

# **PERRY PUBLIC SCHOOLS**

## **REPORT ON AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2007**

PERRY PUBLIC SCHOOLS  
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## INDEPENDENT AUDITORS' REPORT

August 17, 2007

Board of Education  
Perry Public Schools

We have audited the accompanying basic financial statements of Perry Public Schools as of and for the year ended June 30, 2007 as listed in the table of contents. These basic financial statements are the responsibility of the school's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount 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.

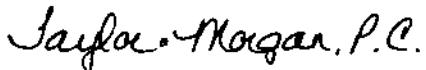
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Perry Public Schools, Perry, MI, as of June 30, 2007 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 17, 2007 on our consideration of Perry Public 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 the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Perry Public Schools, Perry, MI, taken as a whole. The accompanying information identified in the table of contents as combining financial statements and other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sincerely,

A handwritten signature in cursive script that reads "Taylor & Morgan, P.C.".

TAYLOR & MORGAN, P.C.  
Certified Public Accountants

Perry Public Schools – Perry, Michigan  
Management Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007

The Perry Public School District implemented Governmental Accounting Standards Board Statement 34 (GASB 34) with the financial statements for the year ended June 30, 2003. Our discussion and analysis of Perry Public School Districts' financial performance, a GASB 34 requirement, provides an overview of the School District's financial activities for the fiscal year ended June 30, 2006.

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

**FINANCIAL POSITION AND RESULTS OF OPERATIONS**

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

The School District's net assets totaled \$(6,240,468) and \$(6,188,472) at June 30, 2007 and 2006, respectively. Of these amounts, \$1,380,316 and \$1,265,863 were unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and legislation that limits the School District's ability to use those net assets for day-to-day operations. The following is a summary of the District's net assets at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current assets	\$ 7,784,012	\$ 13,173,869
Capital assets net of depreciation	25,012,376	8,931,083
Construction in progress	<u>0</u>	<u>11,246,278</u>
<b>Total assets</b>	<b><u>\$ 32,796,388</u></b>	<b><u>\$ 33,351,230</u></b>
<b>Liabilities</b>		
Current liabilities	\$ 6,888,569	\$ 6,905,361
Long-term liabilities	<u>32,148,287</u>	<u>32,634,341</u>
<b>Total liabilities</b>	<b>39,036,856</b>	<b>39,539,702</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	(7,700,997)	(12,636,643)
Restricted for debt service	(36,360)	(22,743)
Restricted for capital projects	116,573	5,205,051
Unrestricted	<u>1,380,316</u>	<u>1,265,863</u>
<b>Total net assets</b>	<b><u>(6,240,468)</u></b>	<b><u>(6,188,472)</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 32,796,388</u></b>	<b><u>\$ 33,351,230</u></b>

Perry Public Schools – Perry, Michigan  
Management Discussion and Analysis  
For the Fiscal Year ended June 30, 2007

Total net assets decreased approximately \$51,996 in 2006-07. The major components of the change in net assets are as follows:

➤ **Capital projects Investments**

Bond proceeds are invested in securities that have maturity dates compatible with the anticipated dates of cash requirements for the payment of construction costs on a periodic basis. This resource for the funding of Capital Projects decreased approximately \$6.0 million as the various projects approach completion.

➤ **Depreciation expense**

The provisions of GASB 34 require districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net assets. Depreciation expense is recorded using a straight-line method over the estimated useful lives of the assets. In accordance with generally accepted accounting principals, depreciation expense is recorded based on the original cost of the asset less an estimated salvage value. For the year ended June 30, 2007 the net increase in accumulated depreciation was \$558,152.

➤ **Capital acquisitions**

Capital outlay for the year ended June 30, 2007 totaled \$16,639,445 including the construction of 4 new classrooms, an outdoor all-weather track, new bleachers and a new practice gym at the high school, a partial demolition of the middle school and the construction of 14 new classrooms and a complete renovation and equipping of that building. Combined with current year depreciation and the effect of disposals Net Assets increased by \$16,081,293.

➤ **Long Term Debt**

Long term debt related to fixed assets decreased \$504,281.

➤ **Fund Balance**

The District's fund balance in the General Fund decreased during the current year to \$1,965,037 a decrease of \$202,990. The budget was amended one time during the year, to reflect the effects of cost reduction programs and inflationary pressures on salaries and benefits.

Perry Public Schools – Perry, Michigan  
Management Discussion and Analysis  
For the Fiscal Year ended June 30, 2007

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

	2007	2006
<b>General revenue</b>		
Property taxes levied for general operations	\$ 602,464	\$ 573,111
State of Michigan aid, unrestricted	12,581,285	12,256,300
Property Taxes levied for debt service	1,742,629	1,632,679
Loss on Sale of Fixed Assets	5,006	(5,042)
Other – federal, state and local	<u>793,716</u>	<u>859,443</u>
<b>Total general revenue</b>	<b>15,725,100</b>	<b>15,316,491</b>
<b>Program revenue</b>		
Charges for services – local	472,452	411,775
Operating grants – federal and state	<u>1,368,570</u>	<u>1,368,860</u>
<b>Total program revenue</b>	<b><u>1,841,022</u></b>	<b><u>1,780,635</u></b>
<b>Total revenues</b>	<b>17,566,122</b>	<b>17,097,126</b>
<b>Expenses</b>		
Instruction	9,759,685	9,014,460
Support services	5,514,725	5,277,377
Community services	65,615	31,262
Food services	496,536	492,509
Athletics	356,480	344,190
Debt service	1,068	1,335
Interest on long-term debt	<u>1,424,009</u>	<u>1,285,457</u>
<b>Total expenses</b>	<b><u>17,618,118</u></b>	<b><u>16,446,590</u></b>
<b>Increase (Decrease) in net assets</b>	<b>(51,996)</b>	<b>650,536</b>
<b>Net assets – July 1</b>	<b><u>(6,188,472)</u></b>	<b><u>(6,839,008)</u></b>
<b>Net assets – June 30</b>	<b><u>\$(6,240,468)</u></b>	<b><u>\$(6,188,472)</u></b>

Perry Public Schools – Perry, Michigan  
Management Discussion and Analysis  
For the Fiscal Year ended June 30, 2007

**GOVERNMENTAL FUNDS FINANCIAL HIGHLIGHTS**

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

A decrease in enrollment of thirteen students resulted in a reduction of State Aid by approximately \$92,000 while the foundation allowance increased by \$210 per student resulting in a net increase in State Aid amounting to approximately \$402,000.

Investment earnings increased approximately \$80,000 due to increased interest rates and a favorable cash flow cycle.

**MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS**

The School District's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year, before student enrollment counts are known. Therefore, it is expected that there will be changes between the initial budget and subsequent budgets, as actual enrollments and resultant staffing requirements are may differ than initial projections. Currently, the most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2007, the School District amended the budget of this major governmental fund once, 6/21/2007.

***General Fund***

In the general fund, the actual revenue was \$ 15.6 million. This is above the original budget estimate of \$15.0 million and above the final amended budgeted amount of \$15.2 million, a variance of 2.6%. The actual expenditures and other financing uses in the general fund were \$15.8 million. This is above the original budget estimate of \$15.3 million and equal to final amended budgeted amount of \$15.8 million, a variance of 0.0%.

**GOVERNMENTAL FUND EXPENDITURES**

The following chart illustrates that general fund comprises 65% of all the expenditures within the governmental funds of the School District. As of June 30, 2007, expenditures totaled approximately \$23.3 million for all District programs. The ending fund balance for all funds was equal to \$2.2 million.

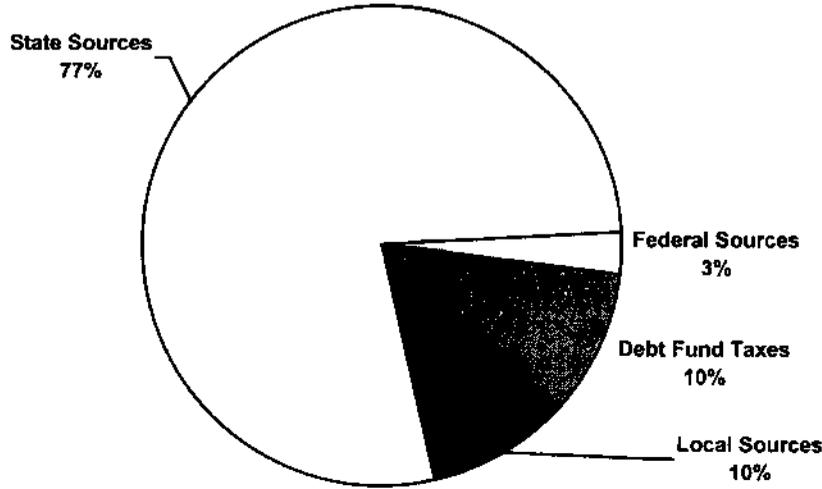
	June 30, 2007 (In millions)	% Of TOTAL
General Fund	\$15.2	65%
Capital Projects Fund	\$ 5.2	22%
Other Non-major Funds	\$ 2.9	13%
Total	<u>\$23.3</u>	<u>100%</u>

Perry Public Schools – Perry, Michigan  
Management Discussion and Analysis  
For the Fiscal Year ended June 30, 2007

**TOTAL REVENUES**

Revenues for all governmental funds totaled \$17.2 million compared with \$16.8 million in 2006. The following graph illustrates the District revenues by source as a percentage of total revenue exclusive of the bond issue:

**Revenues by Source**



***Unrestricted State Aid***

The district is predominately funded by State Aid based on a formula of enrollment multiplied by the foundation allowance. The enrollment portion decreased by nearly \$92,000, while the foundation allowance increased by approximately \$402,000 resulting in a net increase of approximately \$310,000. The enrollment was 1,913 and 1,926 in 2006-07 and 2005-06 respectively and the state per-pupil allocation for 2006-07 was \$7,085 and \$6,875 for 2005-06.

***Property Taxes***

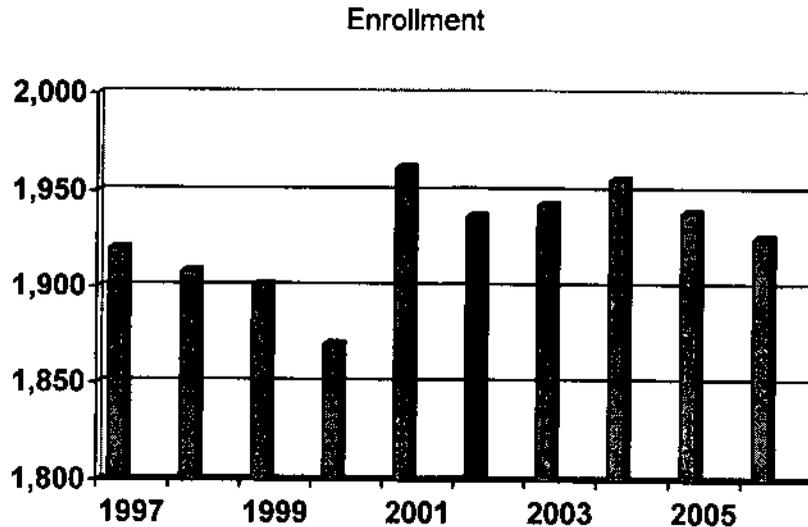
The District levies 14.7771 mills of property taxes on all Non-Homestead property located within the district for General Fund operations. The levy is assessed on the taxable value of the property. The increase in taxable value is limited to the lesser of the inflation rate of the prior year or 5%. When a property is sold, the taxable valuation of the sold property is readjusted to the State Equalized Value, which is approximately 50% of market value. The 2006-07 Non-Homestead property tax levy totaled approximately \$0.6 million compared with \$0.6 million in 2005-06.

The District levies 7.0 mills of property taxes on all classes of property located within the district for bonded debt retirement. This levy is not subject to rollback provisions and is used to pay the principal and interest on bond obligations. The total amount levied for debt retirement in the current year was \$1.7 million compared with \$1.6 million in 2005-06.

## **ENROLLMENT**

The District's 2006-2007 enrollment totaled 1,913 students. This is a decrease in enrollment of 13 students from the prior year. The District is located in the Southwest corner of Shiawassee County. Although the county has not experienced significant economic growth, there has been significant growth within a thirty-mile radius to the West and South of the District in adjacent Ingham County. The District lies along I-69 and is located 10-12 miles North of I-96. These highways put the District within a one-hour drive to Ann Arbor, Brighton, Flint, Lansing and other metropolitan areas where real estate is considerably higher than in Shiawassee County

Enrollment over the last ten years can be illustrated as follows:



Enrollment is important to the financial health of the District because State funding is based on a per-pupil formula. For the fiscal year ended June 30, 2007, the gross per-pupil allowance was \$7,085.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### ***Capital Assets***

At the end of fiscal year 2007, the School District had \$ 32.0 million invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, \$7.5 million has been depreciated. Net book value totals \$25.0 million. Total additions for the year were \$9.0 million and were comprised of classroom additions to the high school, replacement of 4 classrooms at an elementary building, a major renovation of the middle school and the addition of a new all-weather track, bleachers and a new practice gym. The District's buildings range in years of construction from 1947 to 1994. The majority of the buildings were constructed in the 1980's and 1990's. The district is committed to the timely repairs and maintenance of its facilities. Computer purchases are under the District's capitalization threshold of \$5,000 and are expensed accordingly.

### CAPITAL ASSETS AT YEAR END (IN MILLIONS)

	Governmental Activities
Land and Improvements	\$ .50
Buildings and Additions	29.57
Furniture and Equipment	1.59
Vehicles & Buses	.82
Less Depreciation	(7.48)
Total	<u>\$ 25.00</u>

## **Debt**

### **OUTSTANDING DEBT AT YEAR-END**

The District has outstanding four qualified bond issues, a State Aid Note, Durant Bonds and a loan from the School Bond Loan Fund (SBLF). The proceeds from qualified bond issues dated 1997, 2003, and 2004 (refinanced 1994 bonds) and 2004 were used to construct a new High School building, expand and/or refurbish two Elementary buildings and a Middle School building, and install fiber optic cabling among each of these building and a Wide Area Network (WAN) to deliver technology applications to students and teachers in those buildings, K-12. The district is considered highly advanced in the use of technology in the learning process. The District has outstanding Durant Bonds used to finance payments to the District of an obligation of the State of Michigan. The State retires portions of those bonds annually on the District's behalf. The District is not liable for the debt service for these bonds. A series of loans from the School Bond Loan Fund have been used to augment local property taxes in those periods when local levies are not sufficient to fully pay the debt service due. The SBLF is repaid in those years when taxes collected are in excess of current debt services requirements.

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

### **CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

Robert P. Hahn  
Business Manager  
2665 Britton Road, Perry Michigan 48872  
517-625-0101  
hahnbperry.k12.mi.us

## **BASIC FINANCIAL STATEMENTS**

PERRY PUBLIC SCHOOLS  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	<b>Assets</b>	<u>Governmental Activities</u>
<b>Current Assets</b>		
Cash, cash equivalents and investments		\$ 5,368,975
Accounts receivable		89,876
Due from other governmental units		2,258,904
Inventory		19,048
Prepaid costs		<u>47,209</u>
Total Current Assets		7,784,012
<b>Non-Current Assets</b>		
Land and land improvements		506,254
Buildings and improvements		29,572,571
Equipment and furniture		1,591,169
Vehicles		820,808
Less: Accumulated depreciation		<u>(7,478,426)</u>
Net fixed assets		<u>25,012,376</u>
Total Non-Current Assets		<u>25,012,376</u>
<b>Total Assets</b>		32,796,388
	<b>Liabilities</b>	
<b>Current Liabilities</b>		
Accounts payable		55,966
Salaries payable		1,309,414
Accrued benefits		253,659
State Aid anticipation note payable		3,800,000
Accrued interest on long-term debt		181,592
Accrued expenses		123,493
Current portion of accumulated unpaid benefits		54,445
Current portion of long-term obligations		<u>1,110,000</u>
Total Current Liabilities		6,888,569
<b>Non-Current Liabilities</b>		
Non-current portion of accumulated unpaid benefits		217,778
Non-current portion of long-term obligations		<u>31,930,509</u>
Total Non-Current Liabilities		<u>32,148,287</u>
Total Liabilities		39,036,856
	<b>Net Assets</b>	
<b>Net Assets</b>		
Invested in capital assets, net of related debt		(7,700,997)
Restricted for:		
Debt service		(36,360)
Capital projects		116,573
Unrestricted		<u>1,380,316</u>
Total Net Assets		<u>\$ (6,240,468)</u>

See accompanying notes to the basic financial statements

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

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
<b>Functions/Programs</b>				
<b>Governmental Activities</b>				
<b>Instruction</b>				
Basic programs	\$ 7,524,938	\$ -	\$ -	\$ (7,524,938)
Added needs	2,234,747	-	1,064,462	(1,170,285)
Support services	5,514,725	-	73,087	(5,441,638)
Community services	65,615	104,230	3,075	41,690
Food services	496,536	277,657	227,946	9,067
Athletics	356,480	90,565	-	(265,915)
Debt Service	1,068	-	-	(1,068)
Interest on long-term debt	1,424,009	-	-	(1,424,009)
<b>Total Governmental Activities</b>	<b>\$ 17,618,118</b>	<b>\$ 472,452</b>	<b>\$ 1,368,570</b>	<b>(15,777,096)</b>
<b>General Purpose Revenues</b>				
Property tax				2,345,093
State school aid				12,581,285
Investment earnings				368,727
Gain on sale of fixed assets				5,006
Miscellaneous				424,989
			<b>Total General Revenues</b>	<b>15,725,100</b>
				Change in Net Assets (51,996)
				Net Assets - July 1 (6,188,472)
				Net Assets - June 30 \$ (6,240,468)

See accompanying notes to the basic financial statements

PERRY PUBLIC SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 5,087,457	\$ 117,188	\$ 164,330	\$ 5,368,975
Accounts receivable	89,876	-	-	89,876
Due from other funds	19,354	-	11,049	30,403
Due from other governmental units	2,258,904	-	-	2,258,904
Inventory	8,852	-	10,196	19,048
Prepaid expenditures	47,209	-	-	47,209
Total Assets	\$ 7,511,652	\$ 117,188	\$ 185,575	\$ 7,814,415
Liabilities and Fund Balance				
Liabilities				
Accounts payable	\$ 50,753	\$ 615	\$ 4,598	\$ 55,966
Due to other funds	11,049	-	19,354	30,403
Salaries payable	1,309,414	-	-	1,309,414
Accrued benefits	253,659	-	-	253,659
Accrued expenses	121,740	-	1,753	123,493
State Aid anticipation note payable	3,800,000	-	-	3,800,000
Total Liabilities	5,546,615	615	25,705	5,572,935
Fund Balance				
Reserved for debt retirement	-	-	145,232	145,232
Reserved for capital projects	-	116,573	-	116,573
Unreserved				
Undesignated	1,965,037	-	14,638	1,979,675
Total Fund Balance	1,965,037	116,573	159,870	2,241,480
Total Liabilities and Fund Balance	\$ 7,511,652	\$ 117,188	\$ 185,575	\$ 7,814,415

See accompanying notes to the basic financial statements

PERRY PUBLIC SCHOOLS  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2007

Total Governmental Fund Balances	\$	2,241,480
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.		
Cost of net assets	\$ 32,490,802	
Accumulated depreciation	<u>(7,478,426)</u>	25,012,376
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:		
Bonds payable	\$ 32,713,373	
Early retirement buyout	327,136	
Compensated absences payable	<u>272,223</u>	
Total long-term liabilities		(33,312,732)
In the statement of net assets, interest has been accrued on bonds payable as of June 30, 2007		<u>(181,592)</u>
Total net assets - governmental activities	\$	<u><u>(6,240,468)</u></u>

See accompanying notes to the basic financial statements

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

	General Fund	Capital Projects Fund	Non-major Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 602,464	\$ -	\$ 1,742,629	\$ 2,345,093
Other local sources	422,818	128,551	392,069	943,438
State sources	13,433,864	-	21,690	13,455,574
Federal sources	284,950	-	206,256	491,206
<b>Total revenues</b>	<b>14,744,116</b>	<b>128,551</b>	<b>2,362,644</b>	<b>17,235,311</b>
<b>Expenditures</b>				
<b>Instruction</b>				
Basic programs	7,107,179	-	-	7,107,179
Added needs	2,221,547	-	-	2,221,547
<b>Total instruction</b>	<b>9,328,726</b>	<b>-</b>	<b>-</b>	<b>9,328,726</b>
<b>Support services</b>				
Pupil services	521,575	-	-	521,575
Instructional staff services	1,177,733	-	-	1,177,733
General administration	464,268	-	-	464,268
School administration	861,124	-	-	861,124
Business services	479,065	-	-	479,065
Operation and maintenance	1,564,490	-	-	1,564,490
Pupil transportation	721,334	-	-	721,334
Community services	65,615	-	-	65,615
Other support services	-	-	828,262	828,262
<b>Total support services</b>	<b>5,855,204</b>	<b>-</b>	<b>828,262</b>	<b>6,683,466</b>
<b>Capital projects</b>				
Capital outlay and other costs	-	5,229,644	-	5,229,644
<b>Debt Retirement</b>				
Redemption of serial bonds	-	-	1,025,000	1,025,000
Interest on bonds	-	-	1,038,788	1,038,788
Other	-	-	1,068	1,068
<b>Total expenditures</b>	<b>15,183,930</b>	<b>5,229,644</b>	<b>2,893,118</b>	<b>23,306,692</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(439,814)</b>	<b>(5,101,093)</b>	<b>(530,474)</b>	<b>(6,071,381)</b>
<b>Other financing sources (uses)</b>				
Transfers in	-	-	542,327	542,327
Transfers out	(542,327)	-	-	(542,327)
SRESA Act 18	249,097	-	-	249,097
SRESA Headlee tax rollback	64,093	-	-	64,093
Sale of fixed assets	10,000	-	-	10,000
Loan payments	(63,748)	-	-	(63,748)
Bus loan proceeds	243,748	-	-	243,748
Proceeds from school bond loan fund	298,274	-	-	298,274
Insurance proceeds	-	12,615	-	12,615
Interdistrict transfer	(13,200)	-	-	(13,200)
Interest on long-term loan	(9,113)	-	-	(9,113)
<b>Total other financing sources (uses)</b>	<b>236,824</b>	<b>12,615</b>	<b>542,327</b>	<b>791,766</b>
<b>Net changes in fund balances</b>	<b>(202,990)</b>	<b>(5,088,478)</b>	<b>11,853</b>	<b>(5,279,615)</b>
<b>Fund balance - July 1</b>	<b>2,168,027</b>	<b>5,205,051</b>	<b>148,017</b>	<b>7,521,095</b>
<b>Fund balance - June 30</b>	<b>\$ 1,965,037</b>	<b>\$ 116,573</b>	<b>\$ 159,870</b>	<b>\$ 2,241,480</b>

See accompanying notes to the basic financial statements

PERRY PUBLIC 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

Total net change in fund balances - Governmental Funds	\$	(5,279,615)
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.</p>		
Capital outlay	\$	5,490,421
Depreciation expense		<u>(650,412)</u>
		4,840,009
<p>In the Statement of Activities, only the gain on the sale of capitalized assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by the net cost of the capital assets sold.</p>		
		(4,994)
<p>Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which repayments exceeded proceeds.</p>		
		726,727
<p>An issuance of early retirement incentive increases long-term liabilities in the statement of net assets, but has no effect on Governmental Fund equity.</p>		
		(144,539)
<p>Payment of an early retirement buyout plan is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets. This is the amount of payments reported as expenditures in the Governmental Funds.</p>		
		389,308
<p>Proceeds from loans is an Other financing Source in the Governmental Funds, but not in the Statement of Activities (where it is Long-Term Debt).</p>		
		(243,748)
<p>Repayment of loan principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount of repayments reported as expenditures in the Governmental Funds.</p>		
		63,748
<p>Interest on long-term debt in the statement of activities includes accrued interest on the School Bond Loan Fund. The (increase)/decrease in accrued interest at June 30, 2007 was \$365,275.</p>		
		(365,275)
<p>Interest on long-term debt in the Statement of Activities includes accrued interest while the Governmental Funds statement does not. The (increase)/decrease in accrued interest at June 30, 2007 was \$10,833.</p>		
		(10,833)
<p>Accumulated unpaid benefits are recorded as liabilities in the Statement of Net Assets, but are not recorded in the Governmental Funds statement. The (increase)/decrease in accumulated unpaid benefits at June 30, 2007 was \$22,784.</p>		
		<u>(22,784)</u>
Change in net assets of governmental activities	\$	<u>(51,996)</u>

See accompanying notes to the basic financial statements

PERRY PUBLIC SCHOOLS  
STATEMENT OF ASSETS AND LIABILITIES  
AGENCY FUNDS  
JUNE 30, 2007

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ <u>126,039</u>
<b>Liabilities</b>	
Due to student and other groups	\$ <u>126,039</u>

See accompanying notes to the basic financial statements

**NOTES TO FINANCIAL STATEMENTS**

PERRY PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Perry Public Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued *Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.
- Financial statements prepared with full accrual accounting for all of the District’s activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

**Reporting Entity**

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes and determine its budget, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

**Basic Financial Statements – Government-wide Statements**

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as 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 District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating grants, and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

PERRY PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Basic Financial Statements – Fund Financial Statements**

The accounts of the School District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements of this report, into the fund types and broad fund categories as follows:

**Governmental Funds**

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

**General Fund**

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

**Special Revenue Funds**

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

**Debt Retirement Funds**

The Debt Service Funds are used to record tax and interest revenue and the payment of general long-term debt principal, interest and related cost. The District maintains a debt service fund for the 1997, 2003, and both 2004 bond issues.

**Capital Project Funds**

The Capital Projects Funds are used to record bond proceeds or other revenue and the disbursement of monies specifically designed for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The fund is retained until the purpose for which the fund was created has been accomplished.

**Fiduciary Funds**

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent.

**Expendable Trust Funds** – Expendable trust funds are used to account for funds entrusted to the District, and the principal, or corpus, of the trust and the income produced are expendable.

**Activities (Agency) Funds** - Agency Funds (Student Activity Funds) are used to account for assets held by the School District as an agent for student activity organizations. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**Basis of Accounting/Measurement Focus**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

PERRY PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Accrual**

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt are recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

**Cash and Investments**

Cash and cash equivalents include amounts in demand deposits, sweep accounts, and certificate of deposits with original maturities less than 180 days. The District reports its investments in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40 Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), or National Credit Union Administration (NCUA), respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptance of U.S. banks, and mutual funds composed of investments outlined above.

**Inventory**

Items purchased for future use are recorded as inventory and charged to expenditure accounts when requisitioned for use. Food Service Fund inventory consists of food and paper goods recorded at cost and commodity inventory recorded at fair market value as determined by the USDA.

**Capital Assets**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. The District has adopted a \$5,000 capitalization threshold for recording capital assets. Donated fixed assets are valued at their estimated fair market value on the date received.

PERRY PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**Note 1 – Summary of Significant Accounting Policies (continued)**

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

Depreciation on all assets is computed on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and equipment	5 – 20 years

**Property Taxes**

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the District's boundaries. All of the District's tax base is within Shiawassee and Ingham County. The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 15. Collections are forwarded to the District as collected by the assessing municipality. Real property taxes uncollected as of March 1 are purchased by Shiawassee and Ingham County and remitted to the District by June 30.

Property taxes are recognized in the accounting period when they become measurable and available to finance operations. Available means when due or past due and receivable within the current period and collected no longer than 60 days after the current period.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Compensated Absences**

A substantial portion of the School District's employees are allowed to accumulate a limited number of sick days. These days do not vest to the employee until they retire. Total estimated liability for unpaid sick days, including salary-related payments, was \$272,223 at June 30, 2007.

**Economic Dependency**

The district receives approximately 77% of its operating revenues from the State of Michigan.

**Concentrations**

Substantially all employees of the District are covered under collective bargaining agreements. The Perry Education Association (PEA) contract, covering all certified employees, expired on August 31, 2007. All other employees with a contract fall under the American Federation of State, County, and Municipal Employees (AFSCME) Local 1059, which also expired June 30, 2007. Both contracts have been extended and are under current negotiation.

**Note 2 - Budget and Budgetary Accounting**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue, and an informational study of Capital Project Funds of school districts prior to the expenditure of monies in a fiscal year.

PERRY PUBLIC SCHOOLS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007

**Note 2 - Budget and Budgetary Accounting (continued)**

The Board of Education adopts appropriations utilizing the modified accrual basis of accounting for all governmental funds. The appropriation level adopted by the Board is the level of control authorized by the Act. The Act requires expenditures to be budgeted on a functional basis. A district is not considered to be in violation of the Act if reasonable procedures are in use by the District to detect violations.

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

1. The District's superintendent submits to the Board of Education a proposed budget by July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. The superintendent is authorized to transfer budgeted amounts between functions within any fund with the approval of the Budget and Finance Committee; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
4. Budgets for the General, Debt Service, and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles.
5. Budgeted amounts are as originally adopted, or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations, which were amended.
6. Appropriations lapse at year-end and, therefore, cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

**Note 3 - Deposits and Investments**

At June 30, 2007, the District had the following investments:

General Fund

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Credit Quality/Rating</u>	<u>Percent of Total</u>	<u>Weighted Average Maturity (in Years)</u>
MILAF Pool	\$3,140,992	N/A	100%	N/A

PERRY PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**Note 3 - Deposits and Investments (continued)**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District's policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities and are invested primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools.

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. Cumulatively, portfolios of the District may not be invested in any given financial institution in excess of 5% of such institution's total assets. Additionally, no more than 5% of the total district portfolio may be placed with any single financial institution with the exception of repurchase agreements. U.S. government securities and 2a7-like investment pools are excluded from these restrictions.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits this exposure by mandating that the District's investments in commercial paper and corporate bonds be limited to those with a prime rating or better issued by nationally recognized statistical rating organizations (NRSROs).

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities, if any, in the possession of an outside party. At June 30, 2007 the District had \$2,246,332 of its deposit balances uninsured and uncollateralized.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. This risk is minimized by the District through limiting investments to those of a prime or better rating and pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The District is not authorized to invest in investments that would be subject to this type of risk.

**Note 4 - Changes in Capital Assets**

Summary of capital asset transactions:

	Balance July 1, 2006	Additions	Disposals Adjustments	Balance June 30, 2007
Assets not depreciated - Land & Improvements	\$ 506,254	\$ -	\$ -	\$ 506,254
Other Capital Assets:				
Buildings & additions	13,441,109	16,131,462	-	29,572,571
Furniture & equipment	1,229,680	361,489	-	1,591,169
Buses & other vehicles	674,314	243,748	(97,254)	820,808
Subtotal	15,851,357	16,736,699	(97,254)	32,490,802
Accumulated Depreciation:				
Buildings & additions	5,468,701	397,980	-	5,866,681
Furniture & equipment	1,060,340	135,032	-	1,195,372
Buses & other vehicles	391,233	117,400	(92,260)	416,373
Subtotal	6,920,274	650,412	(92,260)	7,478,426
Net capital assets	<u>\$ 8,931,083</u>	<u>\$ 16,086,287</u>	<u>\$ (4,994)</u>	<u>\$ 25,012,376</u>

PERRY PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**Note 4 – Changes in Capital Assets (continued)**

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as “unallocated.” This District had no unallocated depreciation expense. Depreciation was recorded on the statement of activities as follows:

Instruction	\$	412,004
Support Services		213,654
Athletics		20,983
Food Service		<u>3,771</u>
 Total Depreciation Expense	 \$	 <u>650,412</u>

**Note 5 – Long-Term Debt**

The following is a summary of long-term debt transactions for the year ended June 30, 2007:

	<u>Compensated Absences</u>	<u>Early Retirement Buyout</u>	<u>Bonds</u>	<u>School Bond Loan &amp; Rev. Fund</u>	<u>Installment Loans</u>	<u>Total</u>
Balance July 1, 2006	\$ 249,439	\$ 571,905	\$ 25,845,820	\$ 7,049,004	\$ -	\$ 33,716,168
Additions	22,784	144,539	-	663,549	243,748	1,074,620
Retirements & payments	<u>-</u>	<u>(389,308)</u>	<u>(1,025,000)</u>	<u>-</u>	<u>(63,748)</u>	<u>(1,478,056)</u>
Balance June 30, 2007	272,223	327,136	24,820,820	7,712,553	180,000	33,312,732
Less: current portion	<u>54,445</u>	<u>-</u>	<u>1,050,000</u>	<u>-</u>	<u>60,000</u>	<u>1,164,445</u>
Total due after one year	<u>\$ 217,778</u>	<u>\$ 327,136</u>	<u>\$ 23,770,820</u>	<u>\$ 7,712,553</u>	<u>\$ 120,000</u>	<u>\$ 32,148,287</u>

The general obligation bonds are payable from the Debt Service Fund and consist of the 1997, 2003, and 2004 refunding and 2004 issues. The \$2,025,000 issue in 2003 was for the purpose of refunding the \$2,780,000 issue in 1993, which was for the purpose of refinancing Shaftsbury Elementary. The \$8,890,000 issue in 2004 was for the purpose of refunding the \$9,155,000 issue in 1994, which originally defeased the \$10,805,000 issue in 1992. The 1992 issue was originally for the purpose of erecting, furnishing and equipping a new high school. The \$2,400,000 issue in 1997 was for the purpose of technology additions in the school district. The \$15,970,000 issue in 2004 was for the purpose of erecting, furnishing, and equipping additions to school facilities and improving a playground and high school track and stadium. As of June 30, 2007, the fund had a balance of \$145,232 to use to pay this debt. Future debt and interest calculated at 2.00% to 5.00% will be payable from future tax levies.

PERRY PUBLIC SCHOOLS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007

**Note 5 – Long-Term Debt (continued)**

Future principal and interest requirements for bonded debt are as follows:

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,050,000	\$ 1,013,038	\$ 2,063,038
2009	1,075,000	984,528	2,059,528
2010	1,105,000	951,090	2,056,090
2011	1,155,000	914,814	2,069,814
2012	1,190,000	873,828	2,063,828
2013 – 2017	5,475,000	3,774,250	9,249,250
2018 – 2022	6,390,000	2,556,450	8,946,450
2023 – 2027	4,475,000	1,264,876	5,739,876
2028 – 2030	<u>2,825,000</u>	<u>262,470</u>	<u>3,087,470</u>
Total	\$ <u>24,740,000</u>	\$ <u>12,595,344</u>	\$ <u>37,335,344</u>

The payment dates of vacation days payable and compensated absences are indeterminable.

Interest expenditures for 2006-2007 in the General and Debt Service Fund were \$9,113 and \$1,038,788 respectively.

**Note 6 - Durant Resolution Bonds**

Perry Public Schools, a non-plaintiff district, received from the State of Michigan a two-part settlement under the Durant/Headlee Underfunding litigation as follows:

**Bonded Debt**

The District issued Durant Resolution bonds on November 24, 1998 in the amount of \$136,875, which represents one-half of the settlement amount. They are payable in annual installments (principal and interest) through the year 2013 and have an annual interest rate of 4.761353%. The proceeds are restricted in use as outlined in Section 1351(a) of the Revised School Code. Although these bonds are a legal obligation of the District, the only revenue source available for making the annual debt service requirements are appropriations made annually by the State of Michigan. If the State Legislature fails to appropriate funds for the bond payments, the District is under no obligation for payment and will write off the debt service requirement for that year only. The balance payable at June 30, 2007 is \$80,820.

**Annual Installments**

On November 15, 1998, the State of Michigan began making ten annual payments to the District. The sum of these payments comprises the other half of the settlement amount. The District is obligated to restrict these funds to expenditures outlined in 11f(6) of the Revised School Code.

PERRY PUBLIC SCHOOLS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007

**Note 6 - Durant Resolution Bonds (continued)**

Future principal and interest requirements for the Durant Resolution Bonds are as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 7,618	\$ 1,994	\$ 9,612
2010	46,910	17,670	64,580
2011	8,360	1,252	9,612
2012	8,757	854	9,611
2013	<u>9,175</u>	<u>436</u>	<u>9,611</u>
Total	<u>\$ 80,820</u>	<u>\$ 22,206</u>	<u>\$ 103,026</u>

**Note 7 - Defined Benefit Pension Plan**

Plan Description

The District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS); a cost sharing multiple-employer defined benefit pension plan administered by the nine-member board of the MPSERS. The MPSERS provides retirement benefits and postretirement benefits for health, dental and vision.

The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909 or by calling (800)381-5111.

Funding Policy

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

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

The District is required to contribute the full actuarial funding contribution amounts to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2007 were 16.34% of payroll through September 30, 2006 and 17.74% effective October 1, 2006. The contribution requirements of the plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the years ended June 30, 2007, 2006 and 2005 were \$1,467,167, \$1,290,672 and \$1,185,043 respectively, equal to the required contribution for each year.

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

PERRY PUBLIC SCHOOLS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007

**Note 7 – Defined Benefit Pension Plan (continued)**

**Post-employment Benefits**

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages 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 coverages. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

**Note 8 – Interfund Transfers**

The District made the following interfund transfers during the year:

	<u>General Fund</u>	<u>Athletics Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
To:		\$244,053	\$298,274	\$542,327
From:	\$542,327			\$542,327

**Note 9 - Interfund Receivables and Payables**

Interfund receivable and payable balances as of June 30, 2007 are as follows:

	<u>General Fund</u>	<u>Athletics Fund</u>	<u>Cafeteria Fund</u>	<u>Total</u>
Due To:	\$11,049	\$7,522	\$11,832	\$30,403
Due From:	\$19,354	\$8,177	\$2,872	\$30,403

**Note 10 - Contingencies and Commitments**

The District has received federal and state grants for specific purposes. These grants are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

**Note 11 - Risk Management**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District purchases commercial insurance coverage to cover potential claims, and management believes this coverage is sufficient to protect the District from any significant adverse financial impact.

**Note 12 – Prior Year Restatement**

Some prior year amounts were changed to conform with present year presentation.

**REQUIRED SUPPLEMENTAL INFORMATION**

PERRY PUBLIC SCHOOLS  
 REQUIRED SUPPLEMENTAL INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2007

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Local sources	\$ 921,100	\$ 1,005,048	\$ 1,025,282	\$ 20,234
State sources	13,473,855	13,327,257	13,433,884	106,627
Federal sources	299,128	275,974	284,950	8,976
Other revenues	287,178	631,483	865,212	233,729
<b>Total revenues</b>	<b>14,981,261</b>	<b>15,239,762</b>	<b>15,609,328</b>	<b>369,566</b>
<b>Expenditures</b>				
Education				
Instruction				
Basic programs	7,090,838	7,083,461	7,107,179	(23,718)
Added needs	2,164,345	2,308,657	2,221,547	87,110
Supporting services				
Pupil services	540,680	520,850	521,575	(725)
Instructional staff	1,054,471	1,155,437	1,177,733	(22,296)
General administration	550,132	505,149	464,268	40,881
School administration	918,963	894,518	861,124	33,394
Business services	511,757	470,797	479,065	(8,268)
Operation and maintenance	1,656,047	1,603,426	1,564,490	38,936
Transportation	616,062	586,476	721,334	(134,858)
Community services	27,108	55,882	65,615	(9,733)
<b>Total expenditures</b>	<b>15,130,403</b>	<b>15,184,653</b>	<b>15,183,930</b>	<b>723</b>
Other financing uses	219,276	564,150	628,388	(64,238)
<b>Total expenditures and other financing uses</b>	<b>15,349,679</b>	<b>15,748,803</b>	<b>15,812,318</b>	<b>(63,515)</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	<b>(368,418)</b>	<b>(509,041)</b>	<b>(202,990)</b>	<b>306,051</b>
Fund balance - July 1	2,168,027	2,168,027	2,168,027	-
Fund balance - June 30	<u>\$ 1,799,609</u>	<u>\$ 1,658,986</u>	<u>\$ 1,965,037</u>	<u>\$ 306,051</u>

See accompanying notes to the basic financial statements

**OTHER SUPPLEMENTAL INFORMATION**

PERRY PUBLIC SCHOOLS  
OTHER SUPPLEMENTAL INFORMATION  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2007

	<u>Special Revenue Funds</u>			Non-major Governmental Funds Total
	<u>Food Service Fund</u>	<u>Athletics Fund</u>	<u>Debt Service Fund</u>	
<b>Assets:</b>				
Cash and cash equivalents	\$ 18,032	\$ 1,066	\$ 145,232	\$ 164,330
Due from other funds	2,871	8,178	-	11,049
Inventory	10,196	-	-	10,196
<b>Total assets</b>	<b><u>\$ 31,099</u></b>	<b><u>\$ 9,244</u></b>	<b><u>\$ 145,232</u></b>	<b><u>\$ 185,575</u></b>
<b>Liabilities and Fund Balance:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 4,267	\$ 331	\$ -	\$ 4,598
Due to other funds	11,832	7,522	-	19,354
Accrued expenses	362	1,391	-	1,753
<b>Total liabilities</b>	<b>16,461</b>	<b>9,244</b>	<b>-</b>	<b>25,705</b>
<b>Fund Balance:</b>				
Reserved for debt service	-	-	145,232	145,232
Undesignated, reported in school service fund	14,638	-	-	14,638
<b>Total liabilities and fund balance</b>	<b><u>\$ 31,099</u></b>	<b><u>\$ 9,244</u></b>	<b><u>\$ 145,232</u></b>	<b><u>\$ 185,575</u></b>

PERRY PUBLIC SCHOOLS  
OTHER SUPPLEMENTAL INFORMATION  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	<u>Special Revenue Funds</u>			Non-major Governmental Funds Total
	<u>Food Service Fund</u>	<u>Athletics Fund</u>	<u>Debt Service Fund</u>	
<b>Revenues:</b>				
Revenues from local sources:				
Food sales	\$ 277,657	\$ -	\$ -	\$ 277,657
Athletic admissions	-	66,405	-	66,405
Property taxes	-	-	1,742,629	1,742,629
Earnings on investments and deposits	1,800	879	21,168	23,847
Other local sources	-	24,160	-	24,160
State aid	21,690			21,690
Federal aid				
National school lunch	177,976	-	-	177,976
U.S.D.A. commodities	28,280	-	-	28,280
Total revenues	<u>507,403</u>	<u>91,444</u>	<u>1,763,797</u>	<u>2,362,644</u>
<b>Expenditures:</b>				
Food costs	172,075	-		172,075
Salaries	184,723	193,836		378,559
Employee benefits	38,458	60,497		98,955
Purchased services	12,280	38,678		50,958
Supplies and materials	-	8,791		8,791
Redemption of serial bonds	-	-	1,025,000	1,025,000
Interest on bonds	-	-	1,038,788	1,038,788
Other	85,229	33,695	1,068	119,992
Total expenditures	<u>492,765</u>	<u>335,497</u>	<u>2,064,856</u>	<u>2,893,118</u>
Excess (deficiency) of revenues over (under) expenditures	14,638	(244,053)	(301,059)	(530,474)
Other financing sources/(uses)				
Operating transfers	-	244,053	298,274	542,327
Total other financing sources/(uses)	-	244,053	298,274	542,327
Excess (deficiency) of revenues and Other financing sources/(uses) over expenditures	14,638	-	(2,785)	11,853
Fund balance, beginning of year	-	-	148,017	148,017
Fund balance, end of year	<u>\$ 14,638</u>	<u>\$ -</u>	<u>\$ 145,232</u>	<u>\$ 159,870</u>

PERRY PUBLIC SCHOOLS  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES-GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2007  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2006

	June 30, 2007	June 30, 2006
Revenues:		
Revenue from local sources:		
Property tax levy	\$ 602,464	\$ 573,111
Tuition	104,230	56,353
Earnings from investments	210,752	130,065
Interest on delinquent taxes	5,577	4,196
Contributions & grants	3,075	13,868
Other local revenue	99,184	132,245
Total revenue from local sources	1,025,282	909,838
Revenue from state sources:		
Grants - unrestricted		
State school aid	12,581,285	12,246,688
Grants - restricted		
Durant restricted	13,687	13,687
Special education	294,045	292,656
At risk	246,458	206,434
Vocation education	24,847	40,039
Michigan readiness	59,400	110,715
Other grants	214,162	147,537
Total revenue from state sources	13,433,884	13,057,756
Revenue from federal sources:		
Title I	178,222	195,686
Title II	80,348	83,855
Title V	394	787
Head start	7,000	6,800
Other grants	18,986	26,102
Total revenue from federal sources	284,950	313,230
Other financing sources:		
Other local transfers		
SRESA Act 18	249,097	209,595
SRESA Headlee tax rollback	64,093	57,583
Bus Loan Proceeds	243,748	-
School Bond Loan Fund Proceeds	298,274	335,500
Sales of fixed assets	10,000	10,000
Other financing sources	865,212	612,678
Total revenues and other financing sources	\$ 15,609,328	\$ 14,893,502

PERRY PUBLIC SCHOOLS  
OTHER SUPPLEMENTAL INFORMATION  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2007  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2006

Instruction	Salaries & Benefits	Purchased Services	Supplies & Materials	Other Expenses	TOTALS	
					June 30, 2007	June 30, 2006
<b>Basic Programs</b>						
Elementary	\$ 2,204,639	\$ 29,570	\$ 101,256	\$ -	\$ 2,335,465	\$ 2,157,928
Middle school	1,079,589	17,286	32,403	-	1,129,278	1,057,601
High school	1,302,081	30,780	40,663	425	1,373,949	1,344,603
Employee benefits	2,268,487	-	-	-	2,268,487	2,069,672
<b>Added Needs</b>						
Special education	823,369	800	19,989	-	844,158	728,363
Compensatory education	300,113	33,321	4,336	-	337,770	316,673
Other added needs	66,361	1,128	4,358	199	72,046	65,189
Vocational education	235,587	34,853	1,864	-	272,304	259,152
Employee benefits	684,301	-	-	-	684,301	623,236
<b>Total Instruction</b>	<b>8,964,527</b>	<b>147,738</b>	<b>204,869</b>	<b>624</b>	<b>9,317,758</b>	<b>8,622,417</b>
<b>Supporting Services</b>						
<b>Pupil</b>						
Guidance	297,125	-	1,989	-	299,114	277,580
Alternative education	53,063	-	224	-	53,287	65,082
Employee benefits	169,174	-	-	-	169,174	156,494
<b>Instructional Staff</b>						
Library	181,884	2,858	353	-	185,095	188,660
Other media	150,996	135,831	114,602	-	401,429	332,312
Employee benefits	542,561	-	-	-	542,561	493,799
<b>General Administration</b>						
Board of education	-	33,235	-	3,490	36,725	22,795
Executive administration	132,746	235,261	-	3,126	371,133	368,903
Employee benefits	56,410	-	-	-	56,410	63,007
<b>School Administration</b>						
Office of the principal	569,100	1,031	6,025	79	576,235	600,873
Employee benefits	284,889	-	-	-	284,889	249,714
<b>Business Services</b>						
Fiscal services	164,145	-	-	155,519	319,664	255,732
Employee benefits	159,401	-	-	-	159,401	159,173
<b>Operations &amp; Maintenance</b>						
Operation & maintenance	492,791	364,467	387,735	-	1,244,993	1,185,091
Employee benefits	299,984	-	-	-	299,984	271,832
<b>Pupil Transportation</b>						
Pupil transportation services	251,614	52,309	92,873	-	396,796	400,025
Employee benefits	80,665	-	-	-	80,665	75,666
<b>Total Support Services</b>	<b>3,886,548</b>	<b>824,992</b>	<b>603,801</b>	<b>162,214</b>	<b>5,477,555</b>	<b>5,166,728</b>

(continued)

PERRY PUBLIC SCHOOLS  
OTHER SUPPLEMENTAL INFORMATION  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2007  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2006

	Salaries & Benefits	Purchased Services	Supplies & Materials	Other Expenses	TOTALS	
					June 30, 2007	June 30, 2006
Community Services						
Community day care	44,623	1,461	8,284	-	54,368	25,912
Employee benefits	11,247	-	-	-	11,247	5,350
Total Community Services	55,870	1,461	8,284	-	65,615	31,262
Capital Outlay						
Instruction	-	-	-	10,968	10,968	16,654
Supporting services	-	-	-	312,034	312,034	-
Total Capital Outlay	-	-	-	323,002	323,002	16,654
Other Financing Uses						
Loan payment	-	-	-	63,748	63,748	37,901
Interest on long-term loan	-	-	-	9,113	9,113	178
Outgoing transfers						
Athletic fund	-	-	-	244,053	244,053	216,782
Food service fund	-	-	-	-	-	254
Capital projects fund	-	-	-	-	-	12,428
Debt service funds	-	-	-	298,274	298,274	335,415
Interdistrict transfer	-	-	-	13,200	13,200	-
Total Other Financing Uses	-	-	-	628,388	628,388	602,958
Total Expenditures and Other Financing Uses	\$ 12,906,945	\$ 974,191	\$ 816,954	\$ 1,114,228	\$ 15,812,318	\$ 14,440,019

PERRY PUBLIC SCHOOLS  
 OTHER SUPPLEMENTAL INFORMATION  
 AGENCY FUNDS  
 COMBINING STATEMENT OF CHANGES IN ASSETS, LIABILITIES AND FUND BALANCE  
 FOR THE YEAR ENDED JUNE 30, 2007

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2007</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 122,855	\$ 358,880	\$ 355,696	\$ 126,039
<b>Liabilities</b>				
Due to student and other groups	\$ 122,855	\$ 358,880	\$ 355,696	\$ 126,039

PERRY PUBLIC SCHOOLS  
 OTHER SUPPLEMENTAL INFORMATION  
 1997 BOND ISSUE  
 JUNE 30, 2007

TOTAL BOND ISSUE \$2,400,000

Due Date	Principal May 1	Interest Rate	Interest		Total
			May 1	November 1	
2007	\$	5.00 %	\$	\$ 15,000	\$ 15,000
2008	100,000	5.00	15,000	12,500	127,500
2009	125,000	5.00	12,500	9,375	146,875
2010	125,000	5.00	9,375	6,250	140,625
2011	125,000	5.00	6,250	3,125	134,375
2012	<u>125,000</u>	5.00	<u>3,125</u>		<u>128,125</u>
Totals	\$ <u>600,000</u>		\$ <u>46,250</u>	\$ <u>46,250</u>	\$ <u>692,500</u>

This Bond was issued for the purpose of technology additions in the school district.

PERRY PUBLIC SCHOOLS  
 OTHER SUPPLEMENTAL INFORMATION  
 2003 BOND ISSUE  
 JUNE 30, 2007

TOTAL BOND ISSUE \$2,025,000

Due Date	Principal May 1	Interest Rate	Interest		Total
			May 1	November 1	
2007	\$ -	2.10 %	\$ -	\$ 16,480	\$ 16,480
2008	240,000	2.40	16,480	13,600	270,080
2009	225,000	3.00	13,600	10,225	248,825
2010	215,000	3.00	10,225	7,000	232,225
2011	205,000	3.50	7,000	3,413	215,413
2012	<u>195,000</u>	3.50	<u>3,413</u>		<u>198,413</u>
Totals	\$ <u>1,080,000</u>		\$ <u>50,718</u>	\$ <u>50,718</u>	\$ <u>1,181,436</u>

This Bond was issued for the purpose of refunding all of the School District's outstanding 1993 Refunding Bonds.

PERRY PUBLIC SCHOOLS  
OTHER SUPPLEMENTAL INFORMATION  
1994/2004 BOND ISSUE  
JUNE 30, 2007

TOTAL BOND ISSUE \$8,890,000

Due Date	Principal May 1	Interest Rate	Interest		Total
			May 1	November 1	
2007	\$ -	2.25 %	\$ -	\$ 130,883	\$ 130,883
2008	535,000	2.50	130,883	124,195	790,078
2009	TERM 525,000	2.75	124,195	116,976	766,171
2010	TERM 515,000	3.00	116,976	109,251	741,227
2011	TERM 525,000	3.25	109,251	100,720	734,971
2012	TERM 520,000	3.25	100,720	92,270	712,990
2013	TERM 505,000	3.40	92,270	83,685	680,955
2014	TERM 495,000	3.60	83,685	74,775	653,460
2015	TERM 495,000	3.70	74,775	65,617	635,392
2016	TERM 480,000	3.80	65,618	56,497	602,115
2017	TERM 475,000	4.00	56,498	46,997	578,495
2018	TERM 465,000	4.00	46,998	37,697	549,695
2019	TERM 455,000	4.10	37,698	28,370	521,068
2020	TERM 450,000	4.20	28,370	18,920	497,290
2021	TERM 440,000	4.30	18,920	9,460	468,380
2022	TERM 430,000	4.40	9,460	-	439,460
Totals	\$ <u>7,310,000</u>		\$ <u>1,096,317</u>	\$ <u>1,096,313</u>	\$ <u>9,502,630</u>

This Bond was issued for the purpose of refunding all of the School District's outstanding 1994 School Building and Site and Refunding Bonds.

PERRY PUBLIC SCHOOLS  
OTHER SUPPLEMENTAL INFORMATION  
2004 BOND ISSUE  
JUNE 30, 2007

TOTAL BOND ISSUE \$15,970,000

Due Date	Principal May 1	Interest Rate	Interest		Total
			May 1	November 1	
2007 SERIAL \$	-	2.500 % \$	-	\$ 344,156	\$ 344,156
2008 SERIAL	175,000	2.500	344,156	341,969	861,125
2009 SERIAL	200,000	3.000	341,969	338,969	880,938
2010 SERIAL	250,000	3.250	338,969	334,906	923,875
2011 SERIAL	300,000	3.500	334,906	329,656	964,562
2012 SERIAL	350,000	3.500	329,656	323,531	1,003,187
2013 SERIAL	500,000	3.750	323,531	314,156	1,137,687
2014 SERIAL	550,000	3.500	314,156	304,531	1,168,687
2015 SERIAL	600,000	4.000	304,531	292,531	1,197,062
2016 SERIAL	650,000	4.000	292,531	279,531	1,222,062
2017 SERIAL	725,000	4.000	279,531	265,031	1,269,562
2018 SERIAL	800,000	4.000	265,031	249,031	1,314,062
2019 SERIAL	825,000	5.000	249,031	228,406	1,302,437
2020 SERIAL	825,000	5.000	228,406	207,781	1,261,187
2021 SERIAL	850,000	5.000	207,781	186,531	1,244,312
2022 SERIAL	850,000	5.000	186,531	165,281	1,201,812
2023 TERM	875,000	4.350	165,281	146,250	1,186,531
2024 TERM	875,000	4.350	146,250	127,219	1,148,469
2025 TERM	900,000	4.500	127,219	106,969	1,134,188
2026 TERM	900,000	4.500	106,969	86,719	1,093,688
2027 TERM	925,000	4.625	86,719	65,328	1,077,047
2028 TERM	925,000	4.625	65,328	43,938	1,034,266
2029 TERM	950,000	4.625	43,938	21,969	1,015,907
2030 TERM	950,000	4.625	21,969	-	971,969
Totals	\$ <u>15,750,000</u>	\$	\$ <u>5,104,389</u>	\$ <u>5,104,389</u>	\$ <u>25,958,778</u>

This Bond was issued for the purpose of renovating Perry Elementary and the Middle School and additions to the High School, as well as improvements to the athletic facilities.

PERRY PUBLIC SCHOOLS  
 OTHER SUPPLEMENTAL INFORMATION  
 DURANT RESOLUTION BONDS  
 JUNE 30, 2007

Amount: \$136,875

Date Issued: November 24, 1998, refinanced March 10, 2007

Purpose: Durant Resolution Bonds

<u>Due Date</u>	<u>Principal May 15</u>	<u>Interest Rate</u>	<u>Interest May 15</u>	<u>Principal &amp; Interest</u>
2007	\$ -	4.76	% \$ -	\$ -
2008	-	4.76	-	-
2009	7,618	4.76	1,994	9,612
2010	46,910	4.76	17,670	64,580
2011	8,360	4.76	1,252	9,612
2012	8,757	4.76	854	9,611
2013	<u>9,175</u>	4.76	<u>436</u>	<u>9,611</u>
Total	<u>\$ 80,820</u>		<u>\$ 22,206</u>	<u>\$ 103,026</u>

## OTHER INFORMATION

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

August 17, 2007

To the Board of Education  
Perry Public Schools  
Perry, MI

We have audited the basic financial statements of Perry Public Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated August 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

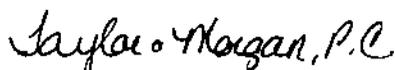
Compliance

As part of obtaining reasonable assurance about whether Perry Public Schools' basic 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 the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Perry Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the management, The Michigan Department of Education, and federal awarding agencies and pass through entities. However, this report is a matter of public record and its distribution is not limited.



TAYLOR & MORGAN, P.C.  
Certified Public Accountants