



LAKESHORE PUBLIC SCHOOLS

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

LAKESHORE PUBLIC SCHOOLS

Table of Contents

	<u>PAGE</u>
Administrative Personnel	
Financial Section	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	17
Statement of Fiduciary Assets and Liabilities	18
Notes to the Financial Statements	19-31
Combining and Individual Fund Financial Statements and Schedules:	
Detail Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	32-37
Combining Balance Sheet – Nonmajor Governmental Funds	38-39
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	40-41
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Athletics Fund	42
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Food Service Fund	43
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Bookstores Funds	44
Statement of Changes in Fiduciary Assets and Liabilities – Agency Fund	45
Schedule of Bonds Issued and Outstanding	46
Property Tax Data	47

LAKESHORE PUBLIC SCHOOLS
Administrative Personnel
Year Ended June 30, 2007

SCHOOL BOARD MEMBERS

H. Timothy Federbosch	President
Robert T. Kenagy	Vice-President
Cindy Gray	Secretary
Peter Bartschke	Treasurer
Michael R. Welch	Trustee
Frederick A. Welch	Trustee
Mark D. Whitwam	Trustee

PRINCIPALS AND ADMINISTRATORS

Don Frank	Superintendent
Ellen Rudy	Assistant Superintendent
Bill Scaletta	High School Principal
Bill Shepard	Middle School Principal
Kathy Boyle	Elementary School Principal
Patrick Wright	Elementary School Principal
Marcy White	Elementary School Principal

CHIEF FINANCIAL OFFICER

Rob Burgess



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

INDEPENDENT AUDITORS' REPORT

October 29, 2007

Board of Education
Lakeshore Public Schools
Stevensville, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Lakeshore Public Schools** (the "District"), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lakeshore Public 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 Lakeshore Public Schools as of June 30, 2007, and the respective changes in financial position, where applicable, thereof and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated October 29, 2007 on our consideration of Lakeshore Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lakeshore Public Schools' basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of Lakeshore Public Schools' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lakeshore Public Schools is a K-12 school district located in Berrien County, Southwest Michigan. The accompanying financial statements are completed in compliance with the provisions of accounting principles generally accepted in the United States of America (GAAP). The management's discussion and analysis, a requirement of GAAP, is intended to be the Lakeshore Public Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2007.

GAAP requires the reporting of two types of financial statements: district-wide financial statements and fund financial statements.

Fund Financial Statements

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's accounting manual. In the State of Michigan, the School District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds, including Debt Fund, Building and Site Fund, Public Improvement Fund, and the School Service Funds, which are comprised of food service, athletics, and various bookstore accounts.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

District-wide Financial Statements

The district-wide financial statements are full-accrual basis statements. They report all of the School District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the School District's are reported in the statement of net assets of the district-wide financial statements.

Summary of Net Assets

The following summarizes the net assets at fiscal years ended June 30, 2007 and 2006.

	June 30	
	2007	2006
Assets		
Current assets	\$ 7,751,433	\$ 7,037,325
Capital assets	46,939,760	47,296,103
Less: accumulated depreciation	(14,659,597)	(14,650,886)
Capital assets - net book value	<u>32,280,163</u>	<u>32,645,217</u>
Total assets	<u>\$ 40,031,596</u>	<u>\$ 39,682,542</u>
Liabilities		
Current liabilities	\$ 4,320,564	\$ 4,562,090
Long term liabilities	<u>15,650,225</u>	<u>16,992,583</u>
Total liabilities	19,970,789	21,554,673
Net assets		
Invested in capital assets, net of related debt	15,754,832	14,069,685
Restricted for debt service	263,988	745,101
Restricted for capital projects	1,019,618	-
Unrestricted	<u>3,022,369</u>	<u>3,313,083</u>
Total net assets	<u>20,060,807</u>	<u>18,127,869</u>
Total liabilities and net assets	<u>\$ 40,031,596</u>	<u>\$ 39,682,542</u>

Analysis of Financial Position

During fiscal year ended June 30, 2007, the School District's net assets increased by \$1,932,938. A few of the significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The School District's expenditures from General Fund revenues exceeded operations by \$278,844 for the fiscal year ended June 30, 2007. See the section entitled "Results of Operations", below, for further discussion of General Fund operations.

B. Bonded Debt, Principal Payments

The School District made principal payments on bonded, long-term debt obligations which reduced the amount of the School District's long-term liabilities as follows:

District's 2000 Debt Fund Principal Obligation:

Principal obligation at June 30, 2006	\$ 18,150,000
Less: Principal payment made during fiscal year ended June 30, 2007	<u>(1,720,000)</u>
Principal obligation at June 30, 2007	<u>\$ 16,430,000</u>

C. Net Investment in Capital Assets

The School District's net investment in capital assets decreased by \$ 365,054 during the fiscal year. This can be summarized as follows:

Beginning investment in capital outlay – net at July 1, 2006	\$ 32,645,217
Additions to capital outlay at cost – fiscal year ended June 30, 2007	1,202,988
Depreciation expense for fiscal year ended June 30, 2007	(1,045,287)
Disposal of capital assets (net book value)	<u>(522,755)</u>
Ending investment in capital outlay – net at June 30, 2007	<u>\$ 32,280,163</u>

The district utilized the services of Valuation Resources Management during the year to complete an inventory and appraisal of its capital assets. The disposal of capital assets reflects adjustments and write-offs of certain capital assets as a result of that inventory.

Results of Operations

	<u>Year Ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Revenues		
General revenues:		
Property taxes levied for general fund and building and site operations	\$ 4,679,943	\$ 4,225,877
Property taxes levied for debt service	2,215,600	2,060,562
State of Michigan state aid - unrestricted	16,684,729	16,024,820
Other general revenues	<u>938,110</u>	<u>222,420</u>
Total general revenues	24,518,382	22,533,679
Operating grants:		
General fund instruction	1,429,550	1,358,113
Food services	<u>309,198</u>	<u>280,199</u>
Total operating grants	1,738,748	1,638,312

	Year ended June 30	
	2007	2006
Revenues (Continued)		
Charges for services:		
Food services	\$ 698,294	\$ 625,337
Other charges	292,198	311,379
	<u>990,492</u>	<u>936,716</u>
Total revenues	27,247,622	25,108,707
Expenses		
Instruction	14,321,169	13,012,888
Support services	7,577,039	7,282,889
Community services	79,307	78,275
Food services	914,135	871,573
Athletics	478,092	435,680
Depreciation - unallocated	1,045,287	1,152,742
Interest on long term debt	899,655	1,014,110
	<u>25,314,684</u>	<u>23,848,157</u>
Total expenses	25,314,684	23,848,157
Increase in net assets	1,932,938	1,260,550
Beginning net assets, as restated	<u>18,127,869</u>	<u>16,867,319</u>
Ending net assets	<u>\$ 20,060,807</u>	<u>\$ 18,127,869</u>

State of Michigan Unrestricted Aid (state foundation allowance):

The State of Michigan aid, unrestricted, is determined by the following variables:

- a. State of Michigan legislation, i.e., the State Aid Act, per student foundation allowance
- b. Student enrollment - Blended at 75 percent of current year's September count and 25 percent of the prior year's February count
- c. The School District's non-homestead levy

Per Student Foundation Allowance

Annually since 1994, the State of Michigan sets the per student foundation allowance for each school district. The Lakeshore Public Schools' foundation allowance was \$7,085 for the 2006-2007 fiscal year. This is an increase of \$210 per student over the 2005-2006 foundation allowance of \$6,875 per student.

Student Enrollment

The School District's student enrollment for the fall count of 2006-2007 was 2,904 students. The School District's enrollment increased by 99 full time equated (FTE) students from the prior school year's student count. The following summarizes fall student enrollments in the past several years:

	Student FTE	Change from Prior Year
2006-2007	2,904	99
2005-2006	2,805	(32)
2004-2005	2,837	9
2003-2004	2,828	(39)
2002-2003	2,867	(27)
2001-2002	2,894	5
2000-2001	2,889	(43)

Subsequent to the year ended June 30, 2007, preliminary student enrollments for the 2007-2008 school year are at about 2,980 FTE which indicates that enrollments will be up approximately 76 students from 2006-2007. In June 2007, the School District's budget projected enrollments of 2,915 for 2007-2008. Thus, preliminary enrollments exceed projections by approximately 65 students.

Property Taxes Levied for General Operations (General Fund Non-homestead Taxes)

The School District levies 18 mills of property taxes for operations (General Fund) on non-homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the state equalized value, which is, theoretically, 50 percent of the market value.

The School District's non-homestead property levy for the 2006-2007 fiscal year was \$3,704,872. The non-homestead tax levy increased by 11.6 percent over the prior fiscal year. The amount of unpaid personal property taxes at fiscal year end June 30, 2006 was \$21,218, or approximately 0.57 percent of the total non-homestead levy. For fiscal year ended June 30, 2007, the School District wrote off \$16,639 of prior year's non-homestead taxes that had not been collected.

The following summarizes the School District's non-homestead levy the past five years:

Fiscal Year	Non-homestead Tax Levy	Percent Increase (Decrease)
2006-2007	\$3,704,872	11.6
2005-2006	3,320,497	6.9
2004-2005	3,106,841	10.8
2003-2004	2,803,542	(1.8)
2002-2003	2,855,746	7.9
Five Year Average		7.1

Debt Fund Property and Industrial Facility in Lieu of Taxes

The School District’s debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead. In addition, the School District collects IFT (Industrial Facilities Taxes) in lieu of taxes that are essentially taxed at 50 percent of the regular tax rate.

For 2006-2007, the School District’s debt millage levy was 3.4 mills, which generated a levy of \$2,188,815. As of June 30, 2007, \$7,077 of personal debt taxes were not paid to the district by the local Townships or Berrien County who collect the taxes on the district’s behalf. The unpaid taxes represent 0.32 percent of the total levy. The School District collected \$27,466 of debt fund In Lieu of Taxes during the fiscal year.

The School District collected \$27,466 of debt fund IFT In Lieu of Taxes during the fiscal year.

Building & Site (Sinking Fund)

The School District’s voters in May 2005 approved a Building & Site levy for major facility improvements. During the 2006-2007 school year, the district collected \$960,643 in Building & Site Fund property taxes and an additional \$4,648 in delinquent tax penalties and \$12,094 of Industrial Facilities taxes in lieu of property taxes.

General Fund Budget and Actual Revenues and Expenditures

General Fund Expenditures and Transfers Out Budget vs. Actual Five-year History

<u>Fiscal Year</u>	<u>Expenditures and Transfers out Original budget</u>	<u>Expenditures and Transfers out Final budget</u>	<u>Expenditures and Transfers out Final actual</u>	<u>Variance Actual and Original budget</u>	<u>Variance Actual and Final budget</u>
2002-2003	\$ 20,637,013	\$ 20,624,962	\$ 20,096,606	-2.62%	-2.56%
2003-2004	20,510,169	20,450,082	20,161,840	-1.70%	-1.41%
2004-2005	20,570,016	21,186,289	20,789,886	1.07%	-1.87%
2005-2006	21,182,562	21,586,098	21,056,695	-0.59%	-2.45%
2006-2007	21,920,124	22,371,097	21,927,409	0.03%	-1.98%
	Five-year average actual over (under) budget			-0.76%	-2.06%

General Fund Revenues and Transfers In Budget vs. Actual Five-year History (Continued)

<u>Fiscal Year</u>	<u>Revenues and Transfers In Original budget</u>	<u>Revenues and Transfers In Final budget</u>	<u>Revenues and Transfers In Final actual</u>	<u>Variance Actual and Original budget</u>	<u>Variance Actual and Final budget</u>
2002-2003	\$ 20,561,757	\$ 20,437,132	\$ 20,461,272	-0.49%	0.12%
2003-2004	20,395,472	20,203,522	20,222,249	-0.85%	0.09%
2004-2005	20,322,152	20,805,431	20,771,510	2.21%	-0.16%
2005-2006	20,910,648	21,289,160	21,271,176	1.72%	-0.08%
2006-2007	21,557,817	22,195,396	22,206,253	3.01%	0.05%
	Five-year average actual over (under) budget			1.12%	0.00%

Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Lakeshore Public Schools amends its budget quarterly during the school year. For fiscal year June 30, 2007, the budget was amended in October 2006 and January, April, and June 2007. The June 2007 budget amendment was the final budget for the fiscal year.

Change from Original to Final Budget

Revenues:

	<u>Amount</u>	<u>Percent</u>
Total revenues original budget	\$ 21,557,817	100.0
Total revenues final budget	22,195,396	103.0
	<u>\$ 637,579</u>	<u>3.0</u>

With the June 2006 original budget, the School district had projected fall 2006 enrollments as 2,790 FTE students. Actual enrollments were 2,904. This increase of 114 FTE students increased revenues by \$605,767 (i.e., \$7,085 per student foundation allowance x 114 students x 75 percent.)

Additionally, the School District's budget for State of Michigan restricted, categorical funds for At Risk students was increased from \$150,000 in June 2006 to \$196,165 by June 2007.

Expenditures:

	<u>Amount</u>	<u>Percent</u>
Total expenditures original budget	\$ 21,920,124	100.0
Total expenditures final budget	22,371,097	102.1
	<u>\$ 450,973</u>	<u>2.1</u>

Upon determination of the enrollment increase, the Board of Education approved hiring of additional teaching staff. Two additional staff were approved to be hired at the September 2006 Regular Board meeting.

The School District amended the District's budget to include the purchase of an 88-passenger school bus which amounted to \$81,067.

Due to the enrollment increase, the District also reinstated or increased the budget for textbooks during the year from \$155,000 in the original budget to \$292,412 for the final budget.

Budgeting Targets

Under the State of Michigan's Uniform Budget and Accounting Act, school districts are required by law to expend less than the amount appropriated by the Board of Education. As a result, the district's financial management has consistently tried to budget expenditures so that ending actual expenditures are on average between 1% and 2% less than an ending conservative budget for expenditures.

BASIC FINANCIAL STATEMENTS

LAKESHORE PUBLIC SCHOOLS

Statement of Net Assets

June 30, 2007

	Governmental Activities
Assets	
Current assets:	
Cash and investments	\$ 4,402,255
Accounts receivable	3,191,312
Inventory	44,718
Prepaid items	113,148
Total current assets	<u>7,751,433</u>
Noncurrent assets:	
Land	375,181
Construction in progress	54,456
Capital assets, depreciable	46,510,123
Less accumulated depreciation	<u>(14,659,597)</u>
Total noncurrent assets	<u>32,280,163</u>
Total assets	<u>40,031,596</u>
Liabilities	
Current liabilities:	
Accounts payable	743,263
Accrued expenses	1,924,770
Accrued interest payable on long-term debt	135,041
Unearned revenue	102,715
Current portion of compensated absences and severance pay	33,857
Current portion of installment notes payable	50,918
Current portion of bonds payable	1,330,000
Total current liabilities	<u>4,320,564</u>
Noncurrent liabilities:	
Bonds payable	15,203,692
Installment notes payable	69,712
Compensated absences and severance pay	376,821
Total noncurrent liabilities	<u>15,650,225</u>
Total liabilities	<u>19,970,789</u>
Net assets	
Invested in capital assets, net of related debt	15,754,832
Restricted for debt service	263,988
Restricted for capital projects	1,019,618
Unrestricted	<u>3,022,369</u>
Total net assets	<u>\$ 20,060,807</u>

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

LAKESHORE PUBLIC SCHOOLS

Statement of Activities For the Year Ended June 30, 2007

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction	\$ 14,321,169	\$ 61,965	\$ 1,429,550	\$ (12,829,654)
Supporting services	7,577,039	68,506	-	(7,508,533)
Community services	79,307	28,575	-	(50,732)
Food services	914,135	698,294	309,198	93,357
Athletics	478,092	133,152	-	(344,940)
Depreciation - unallocated	1,045,287	-	-	(1,045,287)
Interest on long-term debt	899,655	-	-	(899,655)
Total governmental activities	<u>\$ 25,314,684</u>	<u>\$ 990,492</u>	<u>\$ 1,738,748</u>	<u>(22,585,444)</u>
General revenues:				
Property taxes - operations				4,679,943
Property taxes - debt service				2,215,600
State of Michigan aid - unrestricted				16,684,729
Unrestricted investment earnings				238,999
Other				699,111
Total general revenues				<u>24,518,382</u>
Change in net assets				1,932,938
Net assets, beginning of year, as restated				<u>18,127,869</u>
Net assets, end of year				<u>\$ 20,060,807</u>

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

LAKESHORE PUBLIC SCHOOLS

Balance Sheet Governmental Funds June 30, 2007

	General	Non- Major Funds	Total
Assets			
Cash and investments	\$ 2,548,342	\$ 1,853,913	\$ 4,402,255
Accounts receivable	3,080,245	111,067	3,191,312
Due from other funds	8,023	38,062	46,085
Inventory	28,631	16,087	44,718
Prepaid items	113,148	-	113,148
	\$ 5,778,389	\$ 2,019,129	\$ 7,797,518
Liabilities			
Accounts payable	\$ 622,122	\$ 121,141	\$ 743,263
Accrued expenditures	1,924,770	-	1,924,770
Due to other funds	38,062	8,023	46,085
Deferred revenue	109,243	122,463	231,706
	2,694,197	251,627	2,945,824
Fund balance			
Reserved for:			
Inventory	28,631	16,087	44,718
Prepaid items	113,148	-	113,148
Encumbrances	34,380	-	34,380
Unreserved:			
Undesignated, reported in nonmajor special revenue funds	-	332,768	332,768
Undesignated, reported in nonmajor debt service funds	-	399,029	399,029
Undesignated, report in nonmajor capital projects funds	-	1,019,618	1,019,618
Undesignated	2,908,033	-	2,908,033
	3,084,192	1,767,502	4,851,694
Total fund balance	3,084,192	1,767,502	4,851,694
Total liabilities and fund balance	\$ 5,778,389	\$ 2,019,129	\$ 7,797,518

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

LAKESHORE PUBLIC SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2007

Fund balances - total governmental funds	\$ 4,851,694
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Amounts reported for governmental activities in the statement of net assets are different because:

Long-term receivables are reported as an asset and revenue when earned on the statement of net assets while the governmental funds report these balances as an asset and deferred revenue until the availability criterion for revenue recognition is met.

Add - deferred long-term receivables	128,991
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	46,939,760
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Deduct - accumulated depreciation	(14,659,597)
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable and installment notes	(16,654,322)
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Deduct - accrued interest on bonds payable	(135,041)
--	-----------

Deduct - compensated absences/early retirement	(410,678)
--	-----------

Net assets of governmental activities	<u><u>\$ 20,060,807</u></u>
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The accompanying notes are an integral part of these financial statements.

LAKESHORE PUBLIC SCHOOLS
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	<u>General</u>	<u>Non-Major Funds</u>	<u>Total</u>
Revenues			
Local sources	\$ 4,002,980	\$ 4,817,470	\$ 8,820,450
State sources	17,138,378	39,115	17,177,493
Federal sources	458,593	270,083	728,676
Interdistrict sources	542,607	-	542,607
Miscellaneous	3,695	-	3,695
	<u>22,146,253</u>	<u>5,126,668</u>	<u>27,272,921</u>
Expenditures			
Current:			
Instruction services	13,737,502	-	13,737,502
Supporting services	7,291,315	82,418	7,373,733
Community services	79,307	-	79,307
Food service	-	914,738	914,738
Athletic services	-	478,092	478,092
Debt service:			
Principal	50,918	1,720,000	1,770,918
Interest expense	6,693	908,213	914,906
Capital outlay	268,869	969,175	1,238,044
Intergovernmental payments	168,968	-	168,968
	<u>21,603,572</u>	<u>5,072,636</u>	<u>26,676,208</u>
Revenue over expenditures	<u>542,681</u>	<u>54,032</u>	<u>596,713</u>
Other financing sources (uses)			
Transfers in	60,000	325,010	385,010
Transfers out	(323,837)	(61,173)	(385,010)
	<u>(263,837)</u>	<u>263,837</u>	<u>-</u>
Total other financing sources (uses)	<u>(263,837)</u>	<u>263,837</u>	<u>-</u>
Net changes in fund balances	278,844	317,869	596,713
Fund balances, beginning of year	<u>2,805,348</u>	<u>1,449,633</u>	<u>4,254,981</u>
Fund balances, end of year	<u>\$ 3,084,192</u>	<u>\$ 1,767,502</u>	<u>\$ 4,851,694</u>

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

LAKESHORE PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$ 596,713
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p>	
<p>Long-term receivables are reported as revenue when earned on the statement of activities while the governmental funds report these balances as revenue when the availability criterion for revenue recognition is met.</p>	
Deduct - change in deferred long-term receivables	(25,299)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Add - capital outlay	1,202,988
Deduct - depreciation expense	(1,045,287)
Deduct - loss on sale of capital assets	(522,755)
<p>Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but a reduction in long-term debt on the statement of net assets.</p>	
Add - principal payments on long-term debt	1,770,918
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.</p>	
Add - decrease in accrued interest payable on bonds	15,251
Deduct - increase in the accrual for compensated absences	(59,591)
Change in net assets of governmental activities	<u>\$ 1,932,938</u>

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

LAKESHORE PUBLIC SCHOOLS
Statement of Revenue, Expenditures
and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2007

	<u>Budget</u>		<u>Actual</u>	Variance -
	<u>Original</u>	<u>Amended</u>		Over/(Under)
				<u>Budget</u>
Revenue				
Local sources	\$ 3,997,100	\$ 3,957,384	\$ 4,002,980	\$ 45,596
State sources	16,492,217	17,172,460	17,138,378	(34,082)
Federal sources	471,000	453,376	458,593	5,217
Interdistrict sources	430,000	543,176	542,607	(569)
Other sources	20,000	9,000	3,695	(5,305)
	<u>21,410,317</u>	<u>22,135,396</u>	<u>22,146,253</u>	<u>10,857</u>
Expenditures				
Current:				
Instruction:				
Basic programs	10,928,790	11,220,078	11,196,030	(24,048)
Added needs	2,645,335	2,652,703	2,541,472	(111,231)
Supporting services:				
Pupil services	1,316,474	1,299,591	1,289,562	(10,029)
Instructional staff	843,632	748,715	748,506	(209)
School administration and business	2,109,241	1,879,644	1,847,256	(32,388)
Operation, transportation, and central	3,266,223	3,595,064	3,405,991	(189,073)
Community services	104,801	104,700	79,307	(25,393)
Debt service:				
Principal	50,918	50,918	50,918	-
Interest expense	6,685	6,685	6,693	8
Capital outlay	160,000	284,974	268,869	(16,105)
Intergovernmental payments	204,188	204,188	168,968	(35,220)
	<u>21,636,287</u>	<u>22,047,260</u>	<u>21,603,572</u>	<u>(443,688)</u>
Revenue over (under) expenditures	<u>(225,970)</u>	<u>88,136</u>	<u>542,681</u>	<u>454,545</u>
Other financing sources (uses)				
Transfers in	147,500	60,000	60,000	-
Transfers out	(283,837)	(323,837)	(323,837)	-
	<u>(136,337)</u>	<u>(263,837)</u>	<u>(263,837)</u>	<u>-</u>
Net changes in fund balance	(362,307)	(175,701)	278,844	454,545
Fund balance, beginning of year	2,805,348	2,805,348	2,805,348	-
Fund balance, end of year	<u>\$ 2,443,041</u>	<u>\$ 2,629,647</u>	<u>\$ 3,084,192</u>	<u>\$ 454,545</u>

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

LAKESHORE PUBLIC SCHOOLS
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2007

Assets

Cash and cash equivalents	<u><u>\$ 228,877</u></u>
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Liabilities

Accounts payable	\$ 4,807
Due to student groups	<u>224,070</u>

Total liabilities	<u><u>\$ 228,877</u></u>
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LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of the Lakeshore Public Schools (the "District") consistently applied in the preparation of the accompanying financial statements follows.

The Reporting Entity

The District is governed by an elected seven-member Board of Education. As required by generally accepted accounting principles, these financial statements present the reporting entity of the Lakeshore Public Schools. The criteria identified in GASB Statements 14 and 39, including financial accountability, have been utilized in identifying the District's reporting entity which includes no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2007.

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

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The agency fund follows the accrual basis of accounting, but does not have a measurement focus.

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

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2007

Property taxes, expenditure-driven grant revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the district.

The District reports the following major governmental fund:

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

Additionally, the government reports the following fund types:

The *special revenue funds* account for assets which are restricted for specific purposes.

The *debt service funds* account for the accumulation of resources which are restricted for the payment of principal and interest on bond issues.

The *capital projects fund* accounts for the accumulation and disbursement of funds for construction projects.

The *agency fund* accounts for resources held on the behalf of other individuals and governments. The District maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

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

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

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

The effect of interfund activity has been eliminated from the government-wide financial statements.

Budgets and Budgetary Accounting

Budgets are adopted for general and special revenue funds as required by state law and are adopted on a basis consistent with generally accepted accounting principles (GAAP). The District considers the debt service payment schedule to be an adequate budgetary control. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2007

3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all governmental funds.
5. Adoption and amendments of all budgets used by the District are governed by Public Act 621, which was followed for the year ended June 30, 2007. Expenditures may not exceed appropriations at the function level. The appropriations resolutions are based on the projected expenditures budget of the department heads of the District. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Property Taxes

Property taxes are recognized as revenue in the General and Debt Service funds on a levy year basis. The 2006 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within sixty days after year end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues in the year collected. Assessed values are established annually by the various governmental units within the District and are equalized by the State of Michigan.

Cash 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. Pooled investment income from the General Fund and Debt Retirement Funds is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Revenue

In general, outstanding balances between funds are reported as "due to/from other funds." Activity 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."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. For Lakeshore Public Schools, all properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 for 100 percent of the taxes which are due September 15.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the District 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 principals generally accepted in the United States of America.

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2007

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 is received.

Inventory

Inventory consists of office and other supplies. Inventory is stated at cost (first-in, first-out). Inventory of governmental funds are recorded as expenditures when consumed rather than when purchased.

Prepaid Items

Payments to vendors for services that will benefit periods beyond a fund's fiscal year-end are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Furniture and other equipment	5-20
Buses and other vehicles	5-10

Salaries Payable and Accrued Employee Benefits

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The District pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2007

Compensated Absences

Most employees of the District are compensated for leaves of absences chargeable to vacation days. Each school year, the covered employees are credited with a number of vacation days and any unused portion of such allowances can accumulate. Upon retirement, those employees who meet certain age and years of service requirements will be paid for a portion of vacation days accumulated to a maximum number of days and at a rate determined by their job category.

The liability for the sick leave has been computed using the vesting method in accordance with Governmental Accounting Standards Board Statement No. 16. This liability is shown on the statement of net assets.

Reserves and Designations of Fund Balance/Restricted Net Assets

Reservations of fund balance are established to identify (1) third party claims against resources of the entity that have not materialized as liabilities at the balance sheet date, or (2) the existence of assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure, or (3) the existence of assets that are legally restricted to a future use.

Designations of fund balance are established to identify amounts set aside by the Board of Education for future expenditures.

Restricted net assets represent assets which are legally restricted by outside parties or enabling legislation.

Durant Related Issues

Under Public Act 142 of 1997, enacted in November 1997 as part of the *Durant* Resolution Package, school districts and intermediate school districts were offered settlement amounts to settle, compromise, and resolve, in their entirety, any potential claims they may have asserted for violations of section 29, Article IX, of the constitution through September 30, 1997, which were similar to the claims asserted by the plaintiffs in the *Durant v. State of Michigan* case. To be eligible to receive its offer of settlement amount, the non-plaintiff district needed to adopt and submit to the State Treasurer a waiver resolution, in the form set forth in Public Act 142 of 1997, waiving any potential claims through September 30, 1997.

Settlement amounts were based on the formula used to determine amounts owed to *Durant* plaintiffs. Half the settlement amount was to be received in ten annual payments; the other half was received in a lump sum by participating in a special bonding program offered through the Michigan Municipal Bond Authority (MMBA) or in fifteen annual payments. Lakeshore Public Schools elected to participate in the special bonding program.

Districts electing to bond under the Durant settlement received a lump sum amount (bond proceeds) on November 24, 1998. This created a liability which will be reduced each year with an annual state appropriation made for debt service on the bonds. The annual State of Michigan appropriation is the only revenue source for making the annual debt service payment on the bonds. If the legislature fails to appropriate the funds, the district is under no obligation for payment. Additionally, the bond documentation states specifically that the Bonds shall not be in any way a debt or liability of the State of Michigan. This liability has been booked on the statement of net assets. Annual appropriations from the State are recorded in the Durant Debt Service Fund along with the payment of the interest and principal of the bonds.

The original bond proceeds were recorded in the Durant Construction Fund and expended for purposes specified in Section 1351a of the Revised School Code.

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2007

The remaining 50% of the settlement which is being received over ten years, beginning April 1999, is recorded in the General Fund as Unrestricted State School Aid. Use of these funds is restricted to specified purposes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the District.

2. STATE OF MICHIGAN SCHOOL AID

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan School aid appropriation acts. State funding represented 77% of the District's general fund revenue during the 2007 fiscal year.

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2007, the District incurred expenditures in the General Fund for interest expense of \$6,693, which were in excess of the budgeted amount of \$6,685.

4. CAPITAL PROJECTS FUND COMPLIANCE

The Building and Site Fund records capital project activities funded with a Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the State of Michigan School Code.

5. DEPOSITS AND INVESTMENTS

Cash and investments are comprised of the following at year-end:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>	<u>Total</u>
Petty cash	\$ 1,173	\$ -	\$ 1,173
Deposits	1,805,810	228,877	2,034,687
Investments	2,595,272	-	2,595,272
Total cash and investments	\$ 4,402,255	\$ 228,877	\$ 4,631,132

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2007

State statutes authorize the District to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

Under Board of Education policy, the District is allowed to invest in U.S. Treasury obligations, bankers' acceptances, commercial paper rated high or upper medium investment grade (e.g., A1P1 or A2P2) at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The District's investment policy is more restrictive than state statutory authority as listed above.

The District has designated four banks for the deposit of its funds. All accounts are in the name of the District and a specific fund or common account. They are recorded in District records at fair value.

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

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Bank investment pool	Various	\$2,260,438	AAAm S&P
Michigan Liquid Asset Fund	Various	5,720	AAAm S&P
Investment pool – MBIA class	Various	<u>329,114</u>	AAA/VI+ Fitch
		<u>\$2,595,272</u>	

The District's cash and investments are subject to several types of risk, which are examined in more detail below:

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. None of the District's deposits or investments had fixed maturities at year end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of District's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified above. The investment policy does have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2007

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. As of year end, \$1,585,944 of the District's bank balance of \$2,085,944 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the above mutual fund investments the District's custodial credit risk exposure can not be determined because the mutual funds do not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified above. The District's investment policy places a \$3,000,000 limit on the amount the District may invest in any one issuer. The District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

6. RECEIVABLES

Receivables as of year-end for the District's individual major funds and the nonmajor and other funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:			
Taxes – net of allowance of \$31,409	\$ -	\$ -	\$ -
Trade	56,463	-	56,463
Intergovernmental	3,023,782	111,067	3,134,849
Total governmental activities	<u>\$ 3,080,245</u>	<u>\$ 111,067</u>	<u>\$ 3,191,312</u>
Non current portion	<u>\$ -</u>	<u>\$ 103,692</u>	<u>\$ 103,692</u>

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2007

7. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Dispositions	Balance June 30, 2007
Governmental activities				
Nondepreciable capital assets:				
Land	\$ 375,181	\$ -	\$ -	\$ 375,181
Construction in progress	469,256	54,456	(469,256)	54,456
Total nondepreciable capital assets	844,437	54,456	(469,256)	429,637
Depreciable capital assets:				
Buildings and improvements	37,199,604	1,348,920	9,167	38,557,691
Buses and other vehicles	1,259,405	92,750	(171,856)	1,180,299
Furniture and equipment	7,992,657	176,118	(1,396,642)	6,772,133
Total depreciable capital assets	46,451,666	1,617,788	(1,559,331)	46,510,123
Accumulated depreciation:				
Buildings and improvements	(8,637,727)	(674,417)	(1,920)	(9,314,064)
Buses and other vehicles	(787,253)	(56,103)	18,426	(824,930)
Furniture and equipment	(5,225,906)	(314,767)	1,020,070	(4,520,603)
Total accumulated depreciation	(14,650,886)	(1,045,287)	1,036,576	(14,659,597)
Total capital assets being depreciated, net	31,800,780	572,501	(522,755)	31,850,526
Governmental activities capital assets, net	\$ 32,645,217	\$ 626,957	\$ (992,011)	\$ 32,280,163

Depreciation expense was reported as unallocated on the statement of activities because the District considers its assets to impact multiple activities and allocation is not practical.

8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances primarily reflect balances utilized to facilitate appropriate cash flow for operations. The composition of interfund balances is as follows:

	Due to Fund	Due from Fund
Due to / from funds		
General Fund	\$ 38,062	\$ 8,023
Nonmajor Funds	8,023	38,062
Total	\$ 46,085	\$ 46,085

LAKESHORE PUBLIC SCHOOLS
Notes to Financial Statements
June 30, 2007

Transfers primarily reflect subsidies allocated from the General Fund.

	Transfers In	Transfers Out
Interfund Transfers		
General Fund	\$ 60,000	\$ 323,837
Nonmajor Funds:		
Athletics special revenue	325,010	61,173
Total	\$ 385,010	\$ 385,010

9. LONG-TERM DEBT

The 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 District. Other long-term obligations include compensated absences and severance pay. The following is a summary of long-term debt transactions of the District for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Due Within One Year
2000 General Obligation Bonds due in annual installments of \$1,000,000 to \$1,900,000 plus interest at 5.00% through 2018	\$18,150,000	\$ -	\$(1,720,000)	\$16,430,000	\$1,330,000
1998 School Improvement Bonds (Durant Settlement) due in amounts ranging from \$12,826 through \$16,957 plus interest at 4.76% through 2013	103,692	-	-	103,692	-
Installment notes payable	171,548	-	(50,918)	120,630	50,918
Subtotal installment debt	18,425,240	-	(1,770,918)	16,654,322	1,380,918
Severance pay/compensated absences	351,087	92,462	(32,871)	410,678	33,857
Total long-term debt	\$18,776,327	\$92,462	\$(1,803,789)	\$17,065,000	\$1,414,775

LAKESHORE PUBLIC SCHOOLS
Notes to Financial Statements
June 30, 2007

Following is a summary of future bond and loan principal maturities and interest requirements:

	Principal	Interest
2008	\$ 1,380,918	\$ 826,073
2009	1,539,999	761,160
2010	1,658,543	684,641
2011	1,805,452	602,314
2012	1,876,187	512,078
2013-2017	7,393,223	1,250,070
2018	1,000,000	50,000
Total	\$ 16,654,322	\$ 4,686,336

Compensated absences and severance pay are expected to be liquidated by the general and food service funds.

10. PUBLIC ENTITY RISK (INSURANCE) POOL – SELF-INSURANCE PLAN

Lakeshore Public Schools participates in a public entity risk (insurance) pool with other school districts in the SET-SEG Property/Casualty Pool, Inc. (a nonprofit corporation). This is a self-insurance fund which provides members with loss protection for property and casualty damages. The Pool was created on May 23, 1985 and organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. There have been no significant reductions in coverage and settlements have not exceeded insurance coverage during the past 3 years.

The District made a contribution of \$107,639 to the Pool for the 2007 fiscal year. A member's contribution to the Pool in excess of its share of claim losses, expenses, and other costs may be refunded as determined by the Board of Directors. Lakeshore Public Schools received \$29,058 for the fiscal year ended June 30, 2007.

The Pool does not maintain separate funds for members and consequently the District's share of the total assets and total equity is unknown. Audited financial statements of the fund are available.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2007, the District carried commercial insurance and participated in a public entity risk pool. The District has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

11. RETIREMENT PLAN

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2007

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-6000.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The rate from July to September was 16.43% and from October through June was 17.74% of covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2007, 2006 and 2005 were approximately \$2,319,000, \$2,083,000, and \$1,887,000, respectively, equal to the required contributions for each year.

Other Post-Employment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1998 with the vested deferred benefits, are eligible for partially State of Michigan paid health benefit coverage (no payment if less than 21 years of service).

12. CONTINGENCIES

Federal Grant Programs

The District participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, not to be material.

LAKESHORE PUBLIC SCHOOLS

Notes to Financial Statements

June 30, 2007

13. RESTATEMENT

Beginning net assets for governmental activities were increased by \$154,290 to record a long-term receivable from the State of Michigan related to the Durant Settlement of 1998. This receivable, which was inadvertently not reported in previous fiscal years, is deferred in the fund financial statements, as it is not available to liquidate current liabilities at year-end. Accordingly, no restatement was required at the fund level.

14. COMMITMENTS

At June 30, 2007 the District had contracts outstanding for the following projects:

High School auditorium	\$ 627,000
Lighting replacement	197,000
School bus	162,000

* * * * *

**COMBINING AND INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES**

GENERAL FUND

LAKESHORE PUBLIC SCHOOLS
General Fund
Detail Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2007

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance - Over/(Under) Budget</u>	<u>2006 Actual</u>
Revenue				
Local sources:				
Current property taxes	\$ 3,700,384	\$ 3,690,065	\$ (10,319)	\$ 3,309,894
Delinquent fees and other taxes	13,000	12,492	(508)	13,048
Earnings on investments	109,000	134,467	25,467	88,829
Community enrichment	-	28,575	28,575	49,699
Other local revenues	135,000	137,381	2,381	103,013
Total local sources	<u>3,957,384</u>	<u>4,002,980</u>	<u>45,596</u>	<u>3,564,483</u>
State sources:				
Foundation grant	16,738,637	16,710,029	(28,608)	16,024,820
At-risk categorical	196,165	195,949	(216)	150,606
Special education	85,898	85,898	-	85,898
Other	151,760	146,502	(5,258)	124,851
Total state sources	<u>17,172,460</u>	<u>17,138,378</u>	<u>(34,082)</u>	<u>16,386,175</u>
Federal sources:				
Title I	68,211	64,580	(3,631)	79,736
At-risk categorical	301,734	311,291	9,557	310,054
Other	83,431	82,722	(709)	92,825
Total federal sources	<u>453,376</u>	<u>458,593</u>	<u>5,217</u>	<u>482,615</u>
Interdistrict Sources:				
County special education tax	500,176	500,176	-	430,305
Other	43,000	42,431	(569)	52,866
Total interdistrict sources	<u>543,176</u>	<u>542,607</u>	<u>(569)</u>	<u>483,171</u>
Miscellaneous	<u>9,000</u>	<u>3,695</u>	<u>(5,305)</u>	<u>17,605</u>
Total revenue	<u>22,135,396</u>	<u>22,146,253</u>	<u>10,857</u>	<u>20,934,049</u>
Expenditures				
Instructional:				
Basic programs:				
Elementary:				
Salaries	2,971,136	2,975,308	4,172	2,785,955
Benefits	1,399,053	1,387,559	(11,494)	1,185,451
Purchased services	20,001	18,137	(1,864)	16,694
Supplies, materials, and other	345,345	345,829	484	86,205
Total elementary	<u>4,735,535</u>	<u>4,726,833</u>	<u>(8,702)</u>	<u>4,074,305</u>

(Continued)

LAKESHORE PUBLIC SCHOOLS
General Fund
Detail Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Continued
For the Year Ended June 30, 2007

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance - Over/(Under) Budget</u>	<u>2006 Actual</u>
Expenditures (continued)				
Instructional (continued):				
Basic programs (continued)				
Middle school:				
Salaries	\$ 1,972,349	\$ 1,960,235	\$ (12,114)	\$ 1,834,774
Benefits	805,755	820,097	14,342	714,770
Purchased services	10,711	12,242	1,531	10,764
Supplies, materials, and other	63,865	62,853	(1,012)	52,094
Total middle school	<u>2,852,680</u>	<u>2,855,427</u>	<u>2,747</u>	<u>2,612,402</u>
Senior high school:				
Salaries	2,342,642	2,331,600	(11,042)	2,393,930
Benefits	999,887	1,013,533	13,646	968,967
Purchased services	44,000	28,729	(15,271)	37,889
Supplies, materials, and other	152,710	151,908	(802)	150,613
Total senior high school	<u>3,539,239</u>	<u>3,525,770</u>	<u>(13,469)</u>	<u>3,551,399</u>
Preschool:				
Salaries	49,468	49,501	33	47,388
Benefits	12,603	12,252	(351)	11,530
Purchased services	2,500	216	(2,284)	410
Supplies, materials, and other	7,500	3,464	(4,036)	4,000
Total preschool	<u>72,071</u>	<u>65,433</u>	<u>(6,638)</u>	<u>63,328</u>
Other basic programs	<u>20,553</u>	<u>22,567</u>	<u>2,014</u>	<u>9,666</u>
Total basic programs	<u>11,220,078</u>	<u>11,196,030</u>	<u>(24,048)</u>	<u>10,311,100</u>
Added needs:				
Special education:				
Salaries	1,301,230	1,278,698	(22,532)	1,272,104
Benefits	564,481	534,592	(29,889)	525,399
Purchased services	6,760	172	(6,588)	840
Supplies, materials, and other	36,054	25,558	(10,496)	18,205
Total special education	<u>1,908,525</u>	<u>1,839,020</u>	<u>(69,505)</u>	<u>1,816,548</u>
Vocational education:				
Salaries	432,946	407,503	(25,443)	440,002
Benefits	160,770	153,595	(7,175)	145,329
Purchased services	5,658	7,376	1,718	8,613
Supplies, materials, and other	73,789	69,397	(4,392)	53,839
Total vocational education	<u>673,163</u>	<u>637,871</u>	<u>(35,292)</u>	<u>647,783</u>

(Continued)

LAKESHORE PUBLIC SCHOOLS
General Fund
Detail Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Continued
For the Year Ended June 30, 2007

	Amended Budget	Actual	Variance - Over/(Under) Budget	2006 Actual
Expenditures (continued)				
Instruction (continued):				
Added needs (continued):				
Compensatory education:				
Salaries	\$ 51,742	\$ 51,851	\$ 109	\$ 91,827
Benefits	13,273	12,730	(543)	39,310
Supplies, materials, and other	6,000	-	(6,000)	5,569
Total compensatory education	71,015	64,581	(6,434)	136,706
Total added needs	2,652,703	2,541,472	(111,231)	2,601,037
Total instruction	13,872,781	13,737,502	(135,279)	12,912,137
Pupil services				
Pupil services:				
Attendance:				
Salaries	32,029	32,202	173	32,982
Benefits	13,514	12,731	(783)	10,481
Total pupil services	45,543	44,933	(610)	43,463
Guidance:				
Salaries	534,181	535,708	1,527	513,276
Benefits	237,112	234,626	(2,486)	217,140
Purchased services	8,513	4,354	(4,159)	4,098
Supplies, materials, and other	5,800	8,445	2,645	4,813
Total guidance	785,606	783,133	(2,473)	739,327
Speech pathology:				
Salaries	136,125	132,864	(3,261)	123,909
Benefits	60,315	59,074	(1,241)	53,474
Purchased services	-	47	47	92
Supplies, materials, and other	1,584	1,514	(70)	164
Total speech pathology	198,024	193,499	(4,525)	177,639
Social worker:				
Salaries	55,914	57,461	1,547	53,100
Benefits	27,169	27,365	196	24,525
Purchased services	1,200	1,200	-	75
Supplies, materials, and other	1,235	35	(1,200)	2,665
Total social worker	85,518	86,061	543	80,365
Teacher consultant:				
Salaries	72,407	83,914	11,507	126,687
Benefits	30,234	32,853	2,619	30,585
Supplies, materials, and other	369	-	(369)	23
Total teacher consultant	103,010	116,767	13,757	157,295

(Continued)

LAKESHORE PUBLIC SCHOOLS
General Fund
Detail Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Continued
For the Year Ended June 30, 2007

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance - Over/(Under) Budget</u>	<u>2006 Actual</u>
Expenditures (continued)				
Instructional services (continued):				
Pupil services (continued):				
Pupil activities and supervision:				
Salaries	\$ 42,732	\$ 35,875	\$ (6,857)	\$ 25,386
Benefits	11,411	6,816	(4,595)	4,387
Purchased services	5,000	5,892	892	6,118
Supplies, materials, and other	22,747	16,586	(6,161)	14,187
	<u>81,890</u>	<u>65,169</u>	<u>(16,721)</u>	<u>50,078</u>
Total pupil activities and supervision				
	<u>1,299,591</u>	<u>1,289,562</u>	<u>(10,029)</u>	<u>1,248,167</u>
Total pupil services				
Instructional staff:				
Staff improvement:				
Salaries	31,816	38,944	7,128	38,291
Benefits	8,082	9,830	1,748	9,228
Purchased services	27,500	29,933	2,433	33,724
Supplies, materials, and other	3,761	4,727	966	-
	<u>71,159</u>	<u>83,434</u>	<u>12,275</u>	<u>81,243</u>
Total staff improvement				
Library / Media center:				
Salaries	249,321	231,731	(17,590)	210,881
Benefits	90,725	84,871	(5,854)	75,062
Purchased services	3,653	1,924	(1,729)	3,903
Supplies, materials, and other	46,581	36,069	(10,512)	47,449
	<u>390,280</u>	<u>354,595</u>	<u>(35,685)</u>	<u>337,295</u>
Total Library / Media center				
Technology support:				
Salaries	145,000	152,102	7,102	145,417
Benefits	77,276	81,544	4,268	70,399
Purchased services	15,200	20,400	5,200	193
Supplies, materials, and other	49,800	56,431	6,631	36,014
	<u>287,276</u>	<u>310,477</u>	<u>23,201</u>	<u>252,023</u>
Total technology support				
	<u>748,715</u>	<u>748,506</u>	<u>(209)</u>	<u>670,561</u>
Total instructional staff				
Support services:				
Building administration:				
Salaries	1,141,687	1,153,465	11,778	1,102,101
Benefits	489,350	486,812	(2,538)	416,294
Purchased services	175,622	150,493	(25,129)	146,431
Supplies, materials, and other	72,985	56,486	(16,499)	80,040
	<u>1,879,644</u>	<u>1,847,256</u>	<u>(32,388)</u>	<u>1,744,866</u>
Total building administration				

(Continued)

LAKESHORE PUBLIC SCHOOLS
General Fund
Detail Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Continued
For the Year Ended June 30, 2007

	Amended Budget	Actual	Variance - Over/(Under) Budget	2006 Actual
Expenditures (continued)				
Support services (continued):				
Business, operations, and central services:				
Fiscal services:				
Salaries	\$ 169,030	\$ 168,984	\$ (46)	\$ 163,780
Benefits	84,210	80,168	(4,042)	82,208
Purchased services	1,513	1,229	(284)	2,128
Supplies, materials, and other	7,088	6,189	(899)	7,114
Total fiscal services	261,841	256,570	(5,271)	255,230
Internal services:				
Salaries	23,938	22,639	(1,299)	35,208
Benefits	7,243	5,767	(1,476)	21,657
Purchased services	30,000	24,719	(5,281)	26,640
Supplies, materials, and other	7,500	7,313	(187)	3,752
Total internal services	68,681	60,438	(8,243)	87,257
Other business:				
Purchased services	13,659	13,659	-	5,276
Supplies, materials, and other	55,000	34,597	(20,403)	68,734
Total other business	68,659	48,256	(20,403)	74,010
Operation and maintenance:				
Salaries	732,225	713,269	(18,956)	781,403
Benefits	411,317	403,325	(7,992)	412,661
Purchased services	482,094	435,481	(46,613)	387,871
Supplies, materials, and other	682,772	652,773	(29,999)	676,149
Total operation and maintenance	2,308,408	2,204,848	(103,560)	2,258,084
Student transportation				
Salaries	414,715	400,595	(14,120)	410,350
Benefits	138,377	132,347	(6,030)	130,787
Purchased services	73,551	54,459	(19,092)	94,475
Supplies, materials, and other	140,073	131,937	(8,136)	127,840
Total student transportation	766,716	719,338	(47,378)	763,452
Central services - information:				
Salaries	5,500	5,425	(75)	28,196
Benefits	1,432	1,789	357	6,870
Purchased services	59,753	55,753	(4,000)	40,227
Supplies, materials, and other	3,000	9	(2,991)	2,357
Total central services - information	69,685	62,976	(6,709)	77,650
Planning and research:				
Purchase services	675	675	-	-
Supplies, materials, and other	100	-	(100)	-
Total planning and research	775	675	(100)	-

LAKESHORE PUBLIC SCHOOLS
General Fund
Detail Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Concluded
For the Year Ended June 30, 2007

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance - Over/(Under) Budget</u>	<u>2006 Actual</u>
Expenditures (continued)				
Support services (continued):				
Business, operations, and central services (continued):				
Staff services	\$ 50,299	\$ 52,890	\$ 2,591	\$ 44,153
Total business, operations, and central services	<u>3,595,064</u>	<u>3,405,991</u>	<u>(189,073)</u>	<u>3,559,836</u>
Total support services	<u>7,523,014</u>	<u>7,291,315</u>	<u>(231,699)</u>	<u>7,223,430</u>
Community Services - Civic auditorium				
Salaries	65,772	52,578	(13,194)	54,718
Benefits	16,688	11,784	(4,904)	12,070
Purchased services	5,440	6,511	1,071	4,537
Supplies, materials, and other	<u>16,800</u>	<u>8,434</u>	<u>(8,366)</u>	<u>6,950</u>
Total community services - Civic auditorium	<u>104,700</u>	<u>79,307</u>	<u>(25,393)</u>	<u>78,275</u>
Debt service:				
Principal	50,918	50,918	-	18,793
Interest expense	<u>6,685</u>	<u>6,693</u>	<u>8</u>	<u>2,499</u>
Total debt service	<u>57,603</u>	<u>57,611</u>	<u>8</u>	<u>21,292</u>
Capital outlay				
Instruction	120,331	124,573	4,242	131,472
Support	<u>164,643</u>	<u>144,296</u>	<u>(20,347)</u>	<u>263,762</u>
Total capital outlay	<u>284,974</u>	<u>268,869</u>	<u>(16,105)</u>	<u>395,234</u>
Transfer payments to other government	<u>204,188</u>	<u>168,968</u>	<u>(35,220)</u>	<u>142,490</u>
Transfers and other uses (sources)				
Transfers in	(60,000)	(60,000)	-	(146,788)
Transfers out	323,837	323,837	-	283,837
Long-term debt issued	<u>-</u>	<u>-</u>	<u>-</u>	<u>(190,340)</u>
Total transfers and other uses (sources)	<u>263,837</u>	<u>263,837</u>	<u>-</u>	<u>(53,291)</u>
Total general fund expenditures and other uses	<u>\$ 22,311,097</u>	<u>\$ 21,867,409</u>	<u>\$ (443,688)</u>	<u>\$ 20,719,567</u>

(Concluded)

NONMAJOR GOVERNMENTAL FUNDS

LAKESHORE PUBLIC SCHOOLS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

	<u>Special Revenue</u>		
	<u>Athletics</u>	<u>Food Service</u>	<u>Bookstores</u>
Assets			
Cash and investments	\$ 48,742	\$ 211,452	\$ 98,400
Accounts receivable	-	7,375	-
Due from other funds	-	38,062	-
Inventory	-	16,087	-
Total assets	<u>\$ 48,742</u>	<u>\$ 272,976</u>	<u>\$ 98,400</u>
Liabilities			
Accounts payable	\$ 18,670	\$ 21,799	\$ 4,000
Due to other funds	1,707	6,316	-
Deferred revenue	8,225	10,546	-
Total liabilities	<u>28,602</u>	<u>38,661</u>	<u>4,000</u>
Fund balances			
Reserved for inventory	-	16,087	-
Unreserved, undesignated	20,140	218,228	94,400
Total fund balances	<u>20,140</u>	<u>234,315</u>	<u>94,400</u>
Total liabilities and fund balances	<u>\$ 48,742</u>	<u>\$ 272,976</u>	<u>\$ 98,400</u>

		Capital Projects				
Debt Service						
2000	1995	Durant Non-	Building	Public	Total	
Debt Service	Debt Service	Plaintiff	and Site	Improvement		
\$ 399,590	\$ -	\$ -	\$ 475,309	\$ 620,420	\$ 1,853,913	
-	-	103,692	-	-	111,067	
-	-	-	-	-	38,062	
-	-	-	-	-	16,087	
\$ 399,590	\$ -	\$ 103,692	\$ 475,309	\$ 620,420	\$ 2,019,129	
\$ 561	\$ -	\$ -	\$ 76,111	\$ -	\$ 121,141	
-	-	-	-	-	8,023	
-	-	103,692	-	-	122,463	
561	-	103,692	76,111	-	251,627	
-	-	-	-	-	16,087	
399,029	-	-	399,198	620,420	1,751,415	
399,029	-	-	399,198	620,420	1,767,502	
\$ 399,590	\$ -	\$ 103,692	\$ 475,309	\$ 620,420	\$ 2,019,129	

LAKESHORE PUBLIC SCHOOLS
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

	Special Revenue		
	Athletics	Food Service	Bookstores
Revenue			
Local sources	\$ 134,613	\$ 704,920	\$ 71,245
State sources	-	39,115	-
Federal sources	-	270,083	-
Total revenue	<u>134,613</u>	<u>1,014,118</u>	<u>71,245</u>
Expenditures			
Current:			
Supporting services	-	-	82,418
Food service	-	914,738	-
Athletic activities	478,092	-	-
Debt service:			
Principal	-	-	-
Interest expense	-	-	-
Capital outlay	-	-	2,247
Total expenditures	<u>478,092</u>	<u>914,738</u>	<u>84,665</u>
Revenue over (under) expenditures	<u>(343,479)</u>	<u>99,380</u>	<u>(13,420)</u>
Other financing sources (uses)			
Transfers in	323,837	-	-
Transfers out	-	(60,000)	-
Total other financing sources (uses)	<u>323,837</u>	<u>(60,000)</u>	<u>-</u>
Net changes in fund balances	(19,642)	39,380	(13,420)
Fund balances, beginning of year	<u>39,782</u>	<u>194,935</u>	<u>107,820</u>
Fund balances, end of year	<u><u>\$ 20,140</u></u>	<u><u>\$ 234,315</u></u>	<u><u>\$ 94,400</u></u>

2000	Debt Service		Capital Projects		Total
	Debt Service	1995	Durant Non-Plaintiff	Building and Site	
\$ 2,282,139	\$ 2	\$ -	\$ 1,004,131	\$ 620,420	\$ 4,817,470
-	-	-	-	-	39,115
-	-	-	-	-	270,083
<u>2,282,139</u>	<u>2</u>	<u>-</u>	<u>1,004,131</u>	<u>620,420</u>	<u>5,126,668</u>
-	-	-	-	-	82,418
-	-	-	-	-	914,738
-	-	-	-	-	478,092
1,720,000	-	-	-	-	1,720,000
908,213	-	-	-	-	908,213
-	-	-	966,928	-	969,175
<u>2,628,213</u>	<u>-</u>	<u>-</u>	<u>966,928</u>	<u>-</u>	<u>5,072,636</u>
(346,074)	2	-	37,203	620,420	54,032
1,173	-	-	-	-	325,010
-	(1,173)	-	-	-	(61,173)
<u>1,173</u>	<u>(1,173)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>263,837</u>
(344,901)	(1,171)	-	37,203	620,420	317,869
743,930	1,171	-	361,995	-	1,449,633
<u>\$ 399,029</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 399,198</u>	<u>\$ 620,420</u>	<u>\$ 1,767,502</u>

LAKESHORE PUBLIC SCHOOLS
Athletics Fund
Schedule of Revenue, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2007

	<u>Budget</u>		<u>Actual</u>	<u>Variance -</u>	<u>2006</u>
	<u>Original</u>	<u>Amended</u>		<u>Over/(Under)</u>	<u>Budget</u>
Revenue					
Local sources:					
Gate receipts	\$ 106,000	\$ 128,628	\$ 127,004	\$ (1,624)	\$ 105,802
Interest income	1,750	1,750	1,461	(289)	1,832
Other	17,000	5,930	6,148	218	17,382
	<u>124,750</u>	<u>136,308</u>	<u>134,613</u>	<u>(1,695)</u>	<u>125,016</u>
Expenditures					
Current:					
Supporting services:					
Salaries	236,800	234,893	234,437	(456)	226,434
Employee benefits	60,300	60,300	56,240	(4,060)	52,089
Purchased services	68,100	68,100	67,841	(259)	61,884
Supplies and materials	68,100	115,066	111,873	(3,193)	83,300
Other expenditures and transfers to other districts	12,000	9,399	7,701	(1,698)	11,980
Capital outlay	400	400	-	(400)	10,545
	<u>445,700</u>	<u>488,158</u>	<u>478,092</u>	<u>(10,066)</u>	<u>446,232</u>
Revenue over (under) expenditures	(320,950)	(351,850)	(343,479)	8,371	(321,216)
Other financing sources					
Transfers in	303,837	323,837	323,837	-	283,837
Net changes in fund balance	(17,113)	(28,013)	(19,642)	8,371	(37,379)
Fund balance, beginning of year	39,782	39,782	39,782	-	77,161
Fund balance, end of year	<u>\$ 22,669</u>	<u>\$ 11,769</u>	<u>\$ 20,140</u>	<u>\$ 8,371</u>	<u>\$ 39,782</u>

LAKESHORE PUBLIC SCHOOLS
Food Service Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2007

	<u>Budget</u>		<u>Actual</u>	<u>Variance -</u>	<u>2006</u>
	<u>Original</u>	<u>Amended</u>		<u>Over/(Under)</u>	<u>Budget</u>
Revenue					
Local sources:					
Lunch receipts	\$ 660,900	\$ 697,057	\$ 698,294	\$ 1,237	\$ 624,635
Interest income	5,000	6,200	6,626	426	5,619
Other	500	500	-	(500)	-
Total local sources	<u>666,400</u>	<u>703,757</u>	<u>704,920</u>	<u>1,163</u>	<u>630,254</u>
State sources:					
State aid	<u>35,000</u>	<u>36,823</u>	<u>39,115</u>	<u>2,292</u>	<u>44,687</u>
Federal sources:					
National School Lunch (NSL)	155,000	222,090	225,879	3,789	185,974
U.S.D.A. Donated Commodities	<u>50,000</u>	<u>50,000</u>	<u>44,204</u>	<u>(5,796)</u>	<u>50,241</u>
Total federal sources	<u>205,000</u>	<u>272,090</u>	<u>270,083</u>	<u>(2,007)</u>	<u>236,215</u>
Total revenue	<u>906,400</u>	<u>1,012,670</u>	<u>1,014,118</u>	<u>1,448</u>	<u>911,156</u>
Expenditures					
Current:					
Food service:					
Salaries	322,290	328,093	324,092	(4,001)	311,812
Employee benefits	104,158	108,023	106,101	(1,922)	95,686
Purchased services	27,100	13,600	16,741	3,141	10,118
Supplies and materials	417,200	420,200	417,978	(2,222)	396,851
NSL commodities	50,000	50,000	44,204	(5,796)	51,535
Other expenditures and transfers to other districts	5,400	5,400	5,622	222	5,571
Capital outlay	<u>2,000</u>	<u>2,000</u>	<u>-</u>	<u>(2,000)</u>	<u>15,973</u>
Total expenditures	<u>928,148</u>	<u>927,316</u>	<u>914,738</u>	<u>(12,578)</u>	<u>887,546</u>
Revenue over (under) expenditures	(21,748)	85,354	99,380	14,026	23,610
Other financing uses					
Transfers out	<u>(69,000)</u>	<u>(60,000)</u>	<u>(60,000)</u>	<u>-</u>	<u>(55,965)</u>
Net change in fund balances	(90,748)	25,354	39,380	14,026	(32,355)
Fund balance, beginning of year	<u>194,935</u>	<u>194,935</u>	<u>194,935</u>	<u>-</u>	<u>227,290</u>
Fund balance, end of year	<u>\$ 104,187</u>	<u>\$ 220,289</u>	<u>\$ 234,315</u>	<u>\$ 14,026</u>	<u>\$ 194,935</u>

LAKESHORE PUBLIC SCHOOLS
Bookstores Fund
Schedule of Revenue, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2007

	<u>Budget</u>		<u>Actual</u>	<u>Variance -</u>	<u>2006</u>
	<u>Original</u>	<u>Amended</u>		<u>Over/(Under)</u>	<u>Actual</u>
Revenue					
Local sources:					
Interest income	\$ 2,500	\$ 2,500	\$ 2,739	\$ 239	\$ 2,827
Other	<u>64,000</u>	<u>64,000</u>	<u>68,506</u>	<u>4,506</u>	<u>73,452</u>
 Total revenue	 <u>66,500</u>	 <u>66,500</u>	 <u>71,245</u>	 <u>4,745</u>	 <u>76,279</u>
Expenditures					
Current:					
Supporting services:					
Salaries	8,000	8,000	5,590	(2,410)	3,972
Employee benefits	2,000	2,000	1,380	(620)	961
Purchased services	1,000	500	-	(500)	-
Supplies and materials	70,000	75,000	75,448	448	79,259
Capital outlay	<u>1,000</u>	<u>2,247</u>	<u>2,247</u>	<u>-</u>	<u>1,672</u>
 Total expenditures	 <u>82,000</u>	 <u>87,747</u>	 <u>84,665</u>	 <u>(3,082)</u>	 <u>85,864</u>
 Net changes in fund balance	 (15,500)	 (21,247)	 (13,420)	 7,827	 (9,585)
 Fund balance, beginning of year	 <u>107,820</u>	 <u>107,820</u>	 <u>107,820</u>	 <u>-</u>	 <u>117,405</u>
 Fund balance, end of year	 <u>\$ 92,320</u>	 <u>\$ 86,573</u>	 <u>\$ 94,400</u>	 <u>\$ 7,827</u>	 <u>\$ 107,820</u>

AGENCY FUND

LAKESHORE PUBLIC SCHOOLS
Statement of Changes in Fiduciary Assets and Liabilities
Agency Fund
June 30, 2007

	Student Activities Fund			
	Beginning Balance	Additions	Deletions	Ending Balance
Assets				
Cash and cash equivalents	\$ 275,172	\$ 484,973	\$ 531,268	\$ 228,877
 Liabilities				
Accounts payable	\$ 11,874	\$ 4,807	\$ 11,874	\$ 4,807
Due to student groups	263,298	480,166	519,394	224,070
Total liabilities	\$ 275,172	\$ 484,973	\$ 531,268	\$ 228,877

LAKESHORE PUBLIC SCHOOLS
Schedule of Bonds Issued and Outstanding
2000 Refunding Bonds
June 30, 2007

Issue dated December 1, 2000 in the amount of	\$ 20,300,000
 Less:	
Bonds paid in prior years	2,150,000
Bonds due and paid May 1, 2007	1,720,000
 Balance outstanding - June 30, 2007	\$ 16,430,000

Due	Interest Rate	Bond Principal	Interest Due	Total
05/01/2008	5.000	\$ 1,330,000	\$ 821,500	\$ 2,151,500
05/01/2009	5.000	1,475,000	755,000	2,230,000
05/01/2010	5.000	1,625,000	681,250	2,306,250
05/01/2011	5.000	1,790,000	600,000	2,390,000
05/01/2012	5.000	1,860,000	510,500	2,370,500
05/01/2013	5.000	1,900,000	417,500	2,317,500
05/01/2014	5.000	1,700,000	322,500	2,022,500
05/01/2015	5.000	1,500,000	237,500	1,737,500
05/01/2016	5.000	1,250,000	162,500	1,412,500
05/01/2017	5.000	1,000,000	100,000	1,100,000
05/01/2018	5.000	1,000,000	50,000	1,050,000
		\$ 16,430,000	\$ 4,658,250	\$21,088,250

Date of issue: December 1, 2000

LAKESHORE PUBLIC SCHOOLS

Property Tax Data For the Year Ended June 30, 2007

	Unpaid at July 1, 2006	Tax Levy	Collections	Adjustments and Write-Offs	Unpaid at June 30, 2007
General fund	\$ 23,049	\$ 3,704,872	\$ 3,690,064	\$ 16,639	\$ 21,218
Debt retirement fund	11,054	2,188,815	2,183,086	9,706	7,077
Building and site fund	5,128	963,787	960,890	4,911	3,114
Subtotal	39,231	\$ 6,857,474	\$ 6,834,040	\$ 31,256	31,409
Less allowance for uncollectible taxes	(39,231)				(31,409)
Total	\$ -				\$ -

Other information

Taxable value of property assessed in the Lakeshore Public School District for 2007

	Homestead	Non-homestead
Municipality:		
Baroda Township	\$ 49,495,964	\$ 15,252,709
Lake Township	4,036,010	497,152
Lincoln Township	344,102,697	175,826,974
Oronoko Township	515,038	206
Royalton Township	21,640,751	3,852,012
St. Joseph Township	14,606,650	13,943,029
Total	\$434,397,110	\$ 209,372,082
Tax levy (mills):		
General fund	-	18.0000
Debt retirement fund	3.4000	3.4000
Building and site fund	1.4971	1.4971
Total	4.8971	22.8971
Blended official student enrollment		2,872



LAKESHORE PUBLIC SCHOOLS

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

**LAKESHORE PUBLIC SCHOOLS
SINGLE AUDIT**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	3-4
Schedule of Expenditures of Federal Awards	5
Notes to Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	7-8



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

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

October 29, 2007

Board of Education
Lakeshore Public Schools
Stevensville, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lakeshore Public Schools, as of and for the year ended June 30, 2007, and have issued our report thereon dated October 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lakeshore Public 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 Lakeshore Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lakeshore Public Schools' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed in the schedule of findings and questioned costs, 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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider finding 2007-1 as described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

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 considering 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 do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

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

Lakeshore Public Schools' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Lakeshore Public Schools' response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of Lakeshore Public Schools in a separate letter dated October 29, 2007.

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

A handwritten signature in black ink, appearing to read "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

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

October 29, 2007

Board of Education
Lakeshore Public Schools
Stevensville, Michigan

Compliance

We have audited the compliance of Lakeshore Public Schools, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Lakeshore Public Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lakeshore Public Schools' management. Our responsibility is to express an opinion on Lakeshore Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lakeshore Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Lakeshore Public Schools' compliance with those requirements.

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

Internal Control Over Compliance

The management of Lakeshore Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lakeshore Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lakeshore Public Schools' internal control over compliance.

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lakeshore Public Schools as of and for the year ended June 30, 2007 and have issued our report thereon dated October 29, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Lake Shore Public Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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



Lakeshore Public Schools
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Pass-through Grantor's Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2006	Current Year Cash Received	Expenditures		Accrued (Deferred) Revenue June 30, 2007
						(Memo Only) Prior Year(s)	Year Ended June 30, 2007	
U.S. Department of Agriculture								
Direct Programs:								
Entitlement Commodities	10.550		\$ 43,639	\$ -	\$ 43,639	\$ -	\$ 43,639	\$ -
Bonus Commodities	10.550		565	-	565	-	565	-
			<u>44,204</u>	<u>-</u>	<u>44,204</u>	<u>-</u>	<u>44,204</u>	<u>-</u>
Passed through the Michigan Department of Education:								
Child Nutrition Cluster:								
National School Lunch - breakfast	10.553	061970	1,235	-	1,235	-	1,235	-
National School Lunch - breakfast	10.553	071970	12,864	-	12,864	-	12,864	-
			<u>14,099</u>	<u>-</u>	<u>14,099</u>	<u>-</u>	<u>14,099</u>	<u>-</u>
National S/L Section 4 All Lunches	10.555	061950	7,320	-	7,320	-	7,320	-
National S/L Section 4 All Lunches	10.555	071950	55,552	-	55,552	-	55,552	-
National S/L Section 11 Free & Reduced	10.555	061960	16,465	-	16,465	-	16,465	-
National S/L Section 11 Free & Reduced	10.555	071960	132,443	-	132,443	-	132,443	-
			<u>211,780</u>	<u>-</u>	<u>211,780</u>	<u>-</u>	<u>211,780</u>	<u>-</u>
Total Child Nutrition Cluster			<u>225,879</u>	<u>-</u>	<u>225,879</u>	<u>-</u>	<u>225,879</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>270,083</u>	<u>-</u>	<u>270,083</u>	<u>-</u>	<u>270,083</u>	<u>-</u>
U.S. Department of Education								
Passed through Michigan Department of Education:								
Title I, Part A	84.010	051530-0506	4,520	4,520	4,520	4,520	-	-
Title I, Part A	84.010	061530-0506	75,216	41,295	41,295	75,216	-	-
Title I, Part A	84.010	071530-0607	68,211	-	50,645	-	64,580	13,935
			<u>147,947</u>	<u>45,815</u>	<u>96,460</u>	<u>79,736</u>	<u>64,580</u>	<u>13,935</u>
Title V, Part A	84.298	060250-0506	1,153	953	953	1,153	-	-
Title V, Part A	84.298	070250-0607	573	-	-	-	573	573
			<u>1,726</u>	<u>953</u>	<u>953</u>	<u>1,153</u>	<u>573</u>	<u>573</u>
Title II, Part D	84.318	064290-0506	1,403	1,403	1,403	1,403	-	-
Title II, Part D	84.318	074290-0607	700	-	680	-	700	20
			<u>2,103</u>	<u>1,403</u>	<u>2,083</u>	<u>1,403</u>	<u>700</u>	<u>20</u>
Title III	84.365	050580-0506	2,892	2,892	2,892	2,892	-	-
Title II, Part A	84.367	060520-0506	64,271	29,253	29,253	64,271	-	-
Title II, Part A	84.367	070520-0607	63,152	-	49,322	-	63,152	13,830
			<u>127,423</u>	<u>29,253</u>	<u>78,575</u>	<u>64,271</u>	<u>63,152</u>	<u>13,830</u>
Passed through the Berrien County Intermediate School District:								
IDEA State Initiated Transition	84.027	060450-0506	310,054	62,905	62,905	310,054	-	-
IDEA State Initiated Transition	84.027	070450-0607	310,585	-	216,066	-	310,585	94,519
			<u>620,639</u>	<u>62,905</u>	<u>278,971</u>	<u>310,054</u>	<u>310,585</u>	<u>94,519</u>
IDEA ID20 MAP	84.027		706	-	706	-	706	-
Perkins III	84.048	073520701219-0607	14,879	-	7,440	-	14,879	7,439
Safe and Drug Free Schools	84.186	062860-0506	5,244	(3,068)	-	2,176	3,068	-
Safe and Drug Free Schools	84.186	072860-0607	4,038	-	4,038	-	-	(4,038)
			<u>9,282</u>	<u>(3,068)</u>	<u>4,038</u>	<u>2,176</u>	<u>3,068</u>	<u>(4,038)</u>
Freedom to Learn - Technology Grant	84.318	064280	350	-	350	-	350	-
Total U.S. Department of Education			<u>927,947</u>	<u>140,153</u>	<u>472,468</u>	<u>461,685</u>	<u>458,593</u>	<u>126,278</u>
Total Expenditures of Federal Awards			<u>\$ 1,198,030</u>	<u>\$ 140,153</u>	<u>\$ 742,551</u>	<u>\$ 461,685</u>	<u>\$ 728,676</u>	<u>\$ 126,278</u>

**LAKESHORE PUBLIC SCHOOLS
SINGLE AUDIT**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Accounting

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

Reconciliation of Basic Financial Statements

Revenues from federal sources per the June 30, 2007 basic financial statements agree with federal expenditures from the June 30, 2007 Schedule of Expenditures of Federal Awards.

Management has utilized the Grants Section Auditors Report (Form R7120) and Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

LAKESHORE PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: *Unqualified*

Internal controls over financial reporting:
 Material weakness(es) identified? _____ yes x no
 Significant deficiency(ies) identified not
 considered to be material weaknesses? x yes _____ none reported

Noncompliance material to financial
 statements noted? _____ yes x no

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? _____ yes x no
 Significant deficiency(ies) identified not
 considered to be material weaknesses? _____ yes x none reported

Type of auditors’ report issued on compliance
 for major programs: *Unqualified*

Any audit findings disclosed that are required to be
 reported in accordance with Circular A-133,
 Section 510(a)? _____ yes x no

Identification of Major Programs

<i>CFDA Number</i>	<i>Name of Federal Program or Cluster</i>
84.027	Special Education Cluster
Dollar threshold used to distinguish between Type A and Type B programs:	<u> \$ 300,000 </u>
Auditee qualified as low risk auditee?	<u> x </u> yes _____ no

LAKESHORE PUBLIC SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2007-1 – Authorization of Expenditures

Criteria:	Federal cost principles (specifically OMB Circular A-87) and sound internal controls both require costs to be adequately documented. This should include evidence of supervisory review and approval of all disbursements.
Condition:	The District's current policies and procedures for purchasing require a purchase order and/or other documentation for expenditures. Before cash disbursements are made, the Accounts Payable Clerk must have an invoice package including a purchase order or other authorization to prepare an accounts payable check. However, as noted during our testing, the District's procedures do not require that the checks and invoice packages be reviewed by another individual within the office before checks are released. Accordingly, we noted during our testing that certain payments did not effectively document that authorization releasing a check for payment.
Cause:	This condition represents the District's long-standing practice, and has not previously been identified during the audit process as a control deficiency.
Effect:	As a result of this condition, there is an increased risk that the District could expend funds on unauthorized purchases.
Recommendation:	We recommend management amend its purchasing policies to require written evidence of review and approval for all disbursements prior to a purchase being finalized.
View of Responsible Officials:	The District will begin to initial invoice packages to show evidence that an approval of a check disbursement occurred.

SECTION III – FEDERAL AWARDS FINDINGS

None

SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS

Finding 2006-1

Condition:	The District did not obtain certifications semiannually signed by the employee or supervisory official for employees charged solely to one federal program.
Status:	Corrective action was taken and the District obtained semiannual certifications for all employees charged solely to one federal program in the current year.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

October 29, 2007

To the Board of Education of
Lakeshore Public Schools
Stevensville, Michigan

We have audited the financial statements of Lakeshore Public Schools for the year ended June 30, 2007, and have issued our report thereon dated October 29, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated June 5, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Lakeshore Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Lakeshore Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Lakeshore Public Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Lakeshore Public Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Lakeshore Public Schools' compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Lakeshore Public Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Lakeshore Public Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Lakeshore Public Schools' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Lakeshore Public Schools, either individually or in the aggregate, indicate matters that could have a significant effect on Lakeshore Public Schools' financial reporting process.

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

Disagreements with Management

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

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

Very truly yours,

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

Lakeshore Public Schools
Comments and Recommendations
For the Year Ended June 30, 2007

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

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

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

Other Matters

Independent Review of Transactions

During our audit, we noted that certain accounting functions are not routinely reviewed by an independent administrator. For example, journal entries and ACH transfers are only seen by the employee performing the task. In addition, we noted instances where manual journal entries were posted to the accounting system without documentation with the journal entry posted. We recommend that the District enhance its internal control by requiring a second administrator to review and initial each of these types of duties in the future.

Journal Entries Proposed by Auditors

During our audit, we identified a misstatement in the financial statements related to the proper accounting for accounts payable in the capital projects fund that had not initially been identified by Lakeshore Public Schools' internal control. In addition, a significant (but not material) prior period adjustment was made as described in Note 13 in the Notes to the Financial Statements. We discussed these issues with management, and appropriate adjustments were made to correct the financial statements.

Lakeshore Public Schools
 Schedule of Adjustments Passed (SOAP)
 For the June 30, 2007 Audit

In accordance with the provisions of SAS 89, *Audit Adjustments*, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. Also in accordance with SAS 89, we are providing this schedule to both management and the audit committee to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Prior Year Passed Adjustments on Current Year Operations				
Assets	Liabilities	Beginning Fund Balance	Revenue	Expenses/ Expenditures	
Non major funds					
2006 unposted accounts payable	-	-	23,125	-	23,125