>
		<u>16,161,376</u>
Total net assets - governmental activities		<u><u>\$ 2,201,275</u></u>

See notes to financial statements.

LESLIE PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	General	1998 Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property taxes	\$ 726,794	\$ 1,418,634	\$	\$ 2,145,428
Other local sources	148,775	16,438	362,687	527,900
Intermediate sources	737,243			737,243
State sources	9,581,478		30,038	9,611,516
Federal sources	268,071		220,062	488,133
Other sources	27,816			27,816
Total revenues	11,490,177	1,435,072	612,787	13,538,036
EXPENDITURES:				
Instruction:				
Basic instruction	6,063,025			6,063,025
Added needs	1,124,567			1,124,567
Total Instruction	7,187,592			7,187,592
Support Services:				
Pupil services	624,286			624,286
Instructional staff	265,442			265,442
General Administration	396,468			396,468
School Administration	808,234			808,234
Business	255,610			255,610
Operations and Maintenance	1,321,871			1,321,871
Transportation	601,817			601,817
Central Support services	170,204			170,204
Community services	16,386			16,386
Food service			532,248	532,248
Athletic activities			265,444	265,444
Principal and interest		1,592,295		1,592,295
Total support services	4,460,318	1,592,295	797,692	6,850,305
Total expenditures	11,647,910	1,592,295	797,692	14,037,897
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(157,733)	(157,223)	(184,905)	(499,861)
OTHER FINANCING SOURCES (USES):				
Operating transfers in			177,461	177,461
Operating transfers out	(177,461)			(177,461)
Proceeds from sale of equipment	3,184			3,184
Total other financing sources (uses)	(174,277)		177,461	3,184

See notes to financial statements.

LESLIE PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007
(continued)

	<u>General</u>	<u>1998 Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
NET CHANGES IN FUND BALANCES	(332,010)	(157,223)	(7,444)	(496,677)
FUND BALANCES:				
Beginning of year	<u>1,548,059</u>	<u>446,265</u>	<u>14,236</u>	<u>2,008,560</u>
End of year	<u>\$ 1,216,049</u>	<u>\$ 289,042</u>	<u>\$ 6,792</u>	<u>\$ 1,511,883</u>

See notes to financial statements.

**LESLIE PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Total net change in fund balances - governmental funds **\$ (496,677)**

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

This is the amount by which capital outlays exceeds depreciation in the period.

Depreciation expense	659,666	
Capital outlays	<u>(152,291)</u>	(507,375)

Because some amounts due from governmental sources won't be collected until after several months after the district's fiscal year ends, they are not considered as revenues in the governmental funds. However, they are recorded as program revenues in the statement of activities.

36,401

Certain revenues collected during the year that provided economic resources to the previous year are not recorded as program revenues in the statement of activities.

(48,781)

Interest on long-term debt in the statement of activities differs from the amount recorded in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources.

In the statement of activities, certain compensated absences (vacations) and special termination benefits are measured by the net change in amounts from the beginning to the end of the year. In the governmental funds, however, expenditures for these items are measured when paid. The net increase/(decrease) in amounts included in the statement of activities are:

Compensated absences (vacations)	1,373	
Special Termination Benefits Payable	<u>1,702</u>	(3,075)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

1,050,000

See notes to financial statements.

LESLIE PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007
(continued)

The accrued interest on the bonds as of 6/30/2007 was \$42,538 compared to \$45,163 as reported for 6/30/2006.	
The reduction of \$2,625 is reported on the statement of activities as less interest expense than the amounts	
Actually disbursed during the period and reported in the governmental funds	2,625
An amount of \$253,360 for interest costs were accreted to the district's SBLF liability. This is a long-term debt that is not included as an expenditure in the governmental funds. It is treated as an expense in the statement of activities.	<u>(253,360)</u>
Change in net assets of governmental activities.	<u><u>\$ (220,242)</u></u>

See notes to financial statements.

**LESLIE PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
JUNE 30, 2007**

	2007	2006
ASSETS		
Cash	\$ 15,312	\$ 98,083
Due from General Fund	97,032	
Total assets	\$ 112,344	\$ 98,083
LIABILITIES		
Liabilities:		
Due to student groups and others	\$ 112,344	\$ 98,083

See notes to financial statements.

LESLIE PUBLIC SCHOOLS
AGENCY FUNDS – STUDENT ACTIVITY FUNDS
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND LIABILITIES
YEAR ENDED JUNE 30, 2007

	Balances, beginning of year	Receipts	Disbursements	Balances, End of year
Administrative	\$ 572	\$ 6,911	\$ 6,985	\$ 498
High school	40,581	133,227	135,828	37,980
Middle school	39,255	49,612	40,163	48,704
Elementary school	<u>17,675</u>	<u>40,104</u>	<u>32,617</u>	<u>25,162</u>
	<u>\$ 98,083</u>	<u>\$ 229,854</u>	<u>\$ 215,593</u>	<u>\$ 112,344</u>

See notes to financial statements.

**LESLIE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

Based on the application of these criteria, the financial statements of Leslie Public Schools contain all the funds and account group controlled by the District's Board of Education as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the District nor is the District a component unit of another entity.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the school district. For the most part, the effect of the 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 has no business-type activities.

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

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

LESLIE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. 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 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 provided have been met.

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

The district reports the following major governmental funds:

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

The *1998 debt service funds* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the district reports the following fund types:

The *agency fund* is custodial in nature and does not present the results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

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

**LESLIE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Property taxes, state foundation revenue, interest and charges for services are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the District and are recognized as revenue at that time. State and federal revenues are recognized as follows:

State Foundation Revenue

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

The State portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes, which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units. The local revenue is recognized as outlined in Note 1 – Accounting for Property Taxes.

Categorical

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

Federal Revenue

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

**LESLIE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities and Equity

1. Cash and investments

Cash includes amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, such as certificates of deposit, and the district intends to hold the investment until maturity.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Short-term Interfund Receivables/Payables

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

3. Property Taxes

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

**LESLIE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities and Equity (continued)

For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of taxable valuation:

Fund	Mills
General Fund (non-homestead)	17.0617
Debt service funds (homestead & non-homestead)	7.3900

4. Inventories and Prepaid Items

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the special revenue funds consisting of expendable supplies held for consumption, 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 government-wide and fund financial statements.

5. Capital Assets

Capital assets, which include property, plant, equipment are reported in the government-wide financial statements. Capital assets are defined by the district as assets with an initial individual cost of more than \$2,500 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donations.

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

Property, plant and equipment of the district are depreciated using the straight line method over the following estimated useful lives:

Buildings	50 yrs
Building and site improvements	20 yrs
General equipment	10-15 yrs
Vehicles	8 yrs
Office furniture and fixtures	7 yrs
Computer equipment	5 yrs

**LESLIE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities and Equity (continued)

6. Compensated Absences

It is the district's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued in the government-wide financial statement. A liability for these amounts is reported in governmental funds only if they are expected to be liquidated with expendable available resources (generally sixty days).

7. Unemployment Insurance

The District reimburses the State of Michigan for the actual amount of unemployment benefits disbursed by the State on behalf of the District. Billings are received for amounts paid by the State through June 30 are accrued.

8. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

9. Fund Balance

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources." The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

10. Use of Estimates

The process of preparing general purpose financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**LESLIE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriations budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The District maintains a formalized encumbrance accounting system.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditure and changes in fund balances – budget and actual – GAAP basis – general, special revenue and debt service funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

**LESLIE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – DEPOSITS, INVESTMENTS AND CREDIT RISK

Cash and cash equivalents are held separately in the name of the District by each of the District's funds.

Deposits

At year-end, the carrying amount of the District's deposits were \$1,227,601 and the bank balance was \$1,354,334 of which \$200,000 was covered by federal depository insurance and \$1,154,334 was uninsured and uncollateralized.

Investments

The District had the following investments as of June 30, 2007:

Michigan Municipal Bond Revenue Note (cost = market) Matures August 19, 2007	<u>\$ 1,244,406</u>
--	---------------------

Interest Rate Risk – The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The district has no investment policy that would further limit its investment choices. As of June 30, 2007, the district's investment in the Michigan Municipal Bond Revenue Note was rated SP-1+ by Standard and Poor's.

Concentration of Credit Risk – The district places no limit on the amount the district may invest in any one issuer. All of the districts investments are reported in the General fund.

A reconciliation of cash as shown on the combined balance sheet follows:

Carrying amount of deposits	\$ 317,344
Investments	<u>910,257</u>
Total	<u>\$ 1,227,601</u>
Cash and cash equivalents:	
Governmental activities	\$ 1,212,289
Fiduciary funds	<u>15,312</u>
Total	<u>\$ 1,227,601</u>

**LESLIE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 – NOTE PAYABLE

At June 30, 2007 the District has outstanding a \$1,400,000 revenue note (state aid note) dated August 18, 2006. The note, which has an interest rate of 3.68%, matures August 20, 2007. The note is secured by the full faith and credit of the District, the investment contract, as well as pledged state aid. The short term note is used to facilitate cash flow needs.

The following is a summary of the changes in short-term liabilities for the year ended June 30, 2007:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Note payable	\$ 1,500,000	\$ 1,400,000	\$ 1,500,000	\$ 1,400,000

NOTE 5 – RECEIVABLES

Receivables at June 30 consist of the following:

	<u>General fund</u>	<u>Special Revenue funds</u>
Governmental units	\$ 1,826,384	\$ 11,097
Other Receivables	1,435	789
Interest	<u>14,548</u>	
	<u>\$ 1,842,367</u>	<u>\$ 11,886</u>

Amounts due from governmental units include amounts due from federal, state and local sources for various projects and programs.

Because of the District's favorable collection experience, no allowance for doubtful accounts has been recorded.

**LESLIE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 – LONG-TERM LIABILITIES

At June 30, 2007, general obligation debts and other long-term obligations currently outstanding are as follows:

\$12,265,000 1998 serial bonds payable in annual installments of \$65,000 to \$655,000 through May 1, 2025; interest at 4.3% to 5.0%	\$ 10,570,000
Limited obligation Durant bonds payable in annual installments of \$10,742 to \$22,000 through May 2013, interest at 4.76%	<u>143,851</u>
Total bonded debt	10,713,851
Borrowings from State of Michigan under the School Bond Loan Fund, including interest	<u>5,337,306</u>
Termination benefits	<u>67,681</u>
	<u><u>\$ 16,118,838</u></u>

The annual requirements to amortize long-term obligations outstanding as of June 30, 2007 including interest of \$4,740,407 are as follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 625,000	\$ 510,458	\$ 1,135,458
2009	638,558	486,195	1,124,753
2010	654,203	457,424	1,111,627
2011	669,880	427,308	1,097,188
2012	665,588	395,815	1,061,403
2013-2017	3,150,622	1,529,918	4,680,540
2018-2022	2,740,000	780,945	3,520,945
2023-2025	<u>1,570,000</u>	<u>152,344</u>	<u>1,722,344</u>
Due to School Bond Loan Fund	10,713,851	4,740,407	15,454,258
Termination benefits	<u>5,337,306</u>		<u>5,337,306</u>
	<u>67,681</u>		<u>67,681</u>
	<u><u>\$ 16,118,838</u></u>	<u><u>\$ 4,740,407</u></u>	<u><u>\$ 20,859,245</u></u>

**LESLIE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 – LONG-TERM DEBT (concluded)

At June 30, 2007, net assets of \$289,042 are available in the debt service funds to service the general obligation debt.

The following is a summary of the changes in long-term liabilities 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:					
Bonds payable:					
General obligation bonds	\$ 11,200,000	\$	\$ 630,000	\$ 10,570,000	\$ 625,000
Limited obligation bonds	<u>143,851</u>			<u>143,851</u>	
Total bonds payable	11,343,851		630,000	10,713,851	625,000
Other liabilities:					
School bond loan fund	5,503,946	253,360	420,000	5,337,306	380,000
Termination benefits	<u>64,606</u>	<u>10,870</u>	<u>7,795</u>	<u>67,681</u>	
Total long-term liabilities	<u>\$ 16,912,403</u>	<u>\$ 264,230</u>	<u>\$ 1,057,795</u>	<u>\$ 16,118,838</u>	<u>\$ 1,005,000</u>

NOTE 7 – GOVERNMENTAL FUND TYPE INTERFUND TRANSACTIONS

Amounts due to and from other funds for the Districts governmental fund types at June 30, 2007 are as follows:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Capital Project fund	\$ 1,238
General fund	Food Service fund	23,472
Capital Project fund	Concession Capital Project	1,300
Athletic fund	General fund	170
General fund	Internal Service fund	97,032
Debt Service fund	General fund	<u>6,100</u>
		<u>\$ 129,312</u>

Inter-fund transfers for the year ended June 30, 2007 were as follows:

<u>Fund Transferred Out</u>	<u>Fund Transferred In</u>	<u>Amount</u>
General fund	Athletic Activities	<u>\$ 177,461</u>

**LESLIE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 – DISCLOSURE OF INFORMATION ABOUT CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2007 were as follows:

	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of year</u>
Governmental activities: Capital assets not being depreciated:				
Land	\$ 300,000	<u>\$</u>	<u>\$</u>	\$ 300,000
Capital assets, being depreciated				
Buildings	23,375,125	6,046		23,381,171
Equipment and technology	1,914,017	82,598	176,175	1,820,440
Vehicles	793,164	63,647		856,811
Total historical cost	<u>\$ 26,082,306</u>	<u>\$ 152,291</u>	<u>\$ 176,175</u>	<u>\$ 26,058,422</u>
Less accumulated depreciation:				
Buildings	\$ 7,313,188	\$ 441,293	\$ 13,408	\$ 7,741,073
Equipment and technology	1,227,334	168,495	162,767	1,233,062
Vehicles	520,042	49,878		569,920
Total accumulated depreciation	<u>\$ 9,060,564</u>	<u>\$ 659,666</u>	<u>\$ 176,175</u>	<u>\$ 9,544,055</u>
Governmental activities capital assets, net	<u>\$ 17,321,742</u>	<u>\$ (507,375)</u>	<u>\$</u>	<u>\$ 16,814,367</u>

Depreciation expense was charged to governmental functions as follows:

Depreciation not allocated	\$ 26,484
Basic programs	44,231
Added needs	1,094
Pupil services	3,661
Instructional staff services	80
General administration	629
School administration	2,212
Business services	110
Operations and maintenance	44,688
Transportation services	49,188
Central services	35,891
Facilities acquisition	429,955
Other	21,443
	<u>\$ 659,666</u>

LESLIE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN

Plan Description – The District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS. The MPSERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

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

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

The District is required to contribute the full actuarial funding contribution amount to the pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2007 were 16.34%. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2007, 2006 and 2005 were \$1,255,159, \$1,165,969, and \$1,068,433, respectively, equal to the required contribution for each year. The current year contribution includes \$116,930 which was applied through a reduction of state aid.

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

Other Post-Employment Benefits – Under the MPSERS' Act, all retirees have the option of continuing health, dental and vision coverage.

**LESLIE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered Public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for one policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The District borrows from time to time to facilitate its cash flow needs.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent to year end the District issued a capital outlay bond of \$270,000 dated July 16, 2007, maturing from annually from 2008 through 2017. Interest rate is 3.77% - 4.22%. The bonds will be used to remodel school facilities; acquiring, installing and equipping technology; and purchasing a school bus.

**LESLIE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NONMAJOR GOVERNMENTAL FUNDS

Special revenue funds account for revenue sources that are legally restricted to expenditure for specific purposes.

Food Service fund – This fund accounts for the Districts school lunch program.

Athletic Activities fund – This fund accounts for the Athletic activities of the District.

Community Education fund – This fund is used to account for various community education programs run by the District.

The Durant Debt Service fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital Projects funds accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

Concession capital project – This fund is used to account for the construction of a new concession facility at the District's Football facility. This fund is being funded through community and district donations.

Capital projects fund – This fund is used to account for the general construction of facilities and structures of the district. This fund is funded by transfers from the general fund.

REQUIRED SUPPLEMENTARY INFORMATION

**LESLIE PUBLIC SCHOOLS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GAAP BASIS
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>			Variance with Final Budget- Favorable (unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Property taxes	\$ 730,000	\$ 720,513	\$ 726,794	\$ 6,281
Other local sources	133,111	128,072	148,775	20,703
Intermediate sources	997,600	797,600	737,243	(60,357)
State sources	9,581,755	9,534,342	9,581,478	47,136
Federal sources	272,999	265,383	268,071	2,688
Other sources	15,600	15,600	27,816	12,216
 Total revenues	 <u>11,731,065</u>	 <u>11,461,510</u>	 <u>11,490,177</u>	 <u>28,667</u>
EXPENDITURES:				
Instruction:				
Basic instruction	5,946,811	6,170,955	6,063,025	107,930
Added needs	1,133,525	1,124,849	1,124,567	282
 Total Instruction	 <u>7,080,336</u>	 <u>7,295,804</u>	 <u>7,187,592</u>	 <u>108,212</u>
Support Services:				
Pupil services	648,725	645,111	624,286	20,825
Instructional staff	301,554	278,137	265,442	12,695
General Administration	456,334	476,613	396,468	80,145
School Administration	809,210	810,048	808,234	1,814
Business	283,169	257,702	255,610	2,092
Operations and Maintenance	1,330,182	1,322,941	1,321,871	1,070
Transportation	649,939	626,070	601,817	24,253
Central Support services	172,786	173,106	170,204	2,902
Community services	18,878	18,878	16,386	2,492
 Total support services	 <u>4,670,777</u>	 <u>4,608,606</u>	 <u>4,460,318</u>	 <u>148,288</u>
 Total expenditures	 <u>11,751,113</u>	 <u>11,904,410</u>	 <u>11,647,910</u>	 <u>256,500</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 <u>(20,048)</u>	 <u>(442,900)</u>	 <u>(157,733)</u>	 <u>285,167</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of equipment			3,184	3,184
Operating transfers out	(178,000)	(178,000)	(177,461)	539
 Total other financing sources (uses)	 <u>(178,000)</u>	 <u>(178,000)</u>	 <u>(174,277)</u>	 <u>3,723</u>
 NET CHANGES IN FUND BALANCES	 <u>\$ (198,048)</u>	 <u>\$ (620,900)</u>	 <u>(332,010)</u>	 <u>\$ 288,890</u>
FUND BALANCES:				
Beginning of year			<u>1,548,059</u>	
End of year			<u>\$ 1,216,049</u>	

**LESLIE PUBLIC SCHOOLS
1998 DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget- Favorable (unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 1,403,455	\$ 1,403,455	\$ 1,418,634	\$ 15,179
Investment income	11,500	11,500	16,438	4,938
Total revenues	<u>1,414,955</u>	<u>1,414,955</u>	<u>1,435,072</u>	<u>20,117</u>
EXPENDITURES:				
Debt service:				
Principal	630,000	1,050,000	1,050,000	
Interest and other fiscal charges	801,158	543,758	542,295	1,463
Total expenditures	<u>1,431,158</u>	<u>1,593,758</u>	<u>1,592,295</u>	<u>1,463</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(16,203)</u>	<u>(178,803)</u>	<u>(157,223)</u>	<u>21,580</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	<u>16,203</u>			
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	<u>\$</u>	<u>\$ (178,803)</u>	<u>(157,223)</u>	<u>\$ 21,580</u>
FUND BALANCES:				
Beginning of year			<u>446,265</u>	
End of year			<u>\$ 289,042</u>	

OTHER SUPPLEMENTAL INFORMATION

**LESLIE PUBLIC SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007**

ASSETS	Special Revenue Funds			Debt Service	Capital Projects Funds		Total Nonmajor Governmental Funds
	Food Service	Community Education	Athletic Activities	Durant Debt Service	Concession Capital Project	Capital Project	
Cash and cash equivalents	\$ 1,371	\$ 100	\$ 4,620	\$	\$ 1,934	\$ 216	\$ 8,241
Receivables:							
Other	709					80	789
Due from other funds			170			1,300	1,470
Due from other governmental units	11,097						11,097
Inventory	12,495						12,495
	<u>\$ 25,672</u>	<u>\$ 100</u>	<u>\$ 4,790</u>	<u>\$</u>	<u>\$ 1,934</u>	<u>\$ 1,596</u>	<u>\$ 34,092</u>
Liabilities:							
Accounts payable and accrued expenses	\$ 442	\$	\$	\$	\$ 1,300	\$ 1,238	\$ 442
Due to other funds	23,472						26,010
Deferred revenue							
Salaries payable	848						848
Total liabilities	<u>24,762</u>				<u>1,300</u>	<u>1,238</u>	<u>27,300</u>
Fund balances:							
Reserved for:							
Inventory							
Capital projects					634	358	992
Unreserved:							
Undesignated	910	100	4,790				5,800
Total fund balances	<u>910</u>	<u>100</u>	<u>4,790</u>		<u>634</u>	<u>358</u>	<u>6,792</u>
	<u>\$ 25,672</u>	<u>\$ 100</u>	<u>\$ 4,790</u>	<u>\$</u>	<u>\$ 1,934</u>	<u>\$ 1,596</u>	<u>\$ 34,092</u>

LESLIE PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Special Revenue Funds			Debt Service	Capital Projects		Total Nonmajor Governmental Funds
	Food Service	Community Education	Athletic Activities	Durant Debt Service	Concession Capital Project	Capital Project	
REVENUES:							
Local sources:							
Lunch and milk sales	\$ 271,503	\$	\$ 91,067	\$	\$	\$	\$ 271,503
Admission and other			36				91,067
Interest	36		28		7	46	117
State sources	30,038						30,038
Federal sources	201,717						201,717
USDA donated commodities	18,345						18,345
Total revenues	<u>521,639</u>		<u>91,095</u>		<u>7</u>	<u>46</u>	<u>612,787</u>
EXPENDITURES:							
Food service	532,248						532,248
Athletic activities			265,444				265,444
Facilities site improvements							
Principal and interest							
Total expenditures	<u>532,248</u>		<u>265,444</u>				<u>797,692</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(10,609)</u>		<u>(174,349)</u>		<u>7</u>	<u>46</u>	<u>(184,905)</u>
OTHER FINANCING SOURCES (USES):							
Operating transfers in			177,461				177,461
Operating transfers out							
Total other financing sources (uses)			<u>177,461</u>				<u>177,461</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	<u>(10,609)</u>		<u>3,112</u>		<u>7</u>	<u>46</u>	<u>(7,444)</u>
FUND BALANCES, beginning of year	<u>11,519</u>	<u>100</u>	<u>1,678</u>		<u>627</u>	<u>312</u>	<u>14,236</u>
FUND BALANCES, end of year	<u>\$ 910</u>	<u>\$ 100</u>	<u>\$ 4,790</u>	<u>\$</u>	<u>\$ 634</u>	<u>\$ 358</u>	<u>\$ 6,792</u>

**LESLIE PUBLIC SCHOOLS
FOOD SERVICE SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget- Favorable (unfavorable)
REVENUES:				
Local sources:				
Lunch, milk sales and other	\$ 247,900	\$ 271,695	\$ 271,503	\$ (192)
Interest	100	100	36	(64)
State sources	26,500	26,500	30,038	3,538
Federal sources	180,500	190,500	201,717	11,217
USDA donated commodities	34,500	34,500	18,345	(16,155)
	489,500	523,295	521,639	(1,656)
EXPENDITURES:				
Salaries	152,869	152,869	157,288	(4,419)
Purchased services	3,650	3,650	5,273	(1,623)
Supplies and other	246,238	280,033	289,255	(9,222)
Employee benefits	86,743	86,743	80,432	6,311
	489,500	523,295	532,248	(8,953)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	\$	\$	(10,609)	\$ (10,609)
FUND BALANCES, beginning of year			11,519	
FUND BALANCES, end of year			\$ 910	

**LESLIE PUBLIC SCHOOLS
ATHLETIC ACTIVITIES SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget- Favorable (unfavorable)
	Original	Final		
REVENUES:				
Local sources:				
Admission and other	\$ 74,470	\$ 87,930	\$ 91,067	\$ 3,137
Interest		70	28	(42)
Total revenues	<u>74,470</u>	<u>88,000</u>	<u>91,095</u>	<u>3,095</u>
EXPENDITURES:				
Salaries	152,000	145,744	143,032	2,712
Purchased services	19,130	20,765	21,905	(1,140)
Supplies and other	43,350	63,853	64,270	(417)
Employee benefits	<u>39,093</u>	<u>36,728</u>	<u>36,237</u>	<u>491</u>
Total expenditures	<u>253,573</u>	<u>267,090</u>	<u>265,444</u>	<u>1,646</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(179,103)</u>	<u>(179,090)</u>	<u>(174,349)</u>	<u>4,741</u>
OTHER FINANCING SOURCES:				
Incoming operating transfers	<u>179,103</u>	<u>178,000</u>	<u>177,461</u>	<u>(539)</u>
Total other financing sources	<u>179,103</u>	<u>178,000</u>	<u>177,461</u>	<u>(539)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>\$</u>	<u>\$ (1,090)</u>	3,112	<u>\$ 4,202</u>
FUND BALANCES, beginning of year			<u>1,678</u>	
FUND BALANCES, end of year			<u>\$ 4,790</u>	

LESLIE PUBLIC SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS – DURANT DEBT
JUNE 30, 2007

	<u>Interest rate</u>	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total</u>
Year ending June 30:				
2008	4.76%	\$	\$	\$
2009		13,558	3,550	17,108
2010		14,203	2,904	17,107
2011		14,880	2,228	17,108
2012		15,588	1,520	17,108
2013		<u>85,622</u>	<u>29,324</u>	<u>114,946</u>
		<u>\$ 143,851</u>	<u>\$ 39,526</u>	<u>\$ 183,377</u>

Principal payments due on fifteenth day of May

Interest payments due on the fifteenth day of May and November

Original issue – 1999 \$243,624

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the “State Aid Payments”). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority’s Depository.



Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

October 24, 2007

To the Board of Education
Leslie Public Schools
Leslie, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Leslie Public Schools as of and for the year ended June 30, 2007, which collectively comprise Leslie Public Schools basic financial statements and have issued our report thereon dated October 24, 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 Leslie Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Leslie Public Schools internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Leslie Public 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 Leslie Public Schools ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Leslie Public Schools financial statements that is more than inconsequential will not be prevented or detected by Leslie Public Schools 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 Leslie Public Schools internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies 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 Leslie Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Leslie Public Schools in a separate letter dated October 24, 2007.

This report is intended solely for the information and use of the board of education, management and the Michigan Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants

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www.harrisgroupcpa.com



October 24, 2007

Board of Education
Leslie Public Schools
Leslie, MI

In planning and performing our audit of the financial statements of Leslie Public Schools for the fiscal year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Leslie Public School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions in the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

During our audit, we noted the following control deficiencies:

Internal Service Funds

Most disbursements from the Internal Service accounts are being made by the business office, and the business office is reconciling the bank statements for the Internal Service funds. The business office is not sufficiently staffed to perform the bank reconciliations timely. Also, funds collected for internal service are being invested with general fund monies to earn more interest. The internal service funds should not be commingled with the School Districts funds. We recommend the district return to a decentralized approach for the check writing and bank reconciliation functions of the student activity funds by assigning these tasks at the school building level. We further recommend that each school submit monthly financial reports, signed by the Building Principals, to the business office. At a minimum, the monthly reports should include a listing of receipts, disbursements, individual account balances, and bank reconciliations.

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

Certified Public Accountants