

**SPARTA AREA SCHOOLS**  
**Kent County, Michigan**

Comprehensive Annual Financial Report

For the year ended June 30, 2007

**SPARTA AREA SCHOOLS**  
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For the year ended June 30, 2007

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## **FINANCIAL SECTION**

**INDEPENDENT AUDITOR'S REPORT**

October 31, 2007

The Board of Education  
Sparta Area Schools

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Sparta Area Schools (the "District") 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 elected officials and management. Our responsibility is to express an opinion 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 opinion.

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 Sparta Area Schools as of June 30, 2007, and the respective changes in financial position and budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2007 on our consideration of Sparta Area Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis 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 performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Sparta Area 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 stated in all material respects in relation to the basic financial statements taken as a whole.

*Hungerford, Aldrin, Nichols & Bente, P.C.*

Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**SPARTA AREA SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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As management of the Sparta Area Schools ("the District"), 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. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

**Overview of the Financial Statements**

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- 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.
  - ♦ *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.
  - ♦ *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 Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

**District-wide Statements**

The district-wide financial 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 District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base and the condition of school buildings and other facilities.

**SPARTA AREA SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

**Condensed District-Wide Financial Information**

The Statement of Net Assets provides financial information on the District as a whole.

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current assets	\$ 18,339,760	\$ 30,107,294
Net capital assets	<u>37,645,545</u>	<u>23,150,766</u>
<b>Total Assets</b>	<b><u>55,985,305</u></b>	<b><u>53,258,060</u></b>
<b>Liabilities</b>		
Current liabilities	4,808,261	5,313,275
Long-term liabilities	<u>37,846,443</u>	<u>37,905,833</u>
<b>Total Liabilities</b>	<b><u>42,654,704</u></b>	<b><u>43,219,108</u></b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	915,598	8,185,109
Restricted	9,889,378	96,366
Unrestricted	<u>2,525,625</u>	<u>1,757,477</u>
<b>Total Net Assets</b>	<b><u>\$ 13,330,601</u></b>	<b><u>\$ 10,038,952</u></b>

**SPARTA AREA SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2007**

The Statement of Activities presents changes in net assets from operating results:

	<u>2007</u>	<u>2006</u>
<b>Program Revenues</b>		
Charges for services	\$ 1,050,331	\$ 971,538
Operating grants	4,470,765	4,285,141
<b>General Revenues</b>		
Property taxes	4,966,795	4,677,193
State school aid, unrestricted	18,366,091	17,962,115
Interest earnings	1,030,801	978,384
Other	255,249	267,756
<b>Total Revenues</b>	<u>30,140,032</u>	<u>29,142,127</u>
<b>Expenses</b>		
Instruction	15,110,924	15,857,135
Supporting services	8,237,703	8,398,980
Community services	259,464	249,388
Food service	831,445	782,659
Athletics	596,659	595,214
Other	61,833	53,109
Interest on long-term debt	1,484,575	1,782,554
Depreciation – unallocated	265,780	267,665
<b>Total Expenses</b>	<u>26,848,383</u>	<u>27,986,704</u>
Increase in net assets	3,291,649	1,155,423
<b>Net Assets - Beginning of Year</b>	<u>10,038,952</u>	<u>8,883,529</u>
<b>Net Assets - End of Year</b>	<u><b>\$ 13,330,601</b></u>	<u><b>\$ 10,038,952</b></u>

**Financial Analysis of the District as a Whole**

The District's financial position is the product of many factors.

The District's total revenues increased 3.4% to \$30.14 million. Property taxes and unrestricted state aid accounted for most of the District's revenues, contributing about 77 percent of every dollar raised. Another 15 percent came from state and federal aid for specific programs and the remainder from fees charged for services, interest earnings, donations and miscellaneous sources.

**SPARTA AREA SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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The total cost of all programs and services decreased 4 percent to \$26.85 million, due to the effect on the District Early Retirement Incentive Program on the prior year's expenses and decreased interest on long-term debt in the current year. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (70 percent). The District's administrative and business activities accounted for 9 percent of total costs. Operation and maintenance expenses accounted for 6 percent of the total costs. It should be noted that the District absorbed considerable cost increases during the 2007 fiscal year in the areas of health insurance premiums, utilities, other District insurance and compensation for employees. However, the District also made staffing reductions at the end of the 2007 fiscal year and privatized our custodial unit. The net result was a slight increase in total General Fund expenditures for the 2007 fiscal year.

Total revenues surpassed expenses, increasing net assets by \$3,291,649 over last year, due to the above-mentioned expense reductions and additional State Aid revenues in 2006-07.

The District has been able to continue to balance the General Fund budget through a series of reductions and cost savings measures that include:

- Reductions in instructional staff through attrition.
- Reductions in support personnel in a variety of areas throughout the District.
- The current trend to reduce costs will continue. At the present time the District is working with other area districts to create collaborative arrangements whereby districts can become more efficient in a number of areas to include student transportation, purchasing, the use of personnel, delivery of instruction, the use of technology, etc. The District is in the second year of utilizing a single bus run and working collaboratively with other area districts for special education transportation in an effort to reduce costs.

### **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.

The District utilizes two kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader 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, additional information following the governmental funds' statements explain the relationship (or differences) between them.
- *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.

**SPARTA AREA SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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**Financial Analysis of the District's Funds**

The District uses funds to record and analyze financial information. Sparta Area School's funds are described as follows:

**Major Funds**

General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of \$25,092,706, total other financing sources of \$30,000, total expenditures of \$24,103,907, and total other financing uses of \$417,372. It ended the fiscal year with a fund balance of \$3,328,222, up from \$2,726,795 as of June 30, 2006. The increase in fund balance of \$601,407 can be related to a number of factors which include:

- Conservative spending practices in all areas of the budget.
- Reductions during the year which resulted in greater savings in instructional staff services.
- Higher revenue reimbursements than expected in the areas of special education transportation and tuition from other local districts.

2004 Construction Fund

The District issued \$34,410,000 in capital improvement bonds in 2004 to finance the construction of a new high school, which is accounted for in the 2004 Construction Fund. Current year investment earnings totaled \$890,530, and donations to the project totaled \$21,886. Architect fees, construction manager and building and equipment costs totaled \$14,455,725, leaving a remaining fund balance at June 30, 2007 of \$9,571,956 with which to complete the projects over the next fiscal year.

**Nonmajor Funds**

Special Revenue Funds

The District operates two Special Revenue Funds, for the food service and athletic programs. Total revenues and other financing sources were \$1,453,214, with total expenditures and other financing uses of \$1,429,771. The ending fund balance was \$172,837, all of which is attributable to the Food Service Fund.

Debt Service Funds

The District operates seven Debt Service Funds. Total revenues were \$2,680,368 and total other financing sources (including refunding bond proceeds of \$20,000,000) were \$20,569,030. Total expenditures were \$3,022,135 and other financing uses (including payments to the bond refunding escrow agent of \$19,620,224) were \$20,125,258. The ending fund balances in the Debt Service Funds totaled \$212,765.

Capital Projects Fund

There is one nonmajor Capital Projects Fund, the Building and Site Sinking Fund, incorporated into the financial statements of the District. Total revenues were \$373,407. Total expenditures were \$6,564 and other financing uses (transfers for debt service payments) totaled \$272,662. The ending fund balance was \$370,153.

Fiduciary Funds

The Student Activity Fund is operated as an Agency Fund of the District. The assets of this fund are being held for the benefit of the District's students. Balances on hand at June 30, 2007 totaled \$492,119.

**SPARTA AREA SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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**General Fund Budgetary Highlights**

Over the course of the year, the District revised the annual operating budget two times. These budget amendments fall into the following categories:

- Changes made in November to account for the final student enrollment that determines how much foundation grant state school aid will be received during the fiscal year.
- Final changes made in June for increases in appropriations to prevent budget overruns.
- Although the District's final budget for the General Fund anticipated expenditures would exceed revenues by \$164,474, the actual results for the year shows a \$601,427 increase in fund balance.
- Actual revenues were \$237,543 higher than budgeted, due largely to interdistrict sources that were under estimated in the budget.
- Actual expenditures were \$526,730 below budget, due primarily to various reductions made during the year, the delaying of expenditures to future years, and conservative spending practices throughout the District.

**Capital Asset and Debt Administration**

Capital Assets

By the end of 2007, the District had invested \$48.17 million in a broad range of capital assets, including land and land improvements, school buildings, athletic facilities, computer equipment, school buses, and administrative offices. This amount represents an increase of \$14,899,783 from June 30, 2006, due mainly to the construction in progress on the high school project and the purchase of buses and other vehicles. More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.

The net book value of District assets at June 30, 2007 are as follows:

Land	\$ 2,078,206
Construction in progress	26,741,487
Land improvements	418,012
Buildings and additions	7,514,308
Furniture and equipment	109,010
Vehicles	<u>784,522</u>
<b>Net Capital Assets</b>	<b><u>\$ 37,645,545</u></b>

Long-Term Debt

At year end, the District had \$39.2 million in general obligation bonds and other long-term debt outstanding – a decrease of \$129,186 from last year.

- The District continued to pay down its debt, retiring \$1,255,000 of outstanding bonds.
- The District issued \$20,000,000 in refunding bonds to retire \$18,450,000 of outstanding 2004 building and site bonds. This defeasance procedure will save the District \$826,813 in present-value dollars over the life of the refunding bonds.

**SPARTA AREA SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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The District's other obligations include early retirement incentive and accumulated sick leave. We present more detailed information about our long-term liabilities in Note F to the Notes to Basic Financial Statements.

**Factors Bearing on the District's Future**

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

- The District has experienced large increases in health insurance premium costs over the past four years. These increases have averaged in excess of 17%, amounting to annual increases in health insurance costs of over \$400,000. The District has been able to make some changes with most employee groups to help contain costs and is currently working towards the same viable solution with our support group.
- Another area of substantial concern is the retirement rate school districts must pay on employee salaries. Over the past several years schools have experienced substantial increases in this area. We must continue to work with our State Legislature to get some reform in the Michigan School Employee Retirement System.
- Enrollment continues to be of some concern to the District. Recently we have seen some decline on an annual basis. Much of the decline can be attributed to a decline in our fall migrant student population.
- The current state of the Michigan economy has created a financial hardship on most schools in the State. In 2006-07 we did receive a modest increase that was almost prorated in the last month of our fiscal year. Unless this trend quickly changes, our financial position will worsen, causing additional budget reductions, which will impact the programs and services we provide for our students.

**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 Superintendent's Office, Sparta Area Schools, 465 S. Union St., Sparta, Michigan 49345.

## **BASIC FINANCIAL STATEMENTS**

**SPARTA AREA SCHOOLS**  
**Statement of Net Assets**  
**June 30, 2007**

	Governmental Activities
<b>Assets</b>	
<b>Current Assets</b>	
Cash equivalents, deposits and investments (Note B)	\$ 12,429,861
Taxes receivable (Note C)	9,817
Accrued interest receivable	68,683
Due from other governmental units (Note C)	3,632,874
Inventory (Note A)	22,296
Prepaid expenses	413,189
Unamortized bond issue costs	1,763,040
<b>Total Current Assets</b>	<b>18,339,760</b>
<b>Noncurrent Assets</b>	
Capital assets (Note E)	48,173,092
Less accumulated depreciation	(10,527,547)
<b>Total Noncurrent Assets</b>	<b>37,645,545</b>
<b>Total Assets</b>	<b>55,985,305</b>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	1,194,322
Due to other governmental units	606,859
Accrued interest payable	268,291
Salaries payable	1,099,536
Deferred revenue	10,253
Current portion of long term obligations	1,629,000
<b>Total Current Liabilities</b>	<b>4,808,261</b>
<b>Noncurrent Liabilities (Notes A, F)</b>	
General obligation bonds payable	37,755,000
Durant non-plaintiff bonds payable	464,246
Early retirement incentive	848,228
Accumulated sick leave	134,229
Unamortized bond premium	273,740
Current portion of long-term obligations	(1,629,000)
<b>Total Noncurrent Liabilities</b>	<b>37,846,443</b>
<b>Total Liabilities</b>	<b>42,654,704</b>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	915,598
Restricted for:	
Debt service	(53,070)
Capital projects	9,942,448
Unrestricted	2,525,625
<b>Total Net Assets</b>	<b>\$ 13,330,601</b>

See accompanying notes to basic financial statements.

**SPARTA AREA SCHOOLS**  
**Statement of Activities**  
**For the year ended June 30, 2007**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
<b>Governmental Activities</b>				
Instruction	\$ 15,110,924	\$ 49,829	\$ 3,594,411	\$(11,466,684)
Supporting services	8,237,703	42,350	446,661	(7,748,692)
Community services	259,464	359,588	-	100,124
Food service	831,445	446,007	429,693	44,255
Athletics	596,659	152,557	-	(444,102)
Other	61,833	-	-	(61,833)
Interest expense	1,484,575	-	-	(1,484,575)
Depreciation - unallocated	265,780	-	-	(265,780)
<b>Total Governmental Activities</b>	<b>\$ 26,848,383</b>	<b>\$ 1,050,331</b>	<b>\$ 4,470,765</b>	<b>(21,327,287)</b>
<b>General Revenues</b>				
Taxes:				
				1,938,488
				2,665,902
				362,405
				18,366,091
				1,030,801
				400
				254,849
				<u>24,618,936</u>
				3,291,649
				<u>10,038,952</u>
				<u>\$ 13,330,601</u>

See accompanying notes to basic financial statements.

**SPARTA AREA SCHOOLS**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2007**

	General	2004 Construction	Nonmajor	Total
<b>Assets</b>				
Cash equivalents, deposits and investments (Note B)	\$1,537,510	\$10,160,452	\$ 731,899	\$12,429,861
Taxes receivable (Note C)	7,023	-	2,794	9,817
Accrued interest receivable	-	68,683	-	68,683
Due from other funds (Note D)	-	-	1,867	1,867
Due from other governmental units (Note C)	3,626,864	-	6,010	3,632,874
Inventory (Note A)	1,693	-	20,603	22,296
Prepaid expenditures	175,848	237,341	-	413,189
<b>Total Assets</b>	<b>\$5,348,938</b>	<b>\$10,466,476</b>	<b>\$ 763,173</b>	<b>\$16,578,587</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 299,416	\$ 894,520	\$ 386	\$ 1,194,322
Due to other funds (Note D)	1,867	-	-	1,867
Due to other governmental units	606,859	-	-	606,859
Salaries payable	1,099,536	-	-	1,099,536
Deferred revenue	13,038	-	7,032	20,070
<b>Total Liabilities</b>	<b>2,020,716</b>	<b>894,520</b>	<b>7,418</b>	<b>2,922,654</b>
<b>Fund Balances</b>				
Reserved for:				
Debt service	-	-	212,765	212,765
Capital outlay	-	9,571,956	370,153	9,942,109
Unreserved:				
Undesignated, reported in:				
General fund	3,328,222	-	-	3,328,222
Special revenue funds	-	-	172,837	172,837
<b>Total Fund Balances</b>	<b>3,328,222</b>	<b>9,571,956</b>	<b>755,755</b>	<b>13,655,933</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$5,348,938</b>	<b>\$10,466,476</b>	<b>\$ 763,173</b>	<b>\$16,578,587</b>

See accompanying notes to basic financial statements.

**SPARTA AREA SCHOOLS**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Assets of Governmental Activities**  
**June 30, 2007**

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<b>Total governmental fund balances</b>	\$ 13,655,933
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 as assets in governmental funds. The cost of assets is \$48,173,092 and accumulated depreciation is \$10,527,547.	37,645,545
Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.	1,489,300
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:	
General obligation bonds	\$(37,755,000)
Durant non-plaintiff bonds	(464,246)
Early retirement incentive	(848,228)
Accumulated sick leave	(134,229)
	(39,201,703)
Accrued interest is not included as a liability in governmental funds.	(268,291)
Deferred revenue recognized as revenue in the full accrual statements: Property taxes	9,817
<b>Total net assets - governmental activities</b>	<b>\$ 13,330,601</b>

See accompanying notes to basic financial statements.

**SPARTA AREA SCHOOLS**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2007**

	General	2004 Construction	Nonmajor	Total
<b>Revenues</b>				
Local sources	\$ 2,685,543	\$ 912,416	\$ 3,659,924	\$ 7,257,883
State sources	19,148,488	-	48,312	19,196,800
Federal sources	1,113,975	-	381,381	1,495,356
Interdistrict sources	2,144,700	-	-	2,144,700
<b>Total Revenues</b>	<b>25,092,706</b>	<b>912,416</b>	<b>4,089,617</b>	<b>30,094,739</b>
<b>Expenditures</b>				
Current:				
Instruction	15,217,312	-	-	15,217,312
Supporting services	8,598,194	-	-	8,598,194
Community services	259,464	-	-	259,464
Food service	-	-	829,842	829,842
Athletics	-	-	569,929	569,929
Capital outlay	-	14,455,725	6,564	14,462,289
Debt service:				
Principal repayment	-	-	1,255,000	1,255,000
Interest and fiscal charges	-	-	1,506,652	1,506,652
Bond issuance costs	-	-	160,483	160,483
Underwriter's fees	-	-	100,000	100,000
Interdistrict	28,937	-	-	28,937
<b>Total Expenditures</b>	<b>24,103,907</b>	<b>14,455,725</b>	<b>4,428,470</b>	<b>42,988,102</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>988,799</b>	<b>(13,543,309)</b>	<b>(338,853)</b>	<b>(12,893,363)</b>
<b>Other Financing Sources (Uses)</b>				
Refunding bonds issued	-	-	20,000,000	20,000,000
Bond premium	-	-	21,671	21,671
Transfers in	30,000	-	964,731	994,731
Bond discount	-	-	(230,337)	(230,337)
Payments to escrow agent	-	-	(19,620,224)	(19,620,224)
Transfers out	(417,372)	-	(577,359)	(994,731)
<b>Total Other Financing Sources (Uses)</b>	<b>(387,372)</b>	<b>-</b>	<b>558,482</b>	<b>171,110</b>
<b>Net Change in Fund Balances</b>	<b>601,427</b>	<b>(13,543,309)</b>	<b>219,629</b>	<b>(12,722,253)</b>
<b>Fund Balances, Beginning of Year</b>	<b>2,726,795</b>	<b>23,115,265</b>	<b>536,126</b>	<b>26,378,186</b>
<b>Fund Balances, End of Year</b>	<b>\$ 3,328,222</b>	<b>\$9,571,956</b>	<b>\$ 755,755</b>	<b>\$13,655,933</b>

See accompanying notes to basic financial statements.

**SPARTA AREA SCHOOLS**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the year ended June 30, 2007**

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**Net change in fund balances - total governmental funds** \$ (12,722,253)

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 these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

	Capital outlays	\$ 14,969,445	
	Depreciation expense	<u>(471,266)</u>	14,498,179

As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. (19,742)

Proceeds from the sale of bonds are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets. (20,000,000)

Net bond refunding costs are amortized over the life of the new bond issue on the Statement of Activities. 1,645,975

In the Statement of Activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale(s) increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold/retired. (3,400)

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:  
     Repayment of bonds 19,705,000

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities however, interest expense is recognized as the interest accrues regardless of when it is paid. 22,076

In the Statement of Net Assets, early retirement incentive and accumulated sick leave are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits used/paid (\$379,912) exceeded the amounts earned (\$214,098). 165,814

**Total change in net assets - governmental activities** \$ 3,291,649

See accompanying notes to basic financial statements.

**SPARTA AREA SCHOOLS**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2007**

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 2,556,100	\$ 2,707,427	\$ 2,685,543	\$ (21,884)
State sources	18,823,938	19,078,400	19,148,488	70,088
Federal sources	1,099,953	1,119,261	1,113,975	(5,286)
Interdistrict sources	2,016,500	1,950,075	2,144,700	194,625
<b>Total Revenues</b>	<u>24,496,491</u>	<u>24,855,163</u>	<u>25,092,706</u>	<u>237,543</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	11,491,129	11,611,431	11,550,659	60,772
Added needs	3,507,812	3,482,908	3,413,023	69,885
Adult education services	305,620	271,740	253,630	18,110
Supporting services:				
Pupil services	1,705,113	1,758,584	1,616,259	142,325
Instructional staff services	684,647	713,796	704,078	9,718
General administrative services	740,887	522,726	498,439	24,287
School administrative services	1,516,051	1,533,602	1,488,121	45,481
Business services	311,494	336,502	318,669	17,833
Operation and maintenance services	1,804,585	1,726,636	1,661,358	65,278
Pupil transportation services	1,968,834	2,001,918	1,954,090	47,828
Central services	220,860	375,082	357,180	17,902
Community services	253,020	266,775	259,464	7,311
Interdistrict	14,000	28,937	28,937	-
<b>Total Expenditures</b>	<u>24,524,052</u>	<u>24,630,637</u>	<u>24,103,907</u>	<u>526,730</u>
<b>Excess (Deficiency) Of Revenues Over Expenditures</b>	<u>(27,561)</u>	<u>224,526</u>	<u>988,799</u>	<u>764,273</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	20,000	30,000	30,000	-
Transfers out	(429,000)	(419,000)	(417,372)	1,628
<b>Total Other Financing Sources (Uses)</b>	<u>(409,000)</u>	<u>(389,000)</u>	<u>(387,372)</u>	<u>1,628</u>
<b>Net Change in Fund Balances</b>	<u>(436,561)</u>	<u>(164,474)</u>	<u>601,427</u>	<u>765,901</u>
<b>Fund Balances, July 1</b>	<u>2,726,795</u>	<u>2,726,795</u>	<u>2,726,795</u>	<u>-</u>
<b>Fund Balances, June 30</b>	<u><u>\$ 2,290,234</u></u>	<u><u>\$ 2,562,321</u></u>	<u><u>\$ 3,328,222</u></u>	<u><u>\$ 765,901</u></u>

See accompanying notes to basic financial statements.

**SPARTA AREA SCHOOLS**  
**Fiduciary Fund**  
**Statement of Fiduciary Assets and Liabilities**  
**June 30, 2007**

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**Assets**

Cash equivalents, deposits and investments (Note B)	<u>\$ 492,119</u>
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**Liabilities**

Due to student groups	<u>\$ 492,119</u>
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See accompanying notes to basic financial statements.

## **NOTES TO BASIC FINANCIAL STATEMENTS**

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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**Note A – Summary of Significant Accounting Policies**

Sparta Area Schools was organized under the School Code of the State of Michigan and services a population of approximately 2,829 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Sparta Area Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. 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.

**1. Reporting Entity**

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

**2. District-Wide and Fund Financial Statements**

**District-Wide Financial Statements** - The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

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 goods, services

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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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. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental 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. The General Fund and the 2004 Construction Capital Projects Fund are the District's major funds. Non-major funds are aggregated and presented in a single column.

**Fund Financial Statements** – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., 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 District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

### **3. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. 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 grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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**Governmental Funds**

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

*General Fund*—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

*Special Revenue Funds*—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

*School Service Funds*—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Athletics Funds.

*Debt Service Funds*—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

*Capital Projects Funds*—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

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 Section 1351a of the State of Michigan's School Code. For capital project activities funded with sinking fund millage, the District has complied with the applicable provisions of Section 1212 (I) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

**Fiduciary Funds**

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary Fund net assets and results of operations are not included in the district-wide financial statements. Fiduciary funds are reported using the economic resources measurement focus.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

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

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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

#### **4. Budgets and Budgetary Accounting**

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Sparta Area Schools has also adopted budgets for its Special Revenue Funds. A school district's General Appropriations Act (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Sparta Area Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

#### **5. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

#### **6. Investments**

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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**7. Inventory**

Inventories are valued at cost (first-in, first-out). Inventories of the General Fund consist of teaching and custodial supplies. Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

**8. Capital Assets**

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and additions, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and additions	40-50 years
Vehicles	5-10 years
Furniture and equipment	3-10 years

**9. Long-Term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

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

**10. Early Retirement Incentive/Accumulated Sick Leave**

Early retirement incentive and accumulated sick leave at June 30, 2007 has been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2007, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for early retirement incentive and accumulated sick leave amounted to \$848,228 and \$134,229, respectively.

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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**11. Fund Equity**

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

**12. Interfund Activity**

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

**13. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Note B – Cash Equivalents, Deposits and Investments**

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- 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.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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Balances at June 30, 2007 related to cash equivalents, deposits and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Assets:	
Governmental activities	\$ 12,429,861
Fiduciary Funds:	
Agency Fund	492,119
	\$ 12,921,980

**Cash Equivalents**

Depositories actively used by the District during the year are detailed as follows:

1. Choice One Bank

Cash equivalents consist of bank public funds checking accounts.

Balances at June 30, 2007 related to cash equivalents are detailed in the Basic Financial Statements as follows:

Governmental Funds	\$ 2,809,890
Fiduciary Funds	492,119
	\$ 3,302,009

*Custodial credit risk*

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$3,302,009 and the bank balance was \$4,006,461. Of the bank balance, \$100,000 was covered by federal depository insurance and \$3,906,461 was uninsured.

**Investments**

As of June 30, 2007 the District had the following investments:

	<b>Fair Value</b>	<b>Weighted Average Maturity (Years)</b>
Investment Pool Accounts:		
Michigan Liquid Asset Fund	\$ 4,642,242	N/A
U.S. Agency Investments:		
FHLMC	2,500,587	0.1061
FNMA	2,477,142	0.0323
	\$ 9,619,971	
Portfolio Weighted Average Maturity		0.1360

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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*Custodial Credit Risk*

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimizes custodial credit risk by limiting investments to the types of securities allowed by law. The District has a custodial credit risk exposure of \$4,977,729 in its U.S. Agency investments because the securities are uninsured, unregistered and held by the District's brokerage firm which is also the counterparty for these securities.

*Credit Risk*

The District invests in the Michigan Liquid Asset Fund and Investment Pool, which is unrated.

*Interest Rate Risk*

The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

*Concentration of Credit Risk*

The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security. More than 5 percent of the District's investments are in FHLMC (26%), FNMA (26%).

*Foreign Currency Risk*

The District is not authorized to invest in investments which have this type of risk.

**Note C – State School Aid/Property Taxes**

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2006 ad valorem State Education Taxes generated within the Sparta Area School District, and paid to the State of Michigan, totaled \$2,507,199.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2006 and September, 2006. The 2006-07 "Foundation Allowance" for Sparta Area Schools was \$7,085 for 2,808 "Full Time Equivalent" students, generating \$19,084,650 in state aid payments to the District, of which \$3,208,778 was paid to the District in July and August, 2007 and included in "Due From Other Governmental Units" of the General and Food Service Special Revenue Funds of the District.

Property taxes for the District are levied July 1 and December 1 under a split-levy system by the Townships of Algoma, Alpine, Sparta, Tyrone, Chester and Wright and the Village of Sparta. The taxes are then collected by each governmental unit and remitted to the District. The County of Kent, through its Delinquent Tax Revolving Fund, advances all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

Tax Year	General	Debt Service	Building and Site	Total
2006	\$ 5,984	\$ 2,087	\$ 286	\$ 8,357
2005	662	229	31	922
2004	377	139	22	538
	\$ 7,023	\$ 2,455	\$ 339	\$ 9,817

Taxes receivable are offset by deferred revenue in the General, Debt Service and Building and Site Funds of the District. Taxes uncollected after three years from the date of levy are written off the books of the District.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

Sparta Area Schools electors previously approved a ten year operating millage extension in June 1996 for the 18 mill non-homestead property tax.

The District levied 6.28 mills in 2006 for debt service purposes and .8552 mills for the building and site (sinking) fund, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage", nor any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

**Note D – Interfund Transfers/Receivables**

Transfers between funds during the year ended June 30, 2007 were as follows:

	Transfers In	Transfers Out
<b>General Fund</b>		
Special Revenue Funds:		
Food Service Fund	\$ 30,000	\$ —
Athletics Fund	—	417,372
Total General Fund	30,000	417,372

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Special Revenue Funds</b>		
Food Service Fund:		
General Fund	\$       —	\$    30,000
Athletics Fund:		
General Fund	417,372	—
Total Special Revenue Funds	<u>417,372</u>	<u>30,000</u>
<b>Debt Service Funds</b>		
2000 Debt Service Fund:		
Capital Projects Fund:		
Building & Site Fund	147,921	—
2001 Debt Service Fund:		
Capital Projects Fund:		
Building & Site Fund	124,741	
2004 Debt Service Fund:		
Debt Service Funds:		
2006 Debt Service Fund	—	179,451
2007 Debt Service Fund	—	95,246
2006 Debt Service Fund:		
Debt Service Fund:		
2004 Debt Service Fund	179,451	—
2007 Debt Service Fund:		
Debt Service Fund:		
2004 Debt Service Fund	95,246	—
Total Debt Service Funds	<u>547,359</u>	<u>274,697</u>
<b>Capital Projects Funds</b>		
Building and Site Fund:		
2000 Debt Service Fund	—	147,921
2001 Debt Service Fund	—	124,741
Total Capital Projects Funds	<u>—</u>	<u>272,662</u>
Total All Funds	<u>\$   994,731</u>	<u>\$   994,731</u>

The Food Service Fund transfer to the General Fund was made to allocate indirect costs for the fiscal year. The General Fund transfer to the Athletic fund was made to pay the General Fund's share of support for the athletic program for the fiscal year. The Building and Site Fund transfers to the Debt Service Funds were made to pay scheduled debt service principal and interest payments due in the fiscal year.

The \$1,867 due from the General Fund to the Building and Site Fund was for reimbursement of 2006-07 expenditures.



**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

**Note F – Long-term Debt**

Amounts available and to be provided for outstanding long-term debt at June 30, 2007 are summarized as follows:

	<b>General Obligation Bonds</b>	<b>Durant Non-plaintiff Bonds</b>	<b>Early Retirement Incentive</b>	<b>Accumulated Sick Leave</b>	<b>Total</b>
<b>Amount Available For Retirement Of Long-Term Debt</b>					
Debt Service Funds	\$ 212,765	\$ —	\$ —	\$ —	\$ 212,765
<b>Amounts To Be Provided For Retirement Of Long-Term Debt</b>					
State of Michigan	—	464,246	—	—	464,246
General Fund	—	—	848,228	134,229	982,457
Debt Service Funds	37,542,235	—	—	—	37,542,235
<b>Total Amounts Available and To Be Provided</b>	<b>\$37,755,000</b>	<b>\$ 464,246</b>	<b>\$ 848,228</b>	<b>\$ 134,229</b>	<b>\$ 39,201,703</b>

Changes in long-term debt for the year ended June 30, 2007 are summarized as follows:

	<b>Debt Outstanding July 1, 2006</b>	<b>Debt Added</b>	<b>Debt Retired</b>	<b>Debt Outstanding June 30, 2007</b>
General obligation bonds:				
May 1, 2000	\$ 515,000	\$ —	\$ 120,000	\$ 395,000
May 1, 2001	450,000	—	105,000	345,000
March 24, 2003	2,420,000	—	790,000	1,630,000
July 14, 2004	34,075,000	—	18,650,000	15,425,000
December 28, 2006	—	10,000,000	40,000	9,960,000
February 6, 2007	—	10,000,000	—	10,000,000
Durant non-plaintiff bonds:				
November 13, 1998	464,246	—	—	464,246
Early retirement incentive	1,014,070	187,808	353,650	848,228
Accumulated sick leave	134,201	26,290	26,262	134,229
	<b>\$ 39,072,517</b>	<b>\$ 20,214,098</b>	<b>\$ 20,084,912</b>	<b>\$ 39,201,703</b>

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

Long-term bonds outstanding at June 30, 2007 are comprised of the following:

	<b>Final Maturity Dates</b>	<b>Interest Rates</b>	<b>Outstanding Balance</b>	<b>Amount Due Within One Year</b>
<b>General Obligation Bonds</b>				
\$1,100M Building and Site May 1, 2000: Annual maturities of \$125M to \$140M	May 1, 2010	5.30 – 5.50	\$ 395,000	\$ 125,000
\$900M Building and Site May 1, 2001: Annual maturities of \$110M to \$120M	May 1, 2010	4.25 – 4.50	345,000	110,000
\$4,815M Refunding March 24, 2003: Annual maturities of \$805M to \$825M	May 1, 2009	2.50 – 3.00	1,630,000	805,000
\$34,410M Building & Site July 14, 2004: Annual maturities of \$300M to \$2,075M	May 1, 2022	3.00 – 5.00	15,425,000	300,000
\$10,000M Refunding December 28, 2006: Annual maturities of \$30M to \$2,100M	May 1, 2030	4.00 – 4.15	9,960,000	—
\$10,000M Refunding February 6, 2007: Annual maturities of \$30M to \$1,830M	May 1, 2026	4.00 – 5.00	10,000,000	35,000
<b>Durant Non-plaintiff Bonds</b>				
\$786M School Improvement November 13, 1998: Annual maturities of \$43,757 to 269,463	May 15, 2013	4.761353	464,246	—
			<u>\$ 38,219,246</u>	<u>\$ 1,375,000</u>

The annual requirements to pay principal and interest on long-term bonds outstanding are as follows:

<b>Year Ended June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2008	\$ 1,375,000	\$ 1,585,869	\$ 2,960,869
2009	1,503,757	1,555,501	3,059,258
2010	1,644,463	1,644,339	3,288,802
2011	1,213,021	1,449,105	2,662,126
2012	1,270,305	1,403,030	2,673,335
2013	1,322,700	1,351,835	2,674,535
2014	1,320,000	1,298,076	2,618,076
2015	1,385,000	1,241,639	2,626,639
2016	1,455,000	1,172,689	2,627,689
2017	1,525,000	1,100,388	2,625,388
2018	1,580,000	1,024,588	2,604,588
2019	1,635,000	946,638	2,581,638
2020	1,690,000	865,989	2,555,989
2021	1,740,000	782,639	2,522,639
2022	1,780,000	1,061,227	2,841,227

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 1,820,000	\$ 639,839	\$ 2,459,839
2024	1,855,000	567,039	2,422,039
2025	1,895,000	492,839	2,387,839
2026	1,945,000	417,039	2,362,039
2027	2,010,000	338,418	2,348,418
2028	2,070,000	258,019	2,328,019
2029	2,100,000	172,631	2,272,631
2030	2,085,000	86,006	2,171,006
	<u>\$ 38,219,246</u>	<u>\$ 21,455,382</u>	<u>\$ 59,674,628</u>

On December 28, 2006 and February 6, 2007 the District issued \$20,000,000 in general obligation bonds to advance refund \$18,450,000 of outstanding 2004 serial bonds with average interest rates of 5.00%. The average interest rates of the two refunding bond issues were 4.083065% and 4.020649%, respectively, resulting in a total net present value savings of \$826,813 or 2.426450%. The net proceeds of \$19,520,224 after original issue premium of \$21,671, original issue discount of \$171,110, underwriter's discount of \$100,000, bond issuance costs of \$171,110 and District contribution of \$100,000 were deposited with LaSalle Bank and used to purchase United States Treasury Securities. Under the terms of these agreements, these securities, together with interest earned to maturity, will be sufficient to pay all principal and interest as it becomes due. This procedure relieves the District from being primarily liable for the debt and the District is virtually assured of not being required to make further payments with respect to the debt. These funds cannot be commingled with other funds and cannot be redeemed prior to maturity. Any excess funds will be returned to the District upon final payment of principal and interest (scheduled to be May 1, 2014). This defeasance procedure allows the District to remove the assets and liabilities from its financial statements, which it has done for the fiscal year ended June 30, 2007. The assets, now held by the escrow agent to be used for the remaining principal and interest due of \$24,907,500 on the defeased debt at June 30, 2007 are detailed in the following schedule:

	<u>Cost</u>	<u>Market Value</u>	<u>Par Value</u>
U.S Government Securities	<u>\$ 19,620,224</u>	<u>\$ 19,620,224</u>	<u>\$ 19,620,224</u>

**Note G – Retirement Plan**

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll for employees covered by MPERS for the year ended June 30, 2007 was \$13,553,296. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPSERS plan. The contribution rate was 16.34% for the fiscal year ending September 30, 2006 and 17.74% for the fiscal year beginning October 1, 2006. The District's contributions to the plan for the fiscal years ended June 30, 2007, 2006 and 2005 were \$2,376,072, \$2,257,312, and \$2,063,002, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPSERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPSERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2005 (the latest reporting date available expressed as \$ in millions) for the MPSERS as a whole, determined through an actuarial valuation performed as of that date, was \$48,206. The MPSERS' net assets available for benefits on that date were \$38,211 leaving an unfunded pension benefit obligation of \$9,995. Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2006 Annual Report of the MPSERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

The total actuarial accrued liability (expressed as \$ in millions) increased by \$2,462 from September 30, 2004 to September 30, 2005. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 5 years for Basic Plan participants and 3 years for Member Investment Plan participants.

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above.

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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**Note H – Risk Management and Benefits**

The District is a member of the West Michigan Risk Management Trust, a self-insurance program with districts pooling together to insure property, liability and auto exposure. Premiums from members of the Trust are determined through standard underwriting procedures. The members of the Trust have contributed amounts sufficient to fund individual and aggregate losses up to \$175,000 and \$650,000, respectively, on an annual basis. Excess insurance has been purchased to cover claims exceeding those amounts. A \$1,000 per occurrence deductible for property losses is maintained. The District paid \$85,132 in premiums to the Trust for the year ended June 30, 2007.

The District is also a member of the West Michigan Workers' Compensation Fund, a self-insurance program with districts pooling together to insure workers' compensation and employers' liability exposures. The Fund pays the first \$300,000 of any workers' compensation or employers' liability loss out of a \$1,833,000 loss fund collected from members. Excess insurance has been purchased to cover claims exceeding those amounts. As of June 30, 2007, there were no material pending claims against the District. The District paid \$77,477 in premiums to the Fund for the year ended June 30, 2007.

Health, life and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note I – Commitments**

On July 4, 2004, the District issued \$34,410,000 of general obligation building and site bonds whose proceeds are being used for land purchases, building renovations and additions and furniture and equipment purchases. At June 30, 2007, unspent balances committed to this construction project totaled approximately \$10,000,000, which are expected to be fully expended by the year ended June 30, 2008.

## **SUPPLEMENTAL INFORMATION**

## **GENERAL FUND**

To account for resources which are traditionally associated with the general operation of the District and not required to be accounted for in another fund.

**SPARTA AREA SCHOOLS  
General Fund  
Comparative Balance Sheet  
June 30, 2007 and 2006**

	2007	2006
<b>Assets</b>		
Cash equivalents, deposits and investments	\$ 1,537,510	\$ 953,679
Taxes receivable	7,023	22,599
Due from other governmental units	3,626,864	3,724,805
Inventory	1,693	4,953
Prepaid expenditures	175,848	-
<b>Total Assets</b>	<b>\$ 5,348,938</b>	<b>\$ 4,706,036</b>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	\$ 299,416	\$ 304,097
Due to other funds	1,867	-
Due to other governmental units	606,859	486,158
Salaries payable	1,099,536	1,107,149
Deferred revenue	13,038	81,837
<b>Total Liabilities</b>	<b>2,020,716</b>	<b>1,979,241</b>
<b>Fund Balances</b>		
Unreserved:		
Undesignated	3,328,222	2,726,795
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,348,938</b>	<b>\$ 4,706,036</b>

**SPARTA AREA SCHOOLS**  
**General Fund**  
**Comparative Schedule of Revenues**  
**For the years ended June 30, 2007 and 2006**

	2007	2006
Local sources:		
Property taxes:		
Current property taxes	\$ 1,932,272	\$ 1,854,168
Delinquent property taxes	6,768	5,643
Other property taxes	9,706	1,285
Interest on delinquent taxes	5,318	4,629
	<u>1,954,064</u>	<u>1,865,725</u>
Interest earnings:		
Interest on deposits and investments	111,384	86,693
Other local revenue:		
Tuition	15,535	13,489
Community enrichment fees	33,771	28,289
Preschool/childcare fees	325,817	282,423
Drivers education	34,294	30,676
Transportation fees	15,381	15,391
Sale of school property	3,823	3,673
Sale of fuel	26,969	23,642
Rental of school facilities	1,255	3,650
Donations	3,765	1,600
Insurance claims	19,981	8,794
Adult education reimbursement	53,324	48,069
Refunds of expenditures	79,894	119,993
Miscellaneous	6,286	7,178
	<u>620,095</u>	<u>586,867</u>
Total local sources	2,685,543	2,539,285
State sources:		
State aid	19,103,076	18,623,241
School improvement	-	2,349
FICA/Retirement reimbursement	45,412	45,412
Total state sources	<u>19,148,488</u>	<u>18,671,002</u>
Federal sources:		
Title I	160,947	136,752
Title I C - Migrant	84,113	77,142
Title IIA	92,413	96,882
Title II D	1,646	3,220
Title III	50,851	73,181
Title V	583	1,181
Adult basic education	82,800	94,000
I.D.E.A. program	611,012	611,617
Medicaid - school based	1,711	6,722
Adult English literacy/civics education	10,600	11,900
Service learning grant	9,315	-
Literacy grant	-	864
SPSR grant	-	1,613
Drug free schools	7,984	10,646
QAR	-	41,263
Total federal sources	<u>1,113,975</u>	<u>1,166,983</u>

(Continued)

**SPARTA AREA SCHOOLS**  
**General Fund**  
**Comparative Schedule of Revenues**  
**For the years ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Interdistrict sources:		
Special education - county	1,295,486	1,220,464
Special education - transportation	388,431	259,481
Special education - tuition	190,385	192,984
Special education - itinerants	58,230	62,779
Special education - shared costs	75,044	62,035
Durant settlement reimbursements	4,386	4,386
Medicaid fee for service	130,998	152,548
Career preparation	-	5,667
Other grants	1,740	3,270
Total interdistrict sources	<u>2,144,700</u>	<u>1,963,614</u>
<b>Total Revenues</b>	<u><u>\$ 25,092,706</u></u>	<u><u>\$ 24,340,884</u></u>

**SPARTA AREA SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2007 and 2006**

	2007	2006
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries	\$ 2,657,197	\$ 2,867,249
Employee benefits	1,384,043	1,350,117
Purchased services	49,035	14,286
Supplies	103,467	118,191
Miscellaneous	2,325	2,881
	4,196,067	4,352,724
Middle school:		
Salaries	2,403,265	2,381,139
Employee benefits	1,025,232	1,010,795
Purchased services	26,777	536
Supplies	68,551	45,623
	3,523,825	3,438,093
High school:		
Salaries	2,514,229	2,488,296
Employee benefits	1,097,436	1,036,590
Purchased services	32,181	8,615
Supplies	55,091	82,571
Miscellaneous	822	1,061
	3,699,759	3,617,133
Preschool:		
Salaries	63,564	99,112
Employee benefits	30,492	50,944
Purchased services	272	51
Supplies	1,666	2,351
Miscellaneous	250	57
	96,244	152,515
Summer school:		
Salaries	27,033	38,258
Employee benefits	6,524	8,658
Supplies	1,207	2,110
	34,764	49,026
Total basic programs	11,550,659	11,609,491
Added needs:		
Special education:		
Salaries	1,866,880	1,983,003
Employee benefits	923,913	951,406
Purchased services	16,091	596
Supplies	14,213	15,094
Payments to other school districts	146,836	136,701
	2,967,933	3,086,800

(Continued)

**SPARTA AREA SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2007 and 2006**

	2007	2006
Compensatory education:		
Salaries	\$ 287,238	\$ 288,432
Employee benefits	150,693	136,360
Purchased services	1,911	2,000
Supplies	5,248	7,980
	<u>445,090</u>	<u>434,772</u>
Total added needs	3,413,023	3,521,572
Adult education services:		
Basic:		
Salaries	105,798	109,547
Employee benefits	26,622	31,346
Purchased services	4,900	6,806
Supplies	11,536	8,615
Miscellaneous	21	-
	<u>148,877</u>	<u>156,314</u>
Secondary:		
Salaries	35,532	40,507
Employee benefits	5,656	34,340
Purchased services	18,143	19,229
Supplies	7,218	2,906
Miscellaneous	-	1,261
Indirect cost	38,204	32,949
	<u>104,753</u>	<u>131,192</u>
Total adult education services	253,630	287,506
Supporting services:		
Pupil services:		
Guidance services:		
Salaries	380,219	439,030
Employee benefits	160,737	177,499
Purchased services	3,916	8,009
Supplies	20,936	24,505
Miscellaneous	(294)	-
	<u>565,514</u>	<u>649,043</u>
Health services:		
Salaries	38,750	47,921
Employee benefits	9,168	9,911
Purchased services	509	451
Supplies	1,829	1,400
Payments to other school districts	150,446	148,941
	<u>200,702</u>	<u>208,624</u>
Psychological services:		
Purchased services	157	174
Supplies	1,803	1,090
Payments to other school districts	212,063	204,051
	<u>214,023</u>	<u>205,315</u>

(Continued)

**SPARTA AREA SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2007 and 2006**

	2007	2006
Speech pathology services:		
Purchased services	\$ 301	\$ 408
Supplies	836	1,084
Payments to other school districts	290,933	268,482
	292,070	269,974
Social worker services:		
Purchased services	150	216
Supplies	222	212
Payments to other school districts	343,578	392,721
	343,950	393,149
Total pupil services	1,616,259	1,726,105
Instructional staff services:		
Professional staff development:		
Salaries	18,700	49,370
Employee benefits	21,129	26,633
Purchased services	5,140	6,708
Supplies	561	726
Miscellaneous	2,056	1,271
	47,586	84,708
Library:		
Salaries	144,301	140,669
Employee benefits	105,673	103,718
Purchased services	1,498	2,339
Supplies	24,957	18,576
	276,429	265,302
Supervision/direction of instruction:		
Salaries	265,668	248,578
Employee benefits	108,391	86,017
Purchased services	5,570	6,192
Supplies	434	471
Capital outlay	-	1,167
Miscellaneous	-	66
	380,063	342,491
Total instructional staff services	704,078	692,501
General administrative services:		
Board of education:		
Salaries	240	3,930
Employee benefits	72,574	111,578
Purchased services	76,844	66,061
Supplies	356	1,306
Miscellaneous	18,919	18,276
	168,933	201,151

(Continued)

**SPARTA AREA SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2007 and 2006**

	2007	2006
Executive administration:		
Salaries	\$ 236,026	\$ 237,605
Employee benefits	89,844	89,374
Purchased services	1,403	2,699
Supplies	860	2,785
Miscellaneous	1,373	1,570
	329,506	334,033
Total general administrative services	498,439	535,184
School administrative services:		
Office of the principal:		
Salaries	961,084	977,372
Employee benefits	504,107	479,166
Purchased services	4,212	12,092
Office supplies	16,187	12,024
Miscellaneous	2,531	2,193
	1,488,121	1,482,847
Total school administrative services	1,488,121	1,482,847
Business services:		
Fiscal services:		
Salaries	123,918	122,125
Employee benefits	58,079	59,376
Purchased services	4,623	3,015
Supplies	2,180	3,934
Miscellaneous	30	10
	188,830	188,460
Internal services:		
Purchased services	61,278	46,101
Supplies	13,344	7,289
Miscellaneous	4,755	4,146
	79,377	57,536
Other business services:		
Miscellaneous	50,462	48,019
	50,462	48,019
Total business services	318,669	294,015
Operation and maintenance services:		
Operation and maintenance:		
Salaries	523,383	669,942
Employee benefits	291,558	370,634
Purchased services	414,992	327,233
Supplies	431,294	448,641
Miscellaneous	131	808
	1,661,358	1,817,258
Total operation and maintenance services	1,661,358	1,817,258

(Continued)

**SPARTA AREA SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Pupil transportation services:		
Pupil transportation:		
Salaries	\$ 521,808	\$ 581,767
Employee benefits	217,409	275,545
Purchased services	40,868	36,018
Supplies	176,384	175,466
New buses	508,257	74,918
Miscellaneous	6,172	2,991
Payments to other school districts	483,192	446,140
Total pupil transportation services	<u>1,954,090</u>	<u>1,592,845</u>
Central services:		
Staff/personnel services:		
Salaries	110,875	-
Employee benefits	41,393	-
Purchased services	790	-
Supplies	462	-
Miscellaneous	425	-
	<u>153,945</u>	<u>-</u>
Technology services:		
Salaries	72,737	54,692
Employee benefits	20,028	13,529
Purchased services	11,070	12,470
Supplies	19,214	29,654
New equipment and furniture	80,186	74,402
	<u>203,235</u>	<u>184,747</u>
Total central services	357,180	184,747
Community services:		
Community recreation:		
Salaries	3,584	4,502
Employee benefits	873	1,044
Supplies	20,665	27,758
	<u>25,122</u>	<u>33,304</u>
Custody/care of children:		
Salaries	175,730	163,298
Employee benefits	43,088	37,348
Supplies	15,333	15,037
Miscellaneous	191	401
	<u>234,342</u>	<u>216,084</u>
Total community services	259,464	249,388
Interdistrict:		
Other	28,937	-
<b>Total Expenditures</b>	<u><u>\$ 24,103,907</u></u>	<u><u>\$ 23,993,459</u></u>

## **NONMAJOR FUNDS**

**SPARTA AREA SCHOOLS**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2007**

<b>Assets</b>	Special Revenue	
	Food Service	Athletics
Cash equivalents, deposits and investments	\$ 150,848	\$ -
Taxes receivable	-	-
Due from other funds	-	-
Due from other governmental units	6,010	-
Inventory	20,603	-
<b>Total Assets</b>	<b>\$ 177,461</b>	<b>\$ -</b>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	\$ 386	\$ -
Deferred revenue	4,238	-
<b>Total Liabilities</b>	<b>4,624</b>	<b>-</b>
<b>Fund Balances</b>		
Reserved for debt service	-	-
Reserved for capital outlay	-	-
Unreserved:		
Undesignated	172,837	-
<b>Total Fund Balances</b>	<b>172,837</b>	<b>-</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 177,461</b>	<b>\$ -</b>

Debt Service				Capital Projects	Total
2003	2004	2006	2007	Building and Site	
\$ 42,929	\$ 169,620	\$ 141	\$ 75	\$ 368,286	\$ 731,899
765	1,690	-	-	339	2,794
-	-	-	-	1,867	1,867
-	-	-	-	-	6,010
-	-	-	-	-	20,603
<u>\$ 43,694</u>	<u>\$ 171,310</u>	<u>\$ 141</u>	<u>\$ 75</u>	<u>\$ 370,492</u>	<u>\$ 763,173</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 386
765	1,690	-	-	339	7,032
<u>765</u>	<u>1,690</u>	<u>-</u>	<u>-</u>	<u>339</u>	<u>7,418</u>
42,929	169,620	141	75	-	212,765
-	-	-	-	370,153	370,153
-	-	-	-	-	172,837
<u>42,929</u>	<u>169,620</u>	<u>141</u>	<u>75</u>	<u>370,153</u>	<u>755,755</u>
<u>\$ 43,694</u>	<u>\$ 171,310</u>	<u>\$ 141</u>	<u>\$ 75</u>	<u>\$ 370,492</u>	<u>\$ 763,173</u>

**SPARTA AREA SCHOOLS**  
**Combining Schedule of Revenues, Expenditures and Changes in**  
**Fund Balances - Nonmajor Governmental Funds**  
**For the year ended June 30, 2007**

	Special Revenue		2000	2001
	Food Service	Athletics		
<b>Revenues</b>				
Local sources:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Interest earnings	7,585	-	-	-
Sales and admissions	446,007	152,557	-	-
<b>Total local sources</b>	453,592	152,557	-	-
State sources	48,312	-	-	-
Federal sources	381,381	-	-	-
<b>Total Revenues</b>	883,285	152,557	-	-
<b>Expenditures</b>				
Current:				
Food service	829,842	-	-	-
Athletics	-	569,929	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal repayment	-	-	120,000	105,000
Interest and fiscal charges	-	-	27,921	19,741
Bond issuance costs	-	-	-	-
Underwriter's fees	-	-	-	-
<b>Total Expenditures</b>	829,842	569,929	147,921	124,741
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	53,443	(417,372)	(147,921)	(124,741)
<b>Other Financing Sources (Uses)</b>				
Refunding bond proceeds	-	-	-	-
Bond premium	-	-	-	-
Transfers in	-	417,372	147,921	124,741
Bond discount	-	-	-	-
Payments to escrow agent	-	-	-	-
Transfers out	(30,000)	-	-	-
<b>Total Other Financing Sources (Uses)</b>	(30,000)	417,372	147,921	124,741
<b>Net Change in Fund Balances</b>	23,443	-	-	-
<b>Fund Balances, July 1</b>	149,394	-	-	-
<b>Fund Balances, June 30</b>	\$ 172,837	\$ -	\$ -	\$ -

Debt Service				Capital Projects	Total
2003	2004	2006	2007	Building and Site	
\$ 816,213	\$ 1,852,806	\$ -	\$ -	\$ 363,454	\$ 3,032,473
5,718	5,415	141	75	9,953	28,887
-	-	-	-	-	598,564
821,931	1,858,221	141	75	373,407	3,659,924
-	-	-	-	-	48,312
-	-	-	-	-	381,381
821,931	1,858,221	141	75	373,407	4,089,617
-	-	-	-	-	829,842
-	-	-	-	-	569,929
-	-	-	-	6,564	6,564
790,000	200,000	40,000	-	-	1,255,000
61,451	1,162,842	139,451	95,246	-	1,506,652
-	160,483	-	-	-	160,483
-	100,000	-	-	-	100,000
851,451	1,623,325	179,451	95,246	6,564	4,428,470
(29,520)	234,896	(179,310)	(95,171)	366,843	(338,853)
-	20,000,000	-	-	-	20,000,000
-	21,671	-	-	-	21,671
-	-	179,451	95,246	-	964,731
-	(230,337)	-	-	-	(230,337)
-	(19,620,224)	-	-	-	(19,620,224)
-	(274,697)	-	-	(272,662)	(577,359)
-	(103,587)	179,451	95,246	(272,662)	558,482
(29,520)	131,309	141	75	94,181	219,629
72,449	38,311	-	-	275,972	536,126
\$ 42,929	\$ 169,620	\$ 141	\$ 75	\$ 370,153	\$ 755,755

**SPARTA AREA SCHOOLS**  
**Food Service Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2007**

	Budget	Actual	Variance - Positive (Negative)
<b>Revenues</b>			
Local sources	\$ 443,800	\$ 453,592	\$ 9,792
State sources	49,143	48,312	(831)
Federal sources	367,000	381,381	14,381
<b>Total Revenues</b>	<u>859,943</u>	<u>883,285</u>	<u>23,342</u>
<b>Expenditures</b>			
Current:			
Food service	826,510	829,842	(3,332)
<b>Excess of Revenues Over Expenditures</b>	<u>33,433</u>	<u>53,443</u>	<u>20,010</u>
<b>Other Financing Sources (Uses)</b>			
Transfers out	(30,000)	(30,000)	-
<b>Net Change in Fund Balances</b>	3,433	23,443	20,010
<b>Fund Balances, July 1</b>	<u>149,394</u>	<u>149,394</u>	<u>-</u>
<b>Fund Balances, June 30</b>	<u>\$ 152,827</u>	<u>\$ 172,837</u>	<u>\$ 20,010</u>

**SPARTA AREA SCHOOLS**  
**Athletics Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2007**

	Budget	Actual	Variance - Positive (Negative)
<b>Revenues</b>			
Local sources	\$ 146,040	\$ 152,557	\$ 6,517
<b>Expenditures</b>			
Current:			
Athletics	620,040	569,929	50,111
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(474,000)</u>	<u>(417,372)</u>	<u>56,628</u>
<b>Other Financing Sources</b>			
Transfers in	474,000	417,372	(56,628)
<b>Net Change in Fund Balances</b>	-	-	-
<b>Fund Balances, July 1</b>	-	-	-
<b>Fund Balances, June 30</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## **SPECIAL REVENUE FUNDS**

*Food Service*—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the District.

*Athletics*—to account for activity receipts and General Fund contributions used in administering the athletic program of the District.

**SPARTA AREA SCHOOLS**  
**Food Service Special Revenue Fund**  
**Comparative Balance Sheet**  
**June 30, 2007 and 2006**

	2007	2006
<b>Assets</b>		
Cash equivalents, deposits and investments	\$ 150,848	\$ 137,289
Due from other governmental units	6,010	5,678
Inventory	20,603	10,967
<b>Total Assets</b>	<b>\$ 177,461</b>	<b>\$ 153,934</b>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	\$ 386	\$ 357
Deferred revenue	4,238	4,183
<b>Total Liabilities</b>	4,624	4,540
<b>Fund Balances</b>		
Unreserved:		
Undesignated	172,837	149,394
<b>Total Liabilities and Fund Balances</b>	<b>\$ 177,461</b>	<b>\$ 153,934</b>

**SPARTA AREA SCHOOLS**  
**Food Service Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2007 and 2006**

	2007	2006
<b>Revenues</b>		
Local sources:		
Sales and admissions:		
Children's lunches	\$ 251,106	\$ 240,448
Adult lunches	11,431	10,587
Milk	10,341	8,777
Ala carte	165,209	154,594
Banquets	1,355	1,242
Other	6,565	7,081
	446,007	422,729
Interest earnings:		
Interest on deposits and investments	7,585	5,057
Total local sources	453,592	427,786
State sources	48,312	52,950
Federal sources	381,381	337,495
<b>Total Revenues</b>	883,285	818,231
<b>Expenditures</b>		
Current:		
Food service:		
Salaries	248,438	245,691
Employee benefits	161,676	151,860
Purchased services	9,803	10,098
Supplies	409,222	373,119
Miscellaneous	703	635
	829,842	781,403
<b>Total Expenditures</b>	829,842	781,403
<b>Excess of Revenues Over Expenditures</b>	53,443	36,828
<b>Other Financing Sources (Uses)</b>		
Transfers out	(30,000)	(30,000)
<b>Net Change in Fund Balances</b>	23,443	6,828
<b>Fund Balances, July 1</b>	149,394	142,566
<b>Fund Balances, June 30</b>	\$ 172,837	\$ 149,394

**SPARTA AREA SCHOOLS**  
**Athletics Special Revenue Fund**  
**Comparative Balance Sheet**  
**June 30, 2007 and 2006**

	2007	2006
<b>Assets</b>		
Cash equivalents, deposits and investments	\$ -	\$ 753
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	\$ -	\$ 753
<b>Fund Balances</b>		
Unreserved:		
Undesignated	-	-
<b>Total Liabilities and Fund Balances</b>	<b>\$ -</b>	<b>\$ 753</b>

**SPARTA AREA SCHOOLS**  
**Athletics Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2007 and 2006**

	2007	2006
<b>Revenues</b>		
Local sources:		
Sales and admissions:		
Athletic admissions	\$ 63,513	\$ 70,337
Fees and sales	44,270	44,669
Donations	44,684	39,893
Other	90	-
	152,557	154,899
<b>Expenditures</b>		
Current:		
Athletics:		
Salaries	347,327	334,537
Employee benefits	114,763	107,171
Purchased services	43,228	38,343
Supplies	45,156	61,811
Miscellaneous	19,455	21,784
	569,929	563,646
	(417,372)	(408,747)
<b>Other Financing Sources</b>		
Transfers in	417,372	408,747
	-	-
<b>Fund Balances, July 1</b>	-	-
<b>Fund Balances, June 30</b>	\$ -	\$ -

## **DEBT SERVICE FUNDS**

*Debt Service Funds*—To accumulate property tax revenues and interest earnings for repayment of the bond issues of the District used to finance new building construction projects.

**SPARTA AREA SCHOOLS**  
**Debt Service Funds**  
**Combining Balance Sheet**  
**June 30, 2007**

	<u>2003</u>	<u>2004</u>	<u>2006</u>	<u>2007</u>
<b>Assets</b>				
Cash equivalents, deposits and investments	\$ 42,929	\$ 169,620	\$ 141	\$ 75
Taxes receivable	765	1,690	-	-
<b>Total Assets</b>	<u>\$ 43,694</u>	<u>\$ 171,310</u>	<u>\$ 141</u>	<u>\$ 75</u>
 <b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Deferred revenue	\$ 765	\$ 1,690	\$ -	\$ -
<b>Fund Balances</b>				
Reserved for debt service	42,929	169,620	141	75
<b>Total Liabilities and Fund Balances</b>	<u>\$ 43,694</u>	<u>\$ 171,310</u>	<u>\$ 141</u>	<u>\$ 75</u>

Totals	
2007	2006
\$ 212,765	\$ 110,760
2,455	5,572
<u>\$ 215,220</u>	<u>\$ 116,332</u>
<u>\$ 2,455</u>	<u>\$ 5,572</u>
<u>212,765</u>	<u>110,760</u>
<u>\$ 215,220</u>	<u>\$ 116,332</u>

**SPARTA AREA SCHOOLS**  
**Debt Service Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the year ended June 30, 2007**

	2000	2001	2003	2004
<b>Revenues</b>				
Local sources:				
Property taxes:				
Current property taxes	\$ -	\$ -	\$ 801,651	\$1,820,410
Industrial facilities taxes	-	-	10,970	24,911
Delinquent property taxes	-	-	784	1,579
Other taxes	-	-	1,196	2,257
Interest on delinquent taxes	-	-	1,612	3,649
	<u>-</u>	<u>-</u>	<u>816,213</u>	<u>1,852,806</u>
Interest earnings:				
Interest on deposits and investments	-	-	5,718	5,415
Other local sources:				
Refunds of prior years expenditures	-	-	-	-
State sources:				
State school aid	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Revenues</b>	<u>-</u>	<u>-</u>	<u>821,931</u>	<u>1,858,221</u>
<b>Expenditures</b>				
Debt service:				
Principal repayment	120,000	105,000	790,000	200,000
Interest and fiscal charges:				
Interest expense	27,646	19,492	60,675	1,161,625
Paying agent fees	275	249	250	212
Tax refunds	-	-	526	1,005
Bond issuance costs	-	-	-	160,483
Underwriter's fees	-	-	-	100,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
<b>Total Expenditures</b>	<u>147,921</u>	<u>124,741</u>	<u>851,451</u>	<u>1,623,325</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(147,921)</u>	<u>(124,741)</u>	<u>(29,520)</u>	<u>234,896</u>
<b>Other Financing Sources (Uses)</b>				
Refunding bonds issued	-	-	-	20,000,000
Bond premium	-	-	-	21,671
Transfers in	147,921	124,741	-	-
Bond discount	-	-	-	(230,337)
Payments to escrow agent	-	-	-	(19,620,224)
Transfers out	-	-	-	(274,697)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(274,697)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>147,921</u>	<u>124,741</u>	<u>-</u>	<u>(103,587)</u>
<b>Net Change in Fund Balances</b>	-	-	(29,520)	131,309
<b>Fund Balances, July 1</b>	<u>-</u>	<u>-</u>	<u>72,449</u>	<u>38,311</u>
<b>Fund Balances, June 30</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,929</u>	<u>\$ 169,620</u>

2006	2007	Totals	
		2007	2006
\$ -	\$ -	\$2,622,061	\$ 2,466,913
-	-	35,881	32,301
-	-	2,363	2,030
-	-	3,453	4,623
-	-	5,261	-
-	-	2,669,019	2,505,867
141	75	11,349	11,102
-	-	-	6,364
-	-	-	55,212
141	75	2,680,368	2,578,545
40,000	-	1,255,000	1,193,057
139,338	95,134	1,503,910	1,777,574
113	112	1,211	712
-	-	1,531	9,274
-	-	160,483	-
-	-	100,000	-
179,451	95,246	3,022,135	2,980,617
(179,310)	(95,171)	(341,767)	(402,072)
-	-	20,000,000	-
-	-	21,671	-
179,451	95,246	547,359	267,968
-	-	(230,337)	-
-	-	(19,620,224)	-
-	-	(274,697)	-
179,451	95,246	443,772	267,968
141	75	102,005	(134,104)
-	-	110,760	244,864
<u>\$ 141</u>	<u>\$ 75</u>	<u>\$ 212,765</u>	<u>\$ 110,760</u>

## **CAPITAL PROJECTS FUNDS**

*Building and Site*—to account for property tax revenues and interest earnings used to finance building restoration projects.

*2004 Construction*—to account for bond proceeds used to finance building construction and improvement projects.

**SPARTA AREA SCHOOLS**  
**Building and Site Capital Projects Fund**  
**Comparative Balance Sheet**  
**June 30, 2007 and 2006**

	2007	2006
<b>Assets</b>		
Cash equivalents, deposits and investments	\$ 368,286	\$ 275,972
Taxes receivable	339	1,388
Due from other funds	1,867	-
<b>Total Assets</b>	<b>\$ 370,492</b>	<b>\$ 277,360</b>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Deferred revenue	\$ 339	\$ 1,388
<b>Fund Balances</b>		
Reserved for capital outlay	370,153	275,972
<b>Total Liabilities and Fund Balances</b>	<b>\$ 370,492</b>	<b>\$ 277,360</b>

**SPARTA AREA SCHOOLS**  
**Building and Site Capital Projects Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2007 and 2006**

	2007	2006
<b>Revenues</b>		
Local sources:		
Property taxes:		
Current property taxes	\$ 357,064	\$ 335,936
Industrial facilities taxes	4,886	4,399
Delinquent property taxes	322	272
Other taxes	466	-
Interest on delinquent taxes	716	629
	363,454	341,236
Interest earnings:		
Interest on deposits and investments	9,953	8,677
	373,407	349,913
<b>Expenditures</b>		
Capital outlay:		
Building improvements	6,357	-
Tax refunds	207	1,478
	6,564	1,478
<b>Excess of Revenues Over Expenditures</b>	366,843	348,435
<b>Other Financing Sources (Uses)</b>		
Transfers out	(272,662)	(267,968)
	94,181	80,467
<b>Net Change in Fund Balances</b>	94,181	80,467
<b>Fund Balances, July 1</b>	275,972	195,505
<b>Fund Balances, June 30</b>	\$ 370,153	\$ 275,972

**SPARTA AREA SCHOOLS**  
**2004 Construction Capital Projects Fund**  
**Comparative Balance Sheet**  
**June 30, 2007 and 2006**

	2007	2006
<b>Assets</b>		
Cash equivalents, deposits and investments	\$ 10,160,452	\$ 24,426,246
Accrued interest receivable	68,683	241,133
Prepaid expenditures	237,341	-
<b>Total Assets</b>	<b>\$ 10,466,476</b>	<b>\$ 24,667,379</b>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	\$ 894,520	\$ 1,552,114
<b>Fund Balances</b>		
Reserved for capital outlay	9,571,956	23,115,265
<b>Total Liabilities and Fund Balances</b>	<b>\$ 10,466,476</b>	<b>\$ 24,667,379</b>

**SPARTA AREA SCHOOLS**  
**2004 Construction Capital Projects Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2007 and 2006**

	2007	2006
<b>Revenues</b>		
Local sources:		
Interest earnings:		
Interest on deposits and investments	\$ 890,530	\$ 856,855
Other local sources:		
Donations	21,886	10,000
<b>Total Revenues</b>	912,416	866,855
<b>Expenditures</b>		
Capital outlay:		
Purchased services	36,576	6,758
Construction manager	1,107,648	1,002,316
Legal services	1,010	10,082
Architect services	310,044	347,502
Land	-	88,215
Building improvements	12,764,403	10,467,416
Equipment and furniture	236,044	-
<b>Total Expenditures</b>	14,455,725	11,922,289
<b>Net Change in Fund Balances</b>	(13,543,309)	(11,055,434)
<b>Fund Balances, July 1</b>	23,115,265	34,170,699
<b>Fund Balances, June 30</b>	\$ 9,571,956	\$ 23,115,265

## **AGENCY FUND**

*Student Activities*—to account for the collection and disbursements of monies used by the school activity clubs and groups.

**SPARTA AREA SCHOOLS**  
**Student Activities Agency Fund**  
**Statement of Changes in Assets and Liabilities**  
**For the year ended June 30, 2007**

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	<u>Balances</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2007</u>
<b>Assets</b>				
Cash equivalents, deposits and investments	<u>\$ 459,374</u>	<u>\$ 488,618</u>	<u>\$ 455,873</u>	<u>\$ 492,119</u>
<b>Liabilities</b>				
Due to student groups	<u>\$ 459,374</u>	<u>\$ 488,618</u>	<u>\$ 455,873</u>	<u>\$ 492,119</u>

## **OTHER INFORMATION**

**SPARTA AREA SCHOOLS**  
**Summary of 2006 Taxes Levied and Collected**  
**For the year ended June 30, 2007**

	Kent County			
	Algoma	Alpine	Sparta	Tyrone
<b>Taxable Valuations</b>				
Operating	\$ 9,520,152	\$ 11,713,879	\$ 81,871,581	\$ 28,023
Debt Service/Building and Site	114,242,397	46,785,266	231,772,567	485,552
<b>Rates (Mills)</b>				
General Fund				
2003 Debt Service Fund				
2004 Debt Service Fund				
Building and Site Fund				
<b>Taxes Levied 2006 Rolls</b>				
General Fund	\$ 171,362	\$ 210,849	\$ 1,466,527	\$ 504
2003 Debt Service Fund	219,342	89,826	444,994	932
2004 Debt Service Fund	498,087	203,979	1,010,506	2,117
Building and Site Fund	97,699	40,010	198,208	415
	<u>986,490</u>	<u>544,664</u>	<u>3,120,235</u>	<u>3,968</u>
<b>Taxes Uncollected 2006 Rolls</b>				
General Fund	90	17	5,632	-
2003 Debt Service Fund	10	2	601	-
2004 Debt Service Fund	21	4	1,364	-
Building and Site Fund	5	1	268	-
	<u>126</u>	<u>24</u>	<u>7,865</u>	<u>-</u>
<b>Taxes Collected 2006 Rolls</b>				
General Fund	171,272	210,832	1,460,895	504
2003 Debt Service Fund	219,332	89,824	444,393	932
2004 Debt Service Fund	498,066	203,975	1,009,142	2,117
Building and Site Fund	97,694	40,009	197,940	415
	<u>986,364</u>	<u>544,640</u>	<u>3,112,370</u>	<u>3,968</u>
<b>Delinquent Taxes Collected</b>				
General Fund	-	-	6,469	-
2003 Debt Service Fund	-	-	748	-
2004 Debt Service Fund	-	-	1,509	-
Building and Site Fund	-	-	308	-
	<u>-</u>	<u>-</u>	<u>9,034</u>	<u>-</u>
<b>Total Taxes Collected</b>				
General Fund	171,272	210,832	1,467,364	504
2003 Debt Service Fund	219,332	89,824	445,141	932
2004 Debt Service Fund	498,066	203,975	1,010,651	2,117
Building and Site Fund	97,694	40,009	198,248	415
	<u>\$ 986,364</u>	<u>\$ 544,640</u>	<u>\$ 3,121,404</u>	<u>\$ 3,968</u>

(Continued)

Ottawa County		
Chester	Wright	Total
\$ 4,497,627	\$ 447,617	\$ 108,078,879
22,671,552	1,909,246	417,866,580
		18.0000
		1.9200
		4.3600
		0.8552
		<u>25.1352</u>
\$ 80,957	\$ 8,057	\$ 1,938,256
43,530	3,666	802,290
98,844	8,324	1,821,857
19,386	1,632	357,350
<u>242,717</u>	<u>21,679</u>	<u>4,919,753</u>
76	169	5,984
8	18	639
18	41	1,448
4	8	286
<u>106</u>	<u>236</u>	<u>8,357</u>
80,881	7,888	1,932,272
43,522	3,648	801,651
98,826	8,283	1,820,409
19,382	1,624	357,064
<u>242,611</u>	<u>21,443</u>	<u>4,911,396</u>
166	133	6,768
21	15	784
39	31	1,579
8	6	322
<u>234</u>	<u>185</u>	<u>9,453</u>
81,047	8,021	1,939,040
43,543	3,663	802,435
98,865	8,314	1,821,988
19,390	1,630	357,386
<u>\$ 242,845</u>	<u>\$ 21,628</u>	<u>\$ 4,920,849</u>

**SPARTA AREA SCHOOLS**  
**Summary of 2006 Taxes Levied and Collected**  
**For the year ended June 30, 2007**

	Kent County			
	Algoma	Alpine	Sparta	Tyrone
<b>Taxes Uncollected – June 30, 2007</b>				
General Fund:				
2006	\$ 90	\$ 17	\$ 5,632	\$ -
2005	-	90	411	-
2004	-	-	376	-
	<u>90</u>	<u>107</u>	<u>6,419</u>	<u>-</u>
2003 Debt Service Fund:				
2006	10	2	601	-
2005	-	10	48	-
2004	-	-	52	-
	<u>10</u>	<u>12</u>	<u>701</u>	<u>-</u>
2004 Debt Service Fund:				
2006	21	4	1,364	-
2005	-	21	96	-
2004	-	-	87	-
	<u>21</u>	<u>25</u>	<u>1,547</u>	<u>-</u>
Building and Site Fund:				
2006	5	1	268	-
2005	-	4	19	-
2004	-	-	20	-
	<u>5</u>	<u>5</u>	<u>307</u>	<u>-</u>
<b>Total Taxes Uncollected</b>	<u><u>\$ 126</u></u>	<u><u>\$ 149</u></u>	<u><u>\$ 8,974</u></u>	<u><u>\$ -</u></u>

Ottawa County		
Chester	Wright	Total
\$ 76	\$ 169	\$ 5,984
161	-	662
1	-	377
<u>238</u>	<u>169</u>	<u>7,023</u>
8	18	639
16	-	74
-	-	52
<u>24</u>	<u>18</u>	<u>765</u>
18	41	1,448
38	-	155
-	-	87
<u>56</u>	<u>41</u>	<u>1,690</u>
4	8	286
8	-	31
2	-	22
<u>14</u>	<u>8</u>	<u>339</u>
<u>\$ 332</u>	<u>\$ 236</u>	<u>\$ 9,817</u>

Hungerford, Aldrin,  
Nichols & Carter, P.C.  

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CPAs AND CONSULTANTS

October 31, 2007

The Board of Education  
Sparta Area Schools  
Kent County, Michigan

The following comments pertain to our audit of the financial records of Sparta Area Schools as of and for the year ended June 30, 2007. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the District's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Sparta Area Schools:

### **Auditors Responsibility Under U.S. Generally Accepted Auditing Standards**

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

In planning and performing our audit, we considered Sparta Area School's 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 Sparta Area School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Sparta Area School's 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 Sparta Area School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Sparta Area School's compliance with those requirements.

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Sparta Area Schools are described in Note A to the financial statements.

### **Difficulties Encountered In Performing The Audit**

We encountered no significant difficulties in performing the audit of the financial statements of Sparta Area Schools for the year ended June 30, 2007.

## **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. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements:

### General Fund

1. \$14,792 and \$32,514 to reverse and accrue prior and current year delinquent personal property taxes receivable.
2. \$45,412 to record 2006-07 FICA/MPERS reimbursement due from KISD at June 30, 2007.

## **Proposed Audit Adjustments**

There were no material adjustments proposed during the audit not recorded by Sparta Area Schools.

## **Suggestions and Recommendations**

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Sparta Area Schools to the Accounting Supervisor and accounting personnel as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

In the fall of 2006, the AICPA issued Statement on Auditing Standards No. 112 "*Communicating Internal Control Related Matters Identified in and Audit*", which requires a written communication from an auditor to an organization's governing board if any weaknesses in internal controls ("control deficiencies") rise to the level of "significant deficiencies" or "material weaknesses" that might effect the integrity of the financial statements. The AICPA significantly broadened the standards as to what might be a significant deficiency and/or material weakness and raised the expectations of auditors to report these control deficiencies, if found. We did observe certain control deficiencies in areas of the District's internal control during the course of our audit that we determined to be significant deficiencies or material weaknesses, which have been detailed in a separate letter to the Board of Education. The following recommendations relate to our internal control findings:

- The District should redistribute certain accounting functions within the business office (bank reconciliations, payroll review, purchase order/invoice review/approval, financial statement review, etc.) and outside of the business office (monitoring of athletic, food service, student activities, child care activities) in order to overcome the significant deficiency in internal controls of a lack of segregation of duties and monitoring of control activities that currently exist.

- The District should establish a uniform set of documented accounting policies and procedures that are designed to be applied consistently throughout the District; this will increase the efficiency and accountability of the accounting and record keeping process and strengthen in internal control system of the District.
- We encourage the District to support the Finance Director, the District Accountant and other business office personnel in furthering their education in the area of governmental accounting and financial statement preparation requirements to maintain compliance with current GAAP and GASB standards. These are complex and constantly changing requirements that continue to increase and undergo significant modifications.

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 “Consideration of Fraud in a Financial Statement Audit” (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school district that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that Sparta Area Schools has a very extensive network of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with District business office personnel, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the District in maintaining and improving its systems.

#### **Other Comments**

The General Fund balance of the District increased by \$601,427 to \$3,328,222 at June 30, 2007. This balance represents approximately 13.4 percent of the District’s 2007-08 expenditure budget, up from 10.9 percent at June 30, 2006. Maintaining a fund balance of at least 10 to 20 percent of the ensuing year’s expenditure budget is advisable for Sparta Area Schools. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

This communication is intended solely for the information and use of the Sparta Area Schools Board of Education, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Sparta Area Schools and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the District's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them.

*Hungerford, Aldrin, Nichols & Austin, P.C.*

Certified Public Accountants

Hungerford, Aldrin,  
Nichols & Carter, P.C.  
CPAs AND CONSULTANTS

October 31, 2007

The Board of Education  
Sparta Area Schools  
Kent County, Michigan

The following comments pertain to our audit of the financial records of Sparta Area Schools as of and for the year ended June 30, 2007. The comments are made in accordance with Statement on Auditing Standards No. 112 "*Communicating Internal Control Related Matters Identified in an Audit*" which has the following two unconditional requirements:

- The auditor must evaluate identified *control deficiencies* and determine whether those deficiencies, individually or in combination, are *significant deficiencies* or *material weaknesses*.
- The auditor *must communicate, in writing, significant deficiencies and material weaknesses* to management and those charged with governance. This communication includes significant deficiencies and material weaknesses identified and communicated to management and those charged with governance in prior audits but not yet remediated.

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. We believe that the following deficiency constitutes a material weakness:

The following describe circumstances that may be control deficiencies, significant deficiencies, or material weaknesses:

- Inadequate *design* of internal control over a significant account or process.
- Inadequate *documentation* of the components of internal control.
- Insufficient *control consciousness* within the organization, for example, the tone at the top and the control environment.
- Inadequate or absent *segregation of duties* within a significant account or process.
- Inadequate design of *information technology* (IT) general and application controls.
- Inadequate design of *monitoring* controls used to assess the design and operating effectiveness of internal controls.
- The absence of an internal process to *report deficiencies* in internal controls to management on a timely basis.
- Employees or management who *lack the qualifications and training* to fulfill their assigned functions. For example, in an entity that prepares financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) requirements, the person responsible for the accounting and reporting function lacks the level of skills and knowledge necessary to apply GAAP and GASB standards in recording the entity's financial transactions or *preparing its financial statements* (including the notes to basic financial statements).

The management of Sparta Area Schools is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

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

internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control. Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

- Inadequate *design and documentation* of the District's internal control system
- Inadequate *segregation of duties* in the District business office, which leads to a *lack of independent monitoring* of the accounting functions of the District Accountant and of financial transactions occurring outside the Business Office.
- District personnel who lack the qualifications and training to fulfill certain required functions:
  1. The lack of knowledge and skills present to apply Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) requirements in recording the District's financial transactions or preparing its financial statements (including the notes to basic financial statements) in compliance with current GAAP and GASB requirements.

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

*Hungerford, Aldwin, Nichols & Austin, P.C.*

Certified Public Accountants