

Manchester Community Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2007

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Independent Auditors' Report

Board of Education
Manchester Community Schools
Manchester, Michigan

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

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated October 25, 2007, on our consideration of the School District's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplemental 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 required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education
Manchester Community Schools
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Manchester Community Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental 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.

Willis & Jurasek, P.C.
Willis & Jurasek, P.C.

October 25, 2007

Manchester Community Schools

Management's Discussion and Analysis

This section of the Manchester Community Schools annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Manchester Community Schools financially as a whole.

The *District-wide financial statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

The *fund financial statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, 2001 Debt Fund, 2007 Debt Fund and 2001 Capital Project Fund, with all other funds presented in one column as nonmajor funds.

The *statement of fiduciary net assets* presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

The annual audit report is organized as follows:

Management's Discussion & Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements *Fund Financial Statements*

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Manchester Community Schools

Management's Discussion and Analysis (Continued)

Reporting the School District as a Whole - District-wide Financial Statements (Continued)

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, in order to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, capital projects, debt service and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental Funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Manchester Community Schools

Management's Discussion and Analysis (Continued)

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2007 and June 30, 2006:

Table 1

	<u>Governmental Activities</u>	
	<u>June 30,</u>	
	<u>2007</u>	<u>2006*</u>
Assets		
Current and other assets	\$ 4,309,511	\$ 5,987,339
Capital assets and other long-term assets	<u>38,508,866</u>	<u>38,439,087</u>
Total assets	<u>42,818,377</u>	<u>44,426,426</u>
Liabilities		
Current liabilities	4,125,696	4,061,648
Long-term liabilities	<u>38,504,763</u>	<u>39,456,673</u>
Total liabilities	<u>42,630,459</u>	<u>43,518,321</u>
Net Assets		
Invested in capital assets, net of related debt	(457,570)	(837,262)
Restricted	(85,157)	349,034
Unrestricted	<u>730,645</u>	<u>1,396,333</u>
Total net assets	<u>\$ 187,918</u>	<u>\$ 908,105</u>

*As restated - please see note 14 in the Notes to Financial Statements for further explanation.

Manchester Community Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole (Continued)

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$187,918 at June 30, 2007. Capital assets, net of related debt totaling \$(457,570), compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets, \$(85,157), are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$730,645, was unrestricted.

The \$730,645 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal years 2007 and 2006.

Manchester Community Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole (Continued)

Table 2

	<u>Governmental Activities</u>	
	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
Revenue		
Program revenue:		
Charges for services	\$ 726,106	\$ 591,934
Operating grants	1,241,018	1,105,249
General revenue:		
Property taxes	3,625,509	3,442,403
State foundation allowance	8,094,791	8,154,277
Other	<u>1,419,282</u>	<u>1,036,466</u>
Total revenue	<u>15,106,706</u>	<u>14,330,329</u>
Functions/program expenses		
Instruction	6,853,667	6,417,384
Support services	5,562,532	5,513,321
Food services	481,552	478,328
Athletics	487,232	426,787
Community services	428,067	386,159
Other	76,616	-
Interest on long-term debt	<u>1,937,227</u>	<u>2,375,270</u>
Total functions/program expenses	<u>15,826,893</u>	<u>15,597,249</u>
Increase (Decrease) in Net Assets	<u>\$ (720,187)</u>	<u>\$ (1,266,920)</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$15,826,893. Certain activities were partially funded from those who benefited from the programs, \$726,106, or by other governments and organizations that subsidized certain programs with grants and contributions, \$1,241,018. We paid for the remaining "public benefit" portion of our governmental activities with \$3,625,509 in taxes, \$8,094,791 in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

The School District experienced a decrease in net assets of \$720,187. There has been an ongoing concerted effort by the administration to minimize expenses for the past few fiscal years due to the uncertainty of State of Michigan funding for the 2006-2007 school year, and due to the ongoing precarious budget situation in the State of Michigan.

Manchester Community Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole (Continued)

As discussed above, the net cost shows the financial burden that was placed on the state and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$1,899,875, which is a decrease of \$1,431,482 from last year. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, the fund balance decreased \$489,132 to \$1,208,053. The change is mainly due to:

- Purchase of two new buses to replace older buses in the fleet
- Early retirement incentive offered - 5 teachers accepted
- Rising fuel and utility costs
- Decline in student enrollment

The fund balance in the General Fund is available to fund costs related to allowable school operating purposes.

Combined, the Debt Service Funds showed a fund balance decrease of approximately \$408,000 from the prior year. This is due to the timing of tax revenues received versus debt payments made. Millage rates continue to be levied at seven mills and are allocated annually to all the bond issues to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Durant debt obligations are funded by an annual state appropriation, and no fund balance exists at year-end. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations. One debt refunding occurred during the 2006-2007 year. This was a partial refunding of the outstanding 2001 bonds. This resulted in a savings in interest expense immediately, and in addition, will reduce the amount of future borrowing needed from the School Loan Revolving Fund, for a combined present value savings of over \$486,000.

The combined Capital Projects Funds fund balance decreased by \$540,499 as the School District continued to use its residual funds from the 2001 bond issue. The funds were spent mainly on the construction of the new transportation service center, but also for finishing the air conditioning project at Klager Elementary and for various technology purchases. The fund balance at June 30, 2007 was \$171,524 and will be spent on minor renovation projects and technology purchases by June 30, 2008. All such projects will be of a nature that fall within the scope of projects approved in the original bond proposal.

Manchester Community Schools

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of a school year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year-end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2007, the School District had \$46,174,672 invested in a broad range of capital assets, including land, buildings, vehicles, furniture and equipment. This amount represents an increase (including additions and disposals) of approximately \$1,200,000, or 2.0 percent, from last year.

	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 2,322,756	\$ 2,322,756
Buildings and building improvements	38,190,627	37,561,683
Buses and other vehicles	1,346,913	1,198,382
Furniture and equipment	<u>4,314,376</u>	<u>3,906,336</u>
Total capital assets	<u>\$46,174,672</u>	<u>\$44,989,157</u>

This year's additions of \$1,185,515 included technology, building renovations, transportation facility construction, buses, and grounds and maintenance equipment. We present more detailed information about our capital assets in the notes to the financial statements.

Manchester Community Schools

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the District had \$40,598,078 in bonds outstanding and \$41,015,589 in the previous year. Those bonds consisted of the following:

	<u>2007</u>	<u>2006</u>
Bonds	\$ 34,959,536	\$ 35,904,536
School bond loan	<u>5,638,542</u>	<u>5,111,053</u>
Total capital assets	<u>\$40,598,078</u>	<u>\$41,015,589</u>

Other obligations include accrued vacation pay and sick leave. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2007-2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007-2008 fiscal year is 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The 2007-2008 budget was adopted in June 2007, based on the prior year's blended count (flat enrollment). Approximately 80 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, District funding is heavily dependent on the state's ability to fund local school operations. Based on early enrollment data at the start of the 2007-2008 school year, we anticipate that the blended count will be down approximately 18 students from the prior year, negatively impacting revenues by approximately \$133,000. However, the per pupil foundation allowance for 2007-2008 has been increased by \$92.00 per student, which will positively impact revenues by approximately \$118,000. Once the final student count is validated, state law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations. We will be presenting a budget amendment to the Finance Committee by early January 2008.

Since the School District's revenue stream is heavily dependent on state funding and the health of the state's School Aid Fund, the actual revenue received depends on the state's ability to collect the revenues to fund its appropriation to school districts.

Contacting the Districts Financial Management

This financial report is designed to provide our citizens, taxpayer, customers, 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 information, contact the Business Office, Manchester Community Schools, 410 City Road, Manchester, Michigan 48158.

Manchester Community Schools
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>
Assets:	
Cash and investments	\$ 2,289,068
Receivables:	
Taxes	59,470
Accounts receivable	6,327
Due from other governmental units	1,730,587
Inventories	4,531
Prepaid expenses	219,528
Deferred charges, net of amortization	219,458
Capital assets less accumulated depreciation of \$35,966,652	<u>38,289,408</u>
Total assets	<u>42,818,377</u>
Liabilities:	
Accounts payable	210,311
State aid anticipation loan	1,309,000
Accrued payroll	842,373
Accrued interest	259,836
Other liabilities	47,952
Long-term liabilities:	
Current portion of long-term obligations	1,456,224
Noncurrent portion of long-term obligations	<u>38,504,763</u>
Total liabilities	<u>42,630,459</u>
Net Assets:	
Investment in capital assets - net of related debt	(457,570)
Restricted for debt service	(85,157)
Unrestricted	<u>730,645</u>
Total net assets	<u>\$ 187,918</u>

Manchester Community Schools
Statement of Activities
Year Ended June 30, 2007

Functions/Programs	Program Revenues			Governmental Activities
Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets	
Primary Government				
Governmental activities:				
Instruction	\$ 6,853,667	\$ 8,921	\$ 978,927	\$ (5,865,819)
Support services	5,562,532	-	138,715	(5,423,817)
Food service activities	481,552	253,132	103,057	(125,363)
Athletic activities	487,232	125,219	-	(362,013)
Community services	428,067	338,834	20,319	(68,914)
Other	76,616	-	-	(76,616)
Interest on long-term debt	1,937,227	-	-	(1,937,227)
Total governmental activities	<u>\$ 15,826,893</u>	<u>\$ 726,106</u>	<u>\$ 1,241,018</u>	<u>(13,859,769)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,300,352
Property taxes, levied for debt services				2,325,157
State aid not restricted to specific purposes				8,094,791
Interest and investment earnings				122,186
ISD special education allocation				790,129
Other				<u>506,967</u>
Total general revenues				<u>13,139,582</u>
Change in Net Assets				(720,187)
Net Assets - Beginning of Year				<u>908,105</u>
Net Assets - End of Year				<u>\$ 187,918</u>

See Notes to Financial Statements.

Manchester Community Schools
Balance Sheet
Governmental Funds
June 30, 2007

	2001	2007	2001 Capital	Other Non-Major Governmental	Total Governmental
	Debt	Debt	Project	Funds	Funds
<u>Assets</u>	<u>General</u>	<u>Debt</u>	<u>Debt</u>	<u>Project</u>	<u>Funds</u>
Cash and investments	\$ 1,710,062	\$ 83,849	\$ -	\$ 172,820	\$ 322,337
Receivables:					
Taxes receivable	19,333	26,991	1,342	-	11,804
Accounts receivable	5,809	-	-	-	518
Due from other governmental units	1,719,944	-	-	-	10,643
Due from other funds	11,699	-	2,315	-	105,482
Inventories	-	-	-	-	4,531
Prepaid expenditures	219,528	-	-	-	-
Total assets	<u>\$ 3,686,375</u>	<u>\$ 110,840</u>	<u>\$ 3,657</u>	<u>\$ 172,820</u>	<u>\$ 455,315</u>
					<u>\$ 4,429,007</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 174,494	\$ -	\$ -	\$ 1,296	\$ 34,521
State aid anticipation loan	1,309,000	-	-	-	-
Due to other funds	105,482	2,315	-	-	11,699
Accrued payroll and other liabilities	841,394	-	-	-	979
Accrued expenditures	47,952	-	-	-	-
Total liabilities	<u>2,478,322</u>	<u>2,315</u>	<u>-</u>	<u>1,296</u>	<u>47,199</u>
					<u>2,529,132</u>
Fund Balances:					
Reserved:					
Encumbrances	2,595	-	-	-	-
Prepaid items	219,528	-	-	-	-
Inventory	-	-	-	-	4,531
Capital projects	-	-	-	171,524	228,183
Debt service	-	108,525	3,657	-	62,497
Undesignated, reported in					
General fund	985,930	-	-	-	-
Special revenue funds	-	-	-	-	112,905
Total fund balances	<u>1,208,053</u>	<u>108,525</u>	<u>3,657</u>	<u>171,524</u>	<u>408,116</u>
					<u>1,899,875</u>
Total liabilities and fund balances	<u>\$ 3,686,375</u>	<u>\$ 110,840</u>	<u>\$ 3,657</u>	<u>\$ 172,820</u>	<u>\$ 455,315</u>
					<u>\$ 4,429,007</u>

See Notes to Financial Statements.

Manchester Community Schools
 Reconciliation of Balance Sheet of Governmental Funds to Net Assets
 Governmental Funds
 Year Ended June 30, 2007

Total Fund Balances - Governmental Funds		\$ 1,899,875
Amount reported for governmental activities in the Statement of Net Assets are different because:		
Value of deferred charges for bond issuance cost	\$ 237,533	
Accumulated amortization	<u>(18,075)</u>	219,458
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		
The cost of the capital assets is	\$ 46,174,672	
Accumulated depreciation is	<u>(7,885,264)</u>	38,289,408
Long-term liabilities not due and payable in the current period and not reported in the funds:		
Bonds payable		(40,598,078)
Deferred amount on refunding		1,365,048
Unamortized premiums		(133,113)
Compensated balances and voluntary severance benefits		(594,844)
Accrued interest payable is not included as a liability in governmental activities.		<u>(259,836)</u>
Total Net Assets - Governmental Activities		<u>\$ 187,918</u>

See Notes to Financial Statements.

Manchester Community Schools
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2007

	2001	2007	2001 Capital	Other Non-Major	Total	
General	Debt	Debt	Project	Governmental Funds	Governmental Funds	
Revenues:						
Local sources	\$ 1,397,827	\$ 1,566,297	\$ 78,538	\$ 17,844	\$ 1,445,853	\$ 4,506,359
State sources	8,862,680	-	-	-	35,548	8,898,228
Federal sources	468,344	-	-	-	87,828	556,172
Interdistrict and other	<u>798,164</u>	-	-	474,409	-	<u>1,272,573</u>
Total revenues	<u>11,527,015</u>	<u>1,566,297</u>	<u>78,538</u>	<u>492,253</u>	<u>1,569,229</u>	<u>15,233,332</u>
Expenditures:						
Instruction	6,203,241	-	-	-	-	6,203,241
Support services	5,493,599	-	-	-	-	5,493,599
Athletic activities	-	-	-	-	428,098	428,098
Food service activities	-	-	-	-	363,284	363,284
Community education	-	-	-	-	368,933	368,933
Debt service:						
Principal payments	-	1,055,000	-	-	305,000	1,360,000
Interest and fiscal charges	-	715,900	74,881	-	731,984	1,522,765
Cost of issuance	-	-	78,825	-	-	78,825
Capital outlay	-	-	-	1,032,752	995	1,033,747
Intergovernmental transfers	<u>16,865</u>	-	-	-	-	<u>16,865</u>
Total expenditures	<u>11,713,705</u>	<u>1,770,900</u>	<u>153,706</u>	<u>1,032,752</u>	<u>2,198,294</u>	<u>16,869,357</u>
Revenues Over (Under) Expenditures	<u>(186,690)</u>	<u>(204,603)</u>	<u>(75,168)</u>	<u>(540,499)</u>	<u>(629,065)</u>	<u>(1,636,025)</u>
Other Financing Sources (Uses):						
Operating transfers in	-	-	148,000	-	302,442	450,442
Bond proceeds	-	-	8,500,000	-	-	8,500,000
Bond discount	-	-	(147,637)	-	-	(147,637)
Payments to escrow agent	-	-	(8,421,538)	-	-	(8,421,538)
School bond loan proceeds	-	-	-	-	273,718	273,718
Operating transfers out	<u>(302,442)</u>	<u>(148,000)</u>	-	-	-	<u>(450,442)</u>
Total other financing sources (uses)	<u>(302,442)</u>	<u>(148,000)</u>	<u>78,825</u>	-	<u>576,160</u>	<u>204,543</u>
Net Changes in Fund Balances	(489,132)	(352,603)	3,657	(540,499)	(52,905)	(1,431,482)
Fund Balances - Beginning of Year	<u>1,697,185</u>	<u>461,128</u>	<u>-</u>	<u>712,023</u>	<u>461,021</u>	<u>3,331,357</u>
Fund Balances - End of Year	<u>\$ 1,208,053</u>	<u>\$ 108,525</u>	<u>\$ 3,657</u>	<u>\$ 171,524</u>	<u>\$ 408,116</u>	<u>\$ 1,899,875</u>

See Notes to Financial Statements.

Manchester Community Schools

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities Governmental Funds Year Ended June 30, 2007

Net Changes in Fund Balances - Total Governmental Funds \$ (1,431,482)

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

Governmental funds report capital outlays as expenditures; in the
Statement of Activities, these costs are allocated over their estimated
useful lives as depreciation.

Depreciation expense	\$ (1,182,681)	
Capital outlay	<u>1,185,515</u>	2,834

Accrued interest is recorded in the Statement of Activities when incurred;
it is not reported in governmental funds until paid. (99,524)

Bond proceeds are reported as financing sources in governmental funds
and thus contribute to the change in fund balance. In the Statement of Net
Assets, however, issuing debt increases long-term liabilities and does not
affect the Statement of Activities. Similarly, repayment of principal is an
expenditure in the governmental funds but reduces the liability in the
statement of Net Assets.

Debt issued:		
Refunding bonds	(8,500,000)	
Discount on the refunding debt	147,637	
School bond loan fund principal	(273,718)	
School bond loan fund accrued interest	(253,771)	
Repayments:		
To paying agent:		
Principal	8,085,000	
Bond issue costs	78,825	
Deferred amount on bond refunding	336,538	
Amortization of bond issue costs	(11,881)	
Amortization of bond premium/discount	27,973	
Amortization of deferred amount on refunding	(89,140)	
To bond holders	<u>1,360,000</u>	907,463

Revenue is reported in the Statement of Activities at the
time it is earned, without regard to timeliness of collection (126,626)

Decreases in compensated absences and voluntary severance benefits are reported
as expenditures when financial resources are used in the governmental funds. 27,148

Change in Net Assets of Governmental Activities \$ (720,187)

See Notes to Financial Statements.

Manchester Community Schools
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	<u>Private Purpose Trust Funds</u>	<u>Agency Fund - Student Activities</u>
Assets:		
Cash and investments	<u>\$ 57,003</u>	<u>\$ 149,287</u>
Liabilities:		
Due to student and community service groups	<u>-</u>	<u>\$ 149,287</u>
Total liabilities	<u>-</u>	<u>\$ 149,287</u>
Net Assets:		
Reserved for scholarships	<u>\$ 57,003</u>	

See Notes to Financial Statements.

Manchester Community Schools
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2007

	<u>Private Purpose Trust Funds</u>
Additions:	
Interest and investment earnings	\$ <u>1,916</u>
Total additions	<u>1,916</u>
Deductions:	
Scholarships awarded	<u>1,500</u>
Total deductions	<u>1,500</u>
Changes in Net Assets	416
Net Assets - Beginning of Year	<u>56,587</u>
Net Assets - End of Year	<u>\$ 57,003</u>

See Notes to Financial Statements.

Manchester Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of the Manchester Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide Statements – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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 revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Manchester Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

District-Wide Statements (Continued) - Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

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

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

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is the School District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

2001 Debt Fund – The 2001 Debt Fund is used to record tax, interest, and other revenue for payment of principal, interest and other expenditures on the 2001 bond issue.

2007 Debt Fund – The 2007 Debt Fund is used to record tax, interest, and other revenue for payment of principal, interest and other expenditures on the 2007 bond issue.

2001 Capital Project Fund – The 2001 Capital Project Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring equipment, and for remodeling. The fund operates until the purpose for which it was created is accomplished.

Additionally, the government reports the following fund types:

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. Special Revenue Funds maintained by the District are the Athletics Fund, the Food Services Fund, and the Community Education Fund.

Debt Service Funds – Debt Service Funds are used to recode tax and interest revenue and the payment of interest, principal, and other expenditures on long-term debt.

Capital Project Funds – Capital Project Funds are used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for remodeling and repairs.

Manchester Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Activities Agency Fund – The School District presently maintains an Agency Fund to record the transactions for student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Private-purpose Trust Funds – The School District presently maintains Private-purpose Trust Funds to account for funds entrusted to the School District for scholarship awards.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' 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, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which 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' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation:

General Fund – Non-Homestead	18.000
Debt Funds – Homestead and Non-Homestead	7.000

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

Manchester Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The State of Michigan utilizes a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation 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 revenue in accordance with State law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation received.

Inventories and Prepaid Items – Inventories are valued at cost on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund is recorded as inventory and deferred revenue until used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Restricted Assets – The unspent bond proceeds and related interest of the Capital Projects Funds require amounts to be set aside for construction. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The government defines capital assets as assets with an initial individual cost of \$5,000 or greater and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following lives:

Buildings and improvements	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and sick leave balances. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Manchester Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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

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

Use of Estimates

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

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any, for the General Fund are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The District does not consider these amendments to be significant.

Manchester Community Schools
Notes to Financial Statements

Note 2 – Stewardship, Compliance, and Accountability (Continued)

The 2001 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of Section 1351a of the revised School Code.

Beginning with the year of bond issuance, the District has reported the annual construction activity in the 2001 Capital Projects Fund. The project for which the 2001 Capital Project Bonds were issued was considered complete on May 16, 2005.

Note 3 – Deposits and Investments

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	<u>\$2,289,068</u>	<u>\$ 206,290</u>	<u>\$ 2,495,358</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts)	\$ 311,329
Bank investment pool	1,369,262
MILAF	814,267
Petty cash and cash on hand	<u>500</u>
Total	<u>\$ 2,495,358</u>

Investment and Deposit Risk

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. The District requires that financial institutions be evaluated and only those with an acceptable risk level are used for the District's deposits for custodial credit risk. At year end, the District's deposit balance of \$403,152 had \$228,308 of bank deposits that were uninsured and uncollateralized. The District believes that due to the dollar amounts of cash deposits and the limits of the FDIC insurance, it is impractical to insure all deposits.

Custodial Credit Risk – Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The bank investment pool in the amount of \$1,369,262 is held by the trust department of a bank and regulated by the Michigan Banking Act. The fair value of the position in the bank investment pool is the same as the value of the pool shares. The bank investment pool is not rated.

Investments under the interlocal agreement (MILAF) in the amount of \$814,267 are regulated by the Urban Cooperation Act. The fair value of the position in the interlocal agreement pools is the same as the value of the pool shares. The interlocal agreement (MILAF) is rated at AAAM according to Standard and Poor's.

Note 4 – Receivables

Receivables at June 30, 2007, consist of the following:

Other governmental units (primarily Michigan Department of Education)	\$1,730,587
Taxes	59,470
Other	<u>6,327</u>
	<u>\$1,796,384</u>

Manchester Community Schools
Notes to Financial Statements

Note 5 – Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Year-End Balance</u>
Assets not being depreciated – land	\$ 2,322,756	\$ _____	\$ _____	\$ 2,322,756
Capital assets being depreciated:				
Buildings and improvements	37,561,683	628,944	-	38,190,627
Buses and other vehicles	1,198,382	148,531	-	1,346,913
Furniture and equipment	<u>3,906,336</u>	<u>408,040</u>	-	<u>4,314,376</u>
Subtotal	<u>42,666,401</u>	<u>1,185,515</u>	-	<u>43,851,916</u>
Accumulated depreciation:				
Buildings and improvements	4,641,355	668,917	-	5,310,272
Buses and other vehicles	698,688	111,218	-	809,906
Furniture and equipment	<u>1,362,540</u>	<u>402,546</u>	-	<u>1,765,086</u>
Subtotal	<u>6,702,583</u>	<u>1,182,681</u>	-	<u>7,885,264</u>
Net capital assets being depreciated	<u>35,963,818</u>	<u>2,834</u>	-	<u>35,966,652</u>
Net capital assets	<u>\$ 38,286,574</u>	<u>\$ 2,834</u>	<u>\$ _____</u>	<u>\$ 38,289,408</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental Activities:

Instruction	\$ 709,609
Support services	236,536
Community services	59,134
Food services	118,268
Athletics	<u>59,134</u>
Total governmental activities	<u>\$ 1,182,681</u>

Note 6 – Note Payable

During the year, the District issued a note payable dated August 18, 2006 maturing August, 2007 in the amount of \$1,309,000 with an interest rate of 3.68%.

<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2007</u>
\$1,377,000	\$1,309,000	\$1,377,000	\$1,309,000

Manchester Community Schools
Notes to Financial Statements

Note 7 – Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences.

Long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Bonds and other debt	\$ 35,904,536	\$ 8,500,000	\$ 9,445,000	\$ 34,959,536	\$ 1,430,000
Deferred amount on					
Bond refunding	(1,117,650)	(336,538)	(89,140)	(1,365,048)	(97,904)
Bond premium/discount	308,723	(147,637)	27,973	133,113	24,128
School bond loan principal	4,723,331	273,718	-	4,997,049	-
School bond loan interest	<u>387,722</u>	<u>253,771</u>	<u>-</u>	<u>641,493</u>	<u>-</u>
Total bonds payable	40,206,662	8,543,314	9,383,833	39,366,143	\$ 1,356,224
Voluntary severance benefits	-	200,000	100,000	100,000	100,000
Compensated absences	<u>621,991</u>	<u>-</u>	<u>127,147</u>	<u>494,844</u>	<u>-</u>
Total governmental activities	<u>\$ 40,828,653</u>	<u>\$ 8,743,314</u>	<u>\$ 9,610,980</u>	<u>\$ 39,960,987</u>	<u>\$ 1,456,224</u>

Annual debt service requirements to maturity on the above governmental bond obligations are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,430,000	\$ 1,499,019	\$ 2,929,019
2009	1,503,152	1,446,960	2,950,112
2010	1,553,777	1,387,207	2,940,984
2011	1,676,647	1,354,320	3,030,967
2012	1,405,120	1,262,143	2,667,263
2013 - 2017	6,645,840	5,268,550	11,914,390
2018 - 2022	7,045,000	3,790,695	10,835,695
2023 - 2027	7,500,000	2,229,465	9,729,465
2028 - 2031	<u>6,200,000</u>	<u>655,263</u>	<u>6,855,263</u>
Total	<u>\$34,959,536</u>	<u>\$ 18,893,622</u>	<u>\$53,853,158</u>

Manchester Community Schools
Notes to Financial Statements

Note 7 – Long-Term Debt (Continued)

Governmental Activities

General obligation bonds consist of the following:

\$2,900,000 general obligation bonds due in annual installments of \$275,000 through May 2009; interest at 4.70% to 4.75%.	\$ 550,000
\$37,865,000 general obligation bonds due in annual installments of \$270,000 to \$1,560,000 through May 2021; interest at 3.70% to 5.50%	10,695,000
\$236,316 Durant School Improvement Bond, due in annual installments of \$13,152 to \$81,647 through May 2013; interest at 4.76%	139,536
\$7,590,000 general obligation bonds due in annual installments of \$35,000 to \$1,260,000 through May 2018; interest at 3.25% to 5.00%	7,530,000
\$7,545,000 general obligation bonds due in annual installments of \$45,000 to \$1,500,000 starting May 2020 through May 2026; interest at 4.00% to 4.125%	7,545,000
\$8,500,000 general obligation bonds due in annual installments of \$45,000 to \$1,550,000 starting in May 2018 through May 2031; interest at 4.00% to 4.25%	<u>8,500,000</u>
Subtotal for bonded debt	34,959,536
Less: deferred amount on bond refunding	(1,365,048)
Plus: premium/discount on bond refunding	<u>133,113</u>
Total bonded debt	<u>\$ 33,727,601</u>

Durant Non-Plaintiff Bond - Included in Governmental Activities General Obligation Bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) of \$16,596 to \$111,498 associated with this bond are funded by the State of Michigan via specifically appropriated State Aid and will not require any District debt levy or utilization of any other District financial resources.

School Bond Loan -- The school bond loan payable of \$4,997,049 represents notes payable to the State of Michigan for loans made to the District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates ranged from an annual 4.035% to 4.685% from July 1, 2006 to June 30, 2007. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below seven mills. The District is required to levy seven mills and repay to the State any excess of the amount levied over the bonded debt service requirement. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the District, no provision for repayment of the note or its related interest of \$641,493 has been included in the above annual debt service requirements.

Manchester Community Schools
Notes to Financial Statements

Note 7 – Long-Term Debt (Continued)

Current Refunding – During the year, the School district issued \$8,500,000 in general obligation bonds with interest rates ranging for 3.0% to 5.0%. The proceeds of these bonds were used to advance refund \$8,085,000 of outstanding 2001 Building and Site bonds. The net proceeds of \$8,421,538 (after payment of \$78,825 in underwriting fees, and other issuance costs) less a net discount of \$147,637 and an additional \$148,000 of debt service monies were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt serve payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The advance refunding reduced the total debt service payment by \$698,133 which represents an economic gain of \$486,322.

The School District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statement. At June 30, 2007 \$14,375,000 of bonds outstanding are considered defeased.

Note 8 – Interfund Receivables and Payables and Transfers

The District reports interfund balances between some of its funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The composition of interfund balances is as follows:

	Due To				<u>Total</u>
	<u>2007 Debt Fund</u>	<u>Community Education</u>	<u>Athletics</u>	<u>General Fund</u>	
Due From:					
General Fund	\$ -	\$ 2,099	\$ 103,383	\$ -	\$ 105,482
Food Service Fund	-	-	-	11,699	11,699
2001 Debt Fund	<u>2,315</u>	-	-	-	<u>2,315</u>
Total	<u>\$ 2,315</u>	<u>\$ 2,099</u>	<u>\$ 103,383</u>	<u>\$ 11,699</u>	<u>\$ 119,496</u>
	Transfers Out				
	<u>General Fund</u>	<u>2001 Debt Service</u>	<u>Total</u>		
Transfers in:					
Athletics	\$ 302,442	\$ -	\$ 302,442		
2007 Debt Fund	<u>-</u>	<u>148,000</u>	<u>148,000</u>		
Total	<u>\$ 302,442</u>	<u>\$ 148,000</u>	<u>\$ 450,442</u>		

Transfers are made from the General Fund to the Athletics Fund to help subsidize the activities of the Athletics Fund. Transfers were made from the 2001 Debt Fund to the 2007 Debt Fund to help pay costs of the 2007 refunding obligation.

Manchester Community Schools
Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan and Post-Employment Benefits

Plan Description – The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, 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 Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, MI 48909 or by calling (517) 322-6000.

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

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

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 16.34 percent for the period from July 1, 2006 through September 30, 2006 and 17.74% from October 1, 2006 through June 30, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The School District's contributions to the MPSERS plan for the years ended June 30, 2007, 2006, and 2005 were approximately \$1,232,000, \$1,101,000, and \$951,000, respectively.

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

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 this coverage 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 plan discussed above.

Note 10 – Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities
Unspent bond proceeds and related interest	\$ 171,524

Manchester Community Schools
Notes to Financial Statements

Note 11 – Federal and State Grants

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

Note 12 – Risk Management

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

The School District has purchased commercial insurance for other risks of loss, including property and casualty, errors and omissions, fleet and employee health and accident insurance.

Note 13 - Subsequent Events

The District has approved borrowing \$1,750,000 for the fiscal year 2008 to replace the note payable as described in Note 6.

Note 14 – Fund Balance/Net Asset Changes

Certain activity in the Government-Wide financial statements was restated to properly reflect the recording of the issuance of the 2006 Refunding Bonds during the prior year end. Also, activity in the General Fund and the Durant Debt Fund was restated to properly reflect recording of Durant Debt Fund activity in the prior year.

The restatement of the beginning Net Assets/Fund Balances are as follows:

	Governmental Activities <u>Net Assets</u>	General Fund	Durant Debt Fund
Fund Balances/Net Assets,			
beginning of year before restatement	\$ (53,335)	\$ 1,673,553	\$ 23,632
Correction of prior year due to/from other funds	-	23,632	(23,632)
Correction of deferred bond premium	(308,723)	-	-
Correction of deferred amount on refunding	1,117,650	-	-
Correction of bond issue costs	<u>152,513</u>	<u>-</u>	<u>-</u>
Beginning Fund Balances/Net Assets as restated	<u>\$ 908,105</u>	<u>\$ 1,697,185</u>	<u>\$ -</u>

Required Supplemental Information

Manchester Community Schools
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Budget to Actual
General Fund
Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
Local sources	\$ 1,875,050	\$ 1,409,311	\$ 1,397,827
State sources	8,627,933	8,863,464	8,862,680
Federal sources	491,805	519,896	468,344
Interdistrict and other	<u>767,000</u>	<u>806,400</u>	<u>798,164</u>
Total revenues	<u>11,761,788</u>	<u>11,599,071</u>	<u>11,527,015</u>
Expenditures:			
Basic programs	5,342,219	5,246,767	5,329,678
Added needs	579,019	903,991	873,563
Support services:			
Pupil services	1,553,283	1,546,881	1,418,124
Instructional staff services	321,229	354,439	303,585
General administrative services	479,173	447,762	408,745
School administrative services	547,679	537,328	526,334
Business services	236,261	266,332	296,089
Operations and maintenance	1,660,061	1,517,647	1,511,000
Pupil transportation	872,064	843,340	849,272
Central services	136,435	164,913	180,450
Community services	212,272	150	-
Intergovernmental	<u>185,369</u>	<u>25,000</u>	<u>16,865</u>
Total expenditures	<u>12,125,064</u>	<u>11,854,550</u>	<u>11,713,705</u>
Revenues Over (Under) Expenditures	<u>(363,276)</u>	<u>(255,479)</u>	<u>(186,690)</u>
Other Financing Sources (Uses):			
Transfers out	(277,751)	(302,099)	(302,442)
Net Changes in Fund Balances	<u>\$ (641,027)</u>	<u>\$ (557,578)</u>	<u>(489,132)</u>
Fund Balances - Beginning of Year			<u>1,697,185</u>
Fund Balances - End of Year			<u>\$ 1,208,053</u>

Other Supplemental Information

Manchester Community Schools
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2007

	<u>Special Revenue Funds</u>			<u>Debt Service Funds</u>			<u>Capital Projects Funds</u>		<u>Total</u>	
	<u>Athletics</u>	<u>Food Service</u>	<u>Community Education</u>	<u>2000 Debt</u>	<u>2005 Debt</u>	<u>2006 Debt</u>	<u>Durant Debt</u>	<u>2000 Building and Site</u>		<u>Capital Improvements</u>
Assets										
Cash and investments	\$ 11,990	\$ 17,188	\$ 14,283	\$ 24,314	\$ 16,994	\$ 9,385	\$ -	\$ -	\$ 228,183	\$ 322,337
Taxes receivable	-	-	-	5,369	3,632	2,803	-	-	-	11,804
Accounts receivable	-	-	518	-	-	-	-	-	-	518
Due from other governmental units	-	10,643	-	-	-	-	-	-	-	10,643
Due from other funds	103,383	-	2,099	-	-	-	-	-	-	105,482
Inventory	-	4,531	-	-	-	-	-	-	-	4,531
Total assets	\$ 115,373	\$ 32,362	\$ 16,900	\$ 29,683	\$ 20,626	\$ 12,188	\$ -	\$ -	\$ 228,183	\$ 455,315
Liabilities and Fund Balances										
Liabilities:										
Accounts payable	\$ -	\$ 22,112	\$ 12,409	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,521
Salaries payable	-	476	503	-	-	-	-	-	-	979
Due to other funds	-	11,699	-	-	-	-	-	-	-	11,699
Total liabilities	-	34,287	12,912	-	-	-	-	-	-	47,199
Fund Balances:										
Reserve for inventory	-	4,531	-	-	-	-	-	-	-	4,531
Reserve for debt service	-	-	-	29,683	20,626	12,188	-	-	-	62,497
Reserve for construction	-	-	-	-	-	-	-	-	228,183	228,183
Unreserved:undesignated	115,373	(6,456)	3,988	-	-	-	-	-	-	112,905
Total fund balances	115,373	(1,925)	3,988	29,683	20,626	12,188	-	-	228,183	408,116
Total liabilities and fund balances	\$ 115,373	\$ 32,362	\$ 16,900	\$ 29,683	\$ 20,626	\$ 12,188	\$ -	\$ -	\$ 228,183	\$ 455,315

Manchester Community Schools
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
Year Ended June 30, 2007

	Special Revenue Funds			Debt Service Funds			Capital Projects Funds			Total
	Athletics	Food Service	Community Education	2000 Debt	2005 Debt	2006 Debt	Durant Debt	2000 Building And Site	Capital Improvements	
Revenues:										
Local sources	\$ 125,219	\$ 253,132	\$ 352,602	\$ 319,147	\$ 220,057	\$ 164,808	\$ -	\$ -	10,888	\$ 1,445,853
State sources	-	15,229	20,319	-	-	-	-	-	-	35,548
Federal sources	-	87,828	-	-	-	-	-	-	-	87,828
Total revenues	<u>125,219</u>	<u>356,189</u>	<u>372,921</u>	<u>319,147</u>	<u>220,057</u>	<u>164,808</u>	<u>-</u>	<u>-</u>	<u>10,888</u>	<u>1,569,229</u>
Expenditures:										
Athletic activities	428,098	-	-	-	-	-	-	-	-	428,098
Food service activities	-	363,284	-	-	-	-	-	-	-	363,284
Community Education	-	-	368,933	-	-	-	-	-	-	368,933
Principal	-	-	-	275,000	30,000	-	-	-	-	305,000
Interest	-	-	-	38,775	337,487	355,022	-	-	-	731,284
Other	-	-	-	275	225	200	-	-	-	700
Capital outlay	-	-	-	-	-	-	-	995	-	995
Total expenditures	<u>428,098</u>	<u>363,284</u>	<u>368,933</u>	<u>314,050</u>	<u>367,712</u>	<u>355,222</u>	<u>-</u>	<u>995</u>	<u>-</u>	<u>2,198,294</u>
Revenues Over (Under)										
Expenditures	<u>(302,879)</u>	<u>(7,095)</u>	<u>3,988</u>	<u>5,097</u>	<u>(147,655)</u>	<u>(190,414)</u>	<u>-</u>	<u>995</u>	<u>10,888</u>	<u>(629,065)</u>
Other Financing Sources (Uses):										
Operating transfers in	302,442	-	-	-	-	-	-	-	-	302,442
School bond loan proceeds	-	-	-	-	71,116	202,602	-	-	-	273,718
Total other financing sources (uses)	<u>302,442</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>71,116</u>	<u>202,602</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>576,160</u>
Net Changes in Fund Balances	<u>(437)</u>	<u>(7,095)</u>	<u>3,988</u>	<u>5,097</u>	<u>(76,539)</u>	<u>12,188</u>	<u>-</u>	<u>995</u>	<u>10,888</u>	<u>(52,905)</u>
Fund Balances - Beginning of Year	<u>115,810</u>	<u>5,170</u>	<u>-</u>	<u>24,586</u>	<u>97,165</u>	<u>-</u>	<u>-</u>	<u>995</u>	<u>217,295</u>	<u>461,021</u>
Fund Balances - End of Year	<u>\$ 115,373</u>	<u>\$ (1,925)</u>	<u>\$ 3,988</u>	<u>\$ 29,683</u>	<u>\$ 20,626</u>	<u>\$ 12,188</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 228,183</u>	<u>\$ 408,116</u>

Manchester Community Schools
Schedule of Bonded Indebtedness
June 30, 2007

	Amount of Issue	Interest Rate	Date of Maturity	Fiscal Year Interest Requirements	Fiscal Year Principal Requirements	Bonds Outstanding June 30, 2007
Durant Bonds	\$ 236,316	4.760%	05/15/08	\$ -	\$ -	\$ -
		4.760%	05/15/09	3,444	13,152	13,152
		4.760%	05/15/10	2,817	13,777	13,777
		4.760%	05/15/11	29,851	81,647	81,647
		4.760%	05/15/12	1,474	15,120	15,120
		4.760%	05/15/13	754	15,840	15,840
					<u>\$ 139,536</u>	

	Amount of Issue	Interest Rate	Date of Maturity	Fiscal Year Interest Requirements	Fiscal Year Principal Requirements	Bonds Outstanding June 30, 2007
2000 School Building and Site Bonds	\$ 2,900,000	4.700%	05/01/08	\$ 25,988	\$ 275,000	\$ 275,000
		4.750%	05/01/09	13,062	275,000	275,000
						<u>\$ 550,000</u>

	Amount of Issue	Interest Rate	Date of Maturity	Fiscal Year Interest Requirements	Fiscal Year Principal Requirements	Bonds Outstanding June 30, 2007
2001 School Building and Site Bonds	\$37,865,000	3.700%	05/01/08	\$ 476,575	\$ 1,120,000	\$ 1,120,000
		3.800%	05/01/09	435,135	1,180,000	1,180,000
		3.900%	05/01/10	390,296	1,505,000	1,505,000
		4.000%	05/01/11	331,600	1,560,000	1,560,000
		5.000%	05/01/12	269,200	1,350,000	1,350,000
		5.500%	05/01/13	201,700	270,000	270,000
		5.500%	05/01/14	186,850	270,000	270,000
		5.500%	05/01/15	172,000	-	-
		5.500%	05/01/16	172,000	-	-
		5.500%	05/01/17	172,000	-	-
		5.000%	05/01/18	172,000	-	-
		5.000%	05/01/19	172,000	1,300,000	1,300,000
		5.000%	05/01/20	107,000	1,325,000	1,325,000
		5.000%	05/01/21	40,750	815,000	815,000
					<u>\$ 10,695,000</u>	

	Amount of Issue	Interest Rate	Date of Maturity	Fiscal Year Interest Requirements	Fiscal Year Principal Requirements	Bonds Outstanding June 30, 2007
2005 Refunding Bonds	\$7,590,000	3.250%	05/01/08	\$ 336,587	\$ 35,000	\$ 35,000
		3.500%	05/01/09	335,450	35,000	35,000
		3.500%	05/01/10	334,225	35,000	35,000
		4.000%	05/01/11	333,000	35,000	35,000
		4.000%	05/01/12	331,600	40,000	40,000
		5.000%	05/01/13	330,000	1,160,000	1,160,000
		5.000%	05/01/14	272,000	1,210,000	1,210,000
		5.000%	05/01/15	211,500	1,230,000	1,230,000
		4.000%	05/01/16	150,000	1,240,000	1,240,000
		4.000%	05/01/17	100,400	1,250,000	1,250,000
		4.000%	05/01/18	50,400	1,260,000	1,260,000
					<u>\$ 7,530,000</u>	

Manchester Community Schools

Schedule of Bonded Indebtedness

June 30, 2007

(Continued)

2006 Refunding Bonds	Amount of Issue	Interest Rate	Date of Maturity	Fiscal Year	Fiscal Year	Bonds
				Interest Requirements	Principal Requirements	Outstanding June 30, 2007
	\$7,545,000					
		4.000%	05/01/08	\$ 305,175	\$ -	\$ -
		4.000%	05/01/09	305,175	-	-
		4.000%	05/01/10	305,175	-	-
		4.000%	05/01/11	305,175	-	-
		4.000%	05/01/12	305,175	-	-
		4.000%	05/01/13	305,175	-	-
		4.000%	05/01/14	305,175	-	-
		4.000%	05/01/15	305,175	-	-
		4.000%	05/01/16	305,175	-	-
		4.000%	05/01/17	305,176	-	-
		4.000%	05/01/18	305,175	-	-
		4.000%	05/01/19	305,175	-	-
		4.000%	05/01/20	305,175	45,000	45,000
		4.000%	05/01/21	303,375	75,000	75,000
		4.000%	05/01/22	300,375	1,450,000	1,450,000
		4.000%	05/01/23	242,375	1,475,000	1,475,000
		4.000%	05/01/24	183,375	1,500,000	1,500,000
		4.100%	05/01/25	123,375	1,500,000	1,500,000
		4.125%	05/01/26	61,875	1,500,000	1,500,000
						<u>\$ 7,545,000</u>

2007 Refunding Bonds	Amount of Issue	Interest Rate	Date of Maturity	Fiscal Year	Fiscal Year	Bonds
				Interest Requirements	Principal Requirements	Outstanding June 30, 2007
	\$8,500,000					
		4.000%	05/01/08	\$ 354,694	\$ -	\$ -
		4.000%	05/01/09	354,694	-	-
		4.000%	05/01/10	354,694	-	-
		4.000%	05/01/11	354,694	-	-
		4.000%	05/01/12	354,694	-	-
		4.000%	05/01/13	354,694	-	-
		4.000%	05/01/14	354,694	-	-
		4.000%	05/01/15	354,694	-	-
		4.000%	05/01/16	354,694	-	-
		4.000%	05/01/17	354,694	-	-
		4.000%	05/01/18	354,694	45,000	45,000
		4.000%	05/01/19	352,895	65,000	65,000
		4.000%	05/01/20	350,294	65,000	65,000
		4.000%	05/01/21	347,694	600,000	600,000
		4.000%	05/01/22	323,693	-	-
		4.000%	05/01/23	323,693	-	-
		4.000%	05/01/24	323,693	-	-
		4.000%	05/01/25	323,693	-	-
		4.000%	05/01/26	323,693	-	-
		4.125%	05/01/27	323,693	1,525,000	1,525,000
		4.125%	05/01/28	260,788	1,550,000	1,550,000
		4.200%	05/01/29	196,850	1,550,000	1,550,000
		4.250%	05/01/30	131,750	1,550,000	1,550,000
		4.250%	05/01/31	65,875	1,550,000	1,550,000
						<u>\$ 8,500,000</u>

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
With Government Auditing Standards**

Board of Education
Manchester Community Schools
Manchester, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Manchester Community Schools as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 25, 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 Governmental Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Manchester Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the 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 District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiencies described as 2007-1, 2007-2 2007-3 and 2007-4 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

To the Board of Education
Manchester Community Schools
Manchester, Michigan
Page 2

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above as 2007-1 and 2007-2 to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated October 25, 2007.

Manchester Community Schools' responses to the findings identified in our audit are described in the accompanying schedule of Findings and Responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

Willis & Jurasek, P.C.
Certified Public Accountants

October 25, 2007

To Board of Education
Manchester Community Schools
Manchester, Michigan

Schedule of Findings and Responses

Finding 2007-1

Currently, the District's staff prepares the interim internal financial statements that allows for management and oversight of the District, but relies on assistance from us in preparing the year end financial statements and footnotes. The annual financial statements for the year ended June 30, 2007, required relatively few audit adjustments, most of which the staff were aware needed to be recorded. Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled Communicating Internal Control Related Matters Identified in an Audit (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the year end financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

Client Response

We acknowledge the significance of Statement on auditing Standards 112 regarding internal control over financial statement preparation. In the past we have relied on our audit firm's expertise with regard to annual financial statement and footnote preparation. Given our District's small sized and the level of staffing in our Administrative Office, we expect this practice to continue for the foreseeable future.

Finding 2007-2

During the course of the audit, we made material prior period adjustments to the government-wide financial statements that had a material effect on the opening net asset balances. These adjustments pertained to the bond refunding recorded in the year ended June 30, 2006. We would encourage the accounting personnel of the District to contact the auditors during the course of the year if some complex issues arise that require some advice as to proper recording and reporting in accordance with generally accepted accounting principals. We believer this meets the definition of a material weakness as defined in Statement on Auditing Standards # 112.

Client Response

Due to the complex nature of bond refunding accounting transactions, and the relative infrequency of these transactions, we relied on our prior auditor's expertise to properly reflect thee accounting transaction in our audit report for the June 30, 2006 fiscal year.

To Board of Education
Manchester Community Schools
Manchester, Michigan

Schedule of Findings and Responses (Continued)

Finding 2007-3

The District has established certain controls over the cash disbursement process that involves approval of invoices by supervisory personnel. Part of that process is to have initials or signatures by the employee who approves the invoice. Invoices are not to be paid unless prior approval is noted. In our testing of this control, we noted that from the sample of disbursements that we had selected, 10 of the invoices had no indication of any approval prior to payment. While the control in place is adequate, the procedure is not being followed. We would recommend that this procedure be enforced to allow for proper controls to work.

Client Response

Since July 2007, we have been closely monitoring documentation submitted for expenditures, and have been enforcing the disbursement approval policy that had previously been established; so far we have been very successful.

Finding 2007-4

Most journal entries are made by one individual within the District and entered into the general ledger system. No one reviews or monitors the journal entry process. We would recommend that a responsible official review the journal entries before they are posted into the general ledger and investigate any unusual journal entries. This is one area often overlooked in the internal control process and we encourage the District to implement a review process of this procedure to ensure proper controls.

Client Response

The issue has been discussed with the Superintendent, and we have agreed that effective November 1, 2007, a system-generated report will be submitted to the Superintendent weekly of any journal entries that have been posted. He will review the report and initial it when his review is complete. This initialed report will be filed with the supporting documentation for all journal entries. This supporting documentation is available for review at any time he wishes, should he desire further clarification on a posted journal entry.



October 25, 2007

Board of Education
Manchester Community Schools
Manchester, Michigan

We have audited the financial statements of Manchester Community Schools for the year ended June 30, 2007, and have issued our report thereon dated October 25, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

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

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and no other applications of existing policies were changed during the current year. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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

- Estimates have been used in calculating the liability for employee compensated absences. The estimated liability is approximately \$495,000.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). We made material adjustments to the prior period for the Government-Wide Statement of Net Assets to record the effects of prior bond refunding. In our judgment these journal entries had a significant effect on the beginning net asset balances.

Disagreements with Management

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

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

Sincerely,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.



October 25, 2007

To the Board of Education
Manchester Community Schools
Manchester, Michigan

In planning and performing our audit of the financial statements of Manchester Community Schools for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District'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, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 25, 2007 on the District's financial statements. Our recommendations and comments are summarized as follows:

Comments:

Notification Requirements for Non-profit Organizations whose Gross Receipts are \$25,000 or Less, i.e. parent teacher organizations or various school related booster clubs.

The IRS is now requiring all non-profit organizations to file an annual notice for tax periods beginning after December 31, 2006. Generally, these organizations must file a paper or electronic Form 990 (or Form 990-EZ) even if their gross receipts are normally \$25,000 or less. The annual electronic notice is due by the 15th day of the fifth month after the close of their tax period. For example, if their tax period ends on December 31, 2007, the annual electronic notice is due May 15, 2008. The notice will require these organizations to provide basic information and to verify that the organization's annual gross receipts are still normally \$25,000 or less.

To the Board of Education
Manchester Community Schools
Manchester, Michigan
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IRS 403(b) Final Regulations

The intent of the regulations is to consolidate guidance on §403(b) plans issued since 1964. These regulations are generally effective for taxable years beginning after December 31, 2008. Plan documents should be in place December 31, 2008, to be implemented as of January 1, 2009.

The IRS is working on a model plan document and guidance for school districts. This should contain the provisions necessary for compliance with the new rules. A plan may consist of several documents, or make reference to other documents, such as annuity contracts and custodial agreements. The employer must ensure that there are no conflicts or inconsistencies between the documents. The documents must contain eligibility rules, benefits available, limitations, allowable vendors, and time and form distributions. The document must allocate administrative and compliance responsibilities to the employer and/or designated third parties. The plan may not allocate compliance responsibilities to the participants. Other provisions the regulations cover include notification regarding the exchange of investment products, universal availability, distributions, and terminations.

To ensure that all of these requirements are properly met, we recommend that the District set up a committee of benefit officials and participants to review the current plan and design the future plan. Also, determine if you need a third party administrator (TPA) to administer the plan and create a request for proposal (REP) for service. In addition, after the IRS model plan is in place, you may want to offer employee education following the model plan guidelines.

New Auditing Standards

Ten new auditing standards have been released and are effective, or will become effective for next year's audit. The new standards will have an impact on our overall audit approach. These new standards emphasize a risk based approach to the audit and a continued assessment of your internal controls.

Deferred Compensation Rules Applicable to Teachers and Similar Employees

The IRS recently issued new questions and answers related to deferred compensation which can affect teachers and similar employees. When employees can elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation under the Internal Revenue Code. These payments could be subject to an additional 20% tax if the specified procedures are not followed. For example, school employees who work ten months but are paid over twelve months would be deferring compensation into a future year. If a school district provides that all employees must spread their pay over twelve months, these rules do not apply. In order to avoid imposition of extra taxes, the employees must give an irrevocable written or electronic election to notify the employer that they want to spread out the compensation prior to the start of the school year. The election can be phrased as effective until further notice to avoid annual updates. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 – 2009 school years.

To the Board of Education
Manchester Community Schools
Manchester, Michigan
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Conclusion

Our comments and recommendations are intended to improve your internal controls and/or improve operations. Please let us know if you would like further assistance with these matters.

This report is intended solely for the information and use of the Board of Education, management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties. We appreciate the cooperation received from your staff during this engagement and the continued opportunity to be of service.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.