

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name SAULT STE. MARIE AREA PUBLIC SCHO		County CHIPPEWA	
Fiscal Year End 6/30/07		Opinion Date 11/7/07		Date Audit Report Submitted to State 11/13/07			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - The local unit has adopted a budget for all required funds.
 - A public hearing on the budget was held in accordance with State statute.
 - The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - The local unit only holds deposits/investments that comply with statutory requirements.
 - The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - The local unit is free of repeated comments from previous years.
 - The audit opinion is UNQUALIFIED.
 - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - The board or council approves all invoices prior to payment as required by charter or statute.
 - To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) REHMANN ROBSON			Telephone Number (231) 627-3143	
Street Address 902 S. HURON STREET, PO BOX 250			City CHEBOYGAN	State MI
			Zip 49721	
Authorizing CPA Signature <i>Annette Eustice, CPA, CGFM</i>		Printed Name ANNETTE EUSTICE, CPA, CGFM		License Number 110109667

**SAULT STE. MARIE AREA PUBLIC
SCHOOLS**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

SAULT STE. MARIE AREA PUBLIC SCHOOLS

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SAULT STE. MARIE AREA PUBLIC SCHOOLS

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INDEPENDENT AUDITORS' REPORT

November 7, 2007

Board of Education
Sault Ste. Marie Area Public Schools
Sault Ste. Marie, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of *Sault Ste. Marie Area 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 the District's 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, the major fund, and the aggregate remaining fund information of the District as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the 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 3-14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the District. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

Sault Ste. Marie Area Public Schools is a pre-K through grade 12 school district located in Chippewa County, Michigan. The Management's Discussion and Analysis, a requirement of the Governmental Accounting Standards Board, is intended to be management's discussion and analysis of the financial results for the fiscal year ended June 30, 2007. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

The District's basic financial statements consist of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. This report also contains other supplementary information.

The basic financial statements include two types of statements that present different views of the District:

- The first two statements are the *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status. These statements present an aggregate view of the District's finances and a longer-term view of those finances.
- The next statements are *fund financial statements* that focus on individual funds of the District. These statements look at the District's operations in more detail than the District-wide financial statements by providing information about the District's most significant fund – the General Fund, with all other funds presented in one column as Nonmajor Funds.

The statement of fiduciary assets and liabilities presents financial information about activities for which the District acts solely as an agent for the benefit of students and others.

District-wide financial statements. The *District-wide financial statements* report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets and the statement of activities, which appear first in the District's financial statements, include all assets and liabilities and use the accrual basis of accounting. This means that all of the current year's revenues and expenses are taken into account regardless of when cash is received.

The two District-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.

The relationship between revenues and expenses is the District's operating results. However, it should be noted that unlike most private-sector companies where improving shareholder wealth is the goal, the District's goal is to provide services to our students. Therefore, in order to assess the overall health of the District, one must consider many nonfinancial factors such as the quality of education provided, breadth of curriculum offered, condition of school facilities, and the safety of the schools.

The statement of net assets and statement of activities report the governmental activities for the District, which encompass all of the District's services including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid, State grants, and Federal grants finance most of these activities.

Fund financial statements. The District's *fund financial statements* provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law and by bond covenants, though the District may establish other funds to help control and manage money for particular purposes. It may also establish other funds to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

The fund level financial statements are reported on a modified accrual basis, which measures only those revenues that are “measurable” and “currently available”. Expenses are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund financial statements are formatted to comply with the legal requirements of the Michigan Department of Education's Bulletin 1022. In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including:

- Debt Service Funds – consisting of the 1999 school building and site bonds, 2001 QZAB bonds, 2002 QZAB bonds, 2005 refunding bonds and Durant bonds.
- Special Revenue Funds – consisting of the Food Service Fund and the Athletics Fund.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. Assets are not capitalized at the fund level. 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 debt obligations are not recorded at the fund level.

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

Summary of Net Assets

The following summarizes the net assets at fiscal years ended June 30, 2007, 2006 and 2005:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets			
Current assets	\$ 8,025,917	\$ 6,360,429	\$ 7,105,567
Capital assets not depreciated	70,722	70,722	70,722
Capital assets depreciated	<u>14,953,615</u>	<u>15,488,413</u>	<u>15,892,746</u>
Total assets	<u>\$ 23,050,254</u>	<u>\$ 21,919,564</u>	<u>\$ 23,069,035</u>
Liabilities			
Current liabilities	\$ 5,635,960	\$ 4,093,635	\$4,082,156
Long-term liabilities	<u>10,544,868</u>	<u>10,988,105</u>	<u>11,153,217</u>
Total liabilities	<u>\$ 16,180,828</u>	<u>\$ 15,081,740</u>	<u>\$15,235,373</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 4,037,669	\$ 3,947,195	\$ 4,245,543
Restricted for			
Debt service	955,614	853,156	796,287
Unrestricted	<u>1,876,143</u>	<u>2,037,473</u>	<u>2,791,732</u>
Total net assets	<u>\$ 6,869,426</u>	<u>\$ 6,837,824</u>	<u>\$ 7,833,662</u>

Analysis of Financial Position

During the fiscal year ended June 30, 2007, the District's net assets increased by \$31,528. A few of the significant factors affecting net assets during the year are discussed below:

General Fund Operations. The district's expenditures from General Fund operations exceeded revenues by \$302,634 for the fiscal year ended June 30, 2007. See the section entitled Results of Operations, below, for further discussion of General Fund operations.

Principal Payments. The District made principal payments on bonded, lease and assessment debt obligations that reduced the amount of the district's long-term liabilities as follows.

	<u>Balance</u> <u>06/30/06</u>	<u>Adjustments</u>	<u>New</u> <u>Borrowings</u>	<u>Payments</u>	<u>Balance</u> <u>06/30/07</u>
Assessments & bonds payable	\$11,446,573	\$ -	\$ -	\$ (530,558)	\$10,916,015
Compensated absences	<u>231,157</u>	<u>-</u>	<u>-</u>	<u>(52,304)</u>	<u>178,853</u>
Total long-term obligations	<u>\$11,677,730</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (582,862)</u>	<u>\$11,094,868</u>

The bonds payable includes the current debt on the 1999 Middle School addition. For fiscal year 2007, 2.11 mills were levied on local taxpayers to pay the current principal and interest of \$963,268. The millage rate for fiscal year 2008 will be 1.90 mills to pay principal and interest of \$961,362.

Capital Assets

The District's investment in capital assets decreased by \$534,798 during the fiscal year. This can be summarized as follows:

	<u>Balance 06/30/06</u>	<u>Additions</u>	<u>Adjustments/ Deletions</u>	<u>Balance 06/30/07</u>
Capital assets	\$25,311,775	\$ 123,830	\$ (4,375)	\$25,431,230
Less: accumulated depreciation	<u>(9,752,640)</u>	<u>(654,253)</u>	-	<u>(10,406,893)</u>
Capital assets, net	<u>\$15,559,135</u>	<u>\$ (530,423)</u>	<u>\$ (4,375)</u>	<u>\$15,024,337</u>

Additions to capital assets for fiscal 2007 include the high school gym roof replacement, new front doors at Soo Township School and Washington School, Soo Township School bathroom floor replacement, a vending machine, a plasma cutter for the career center and a Dell computer.

For fiscal year 2007, depreciation expense was \$654,253. Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with accounting principles generally accepted in the United States of America, depreciation expense is recorded based on the original cost of the asset, less an estimated salvage value.

See Note IIIC – Capital Assets on page 32 for more detail.

Results of Operations

The District-wide results of operations for the fiscal years ended June 30, 2007, 2006 and 2005, were (in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
General revenue			
Property taxes collected for general operations	\$ 3,703	\$ 3,443	\$ 3,234
Property taxes levied for debt service	942	1,046	1,007
State of Michigan aid – all sources	14,288	16,302	15,466
Federal impact aid	246	430	674
Other – investment earnings, fees	<u>154</u>	<u>257</u>	<u>767</u>
Total general revenue	<u>19,333</u>	<u>21,478</u>	<u>21,148</u>
Program revenue			
Charges for services – local	760	1,020	1,017
Operating grants – federal and state	<u>4,611</u>	<u>2,659</u>	<u>4,210</u>
Total program revenue	<u>5,371</u>	<u>3,679</u>	<u>5,227</u>
Total revenues	<u>24,704</u>	<u>25,157</u>	<u>26,375</u>

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Expenses			
Instruction and instructional services	\$ 13,868	\$ 16,931	\$ 17,729
Support services	8,207	7,473	7,247
Community services	163	31	118
Interest on long-term debt	477	524	559
Depreciation (unallocated)	654	703	737
Other	<u>1,304</u>	<u>533</u>	<u>176</u>
Total expenses	<u>24,673</u>	<u>26,195</u>	<u>26,566</u>
Changes in net assets	31	(1,038)	(191)
Net assets, beginning of year	6,838	7,834	8,025
Prior period adjustment	<u>-</u>	<u>42</u>	<u>-</u>
Net assets, end of year	<u>\$ 6,869</u>	<u>\$ 6,838</u>	<u>\$ 7,834</u>

Property Taxes Levied for General Operations (General Fund Property Taxes)

The District levies 17.9604 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 Consumers Price Index or 5%, whichever is less. At the time of sale, a property's taxable valuation is re-adjusted to the state equalized value, which is, theoretically, 50% of the market value.

The District's non-homestead property tax levy for fiscal 2007 was \$3,856,022; the non-homestead property tax levy increased by 6.97% over fiscal 2006.

The following summarizes the District's non-homestead tax levy over the past five years*:

<u>Fiscal Year</u>	<u>Non-Homestead Tax Levy</u>	<u>% Increase from Prior Year</u>
2006 – 2007	\$ 3,856,022	6.97%
2005 – 2006	3,604,888	5.18%
2004 – 2005	3,475,286	10.5%
2003 – 2004	3,144,000	1.7%
2002 – 2003	3,091,369	2.0%

The average increase over the past five years was 5.27%.

*Source – L-4029 Tax Rate Request filed with Chippewa County.

State of Michigan Aid, Unrestricted

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

- a. State of Michigan Aid Act student foundation allowance
- b. Student Enrollment – Blended at 75% of current year fall count and 25% of prior year winter count
- c. The District's non-homestead levy

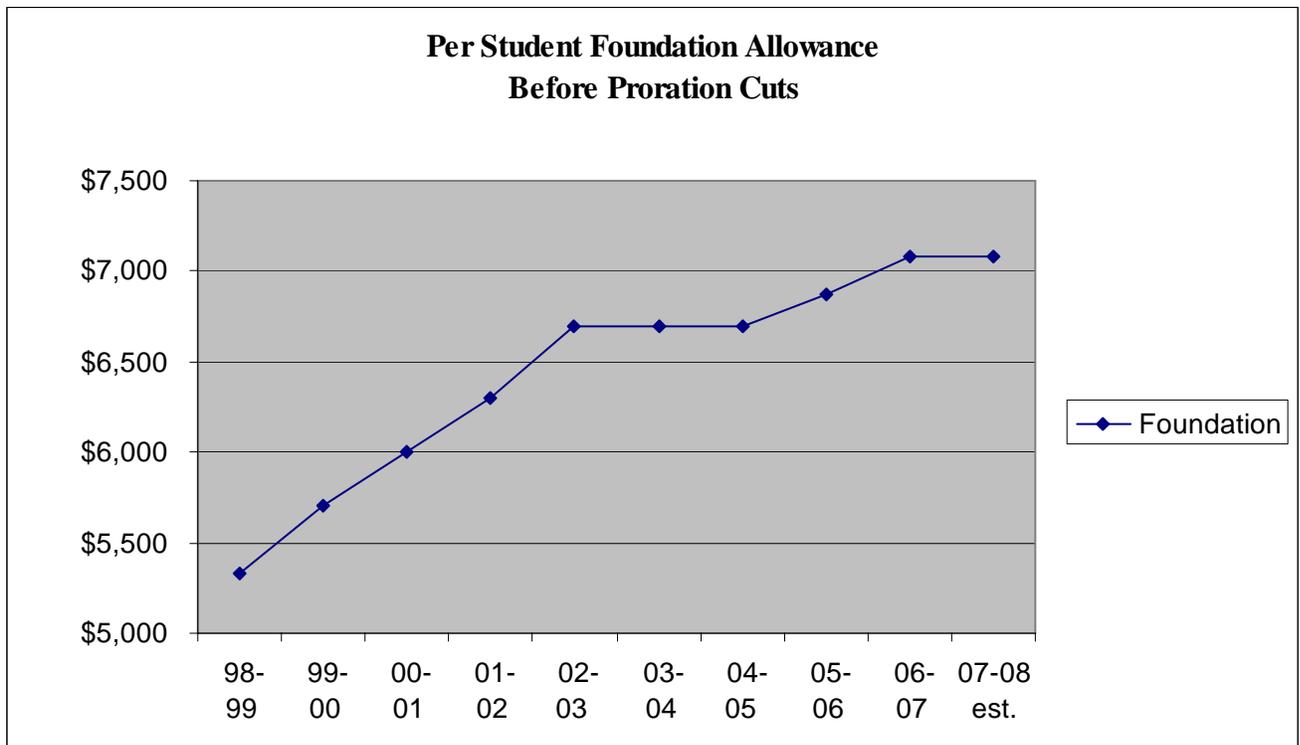
To calculate the amount of total state aid to be received, the District multiplies the per student foundation allowance by the blended student count and subtracts the total amount of non-homestead tax collected. The result is the amount of state aid to be received by the District. The more local non-homestead property taxes collected, the less state aid received.

It should also be noted that the State of Michigan often makes adjustments to prior years' payments based on changes in tax levies resulting in changes to the current period state aid received.

Per Student Foundation Allowance

Annually, the State of Michigan sets the per student foundation allowance. The Sault Ste. Marie Area Public Schools foundation allowance was \$7,085 per student for the 2006–2007 school year. This is an increase of \$210 or 3.05% over the District's 2005–2006 foundation allowance per student of \$6,875.

The projected foundation allowance for 2007-2008 is \$ 7,085.



Student Enrollment

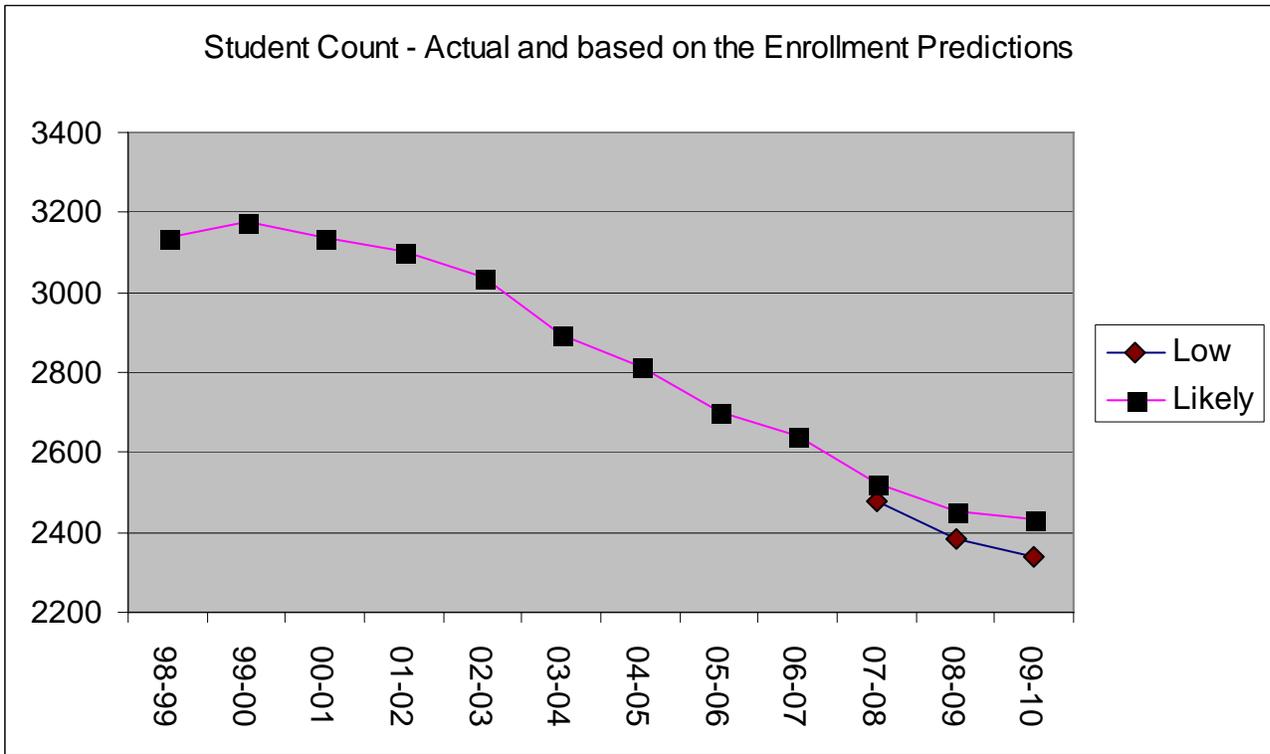
The District's student enrollment for the fall count of fiscal 2007 was 2,639 students. The District's enrollment has gradually declined over the past five years. The following summarizes the fall 2006 student enrollment and the actual foundation allowance for the past five years:

	<u>Enrollment</u>	<u>Change from Prior Year</u>	<u>Actual Foundation</u>	<u>Change from Prior Year</u>
2006 – 2007	2,639	(2.2)%	\$ 7,085	3.1%
2005 – 2006	2,699	(4.1)%	6,875	2.6%
2004 – 2005	2,814	(2.7)%	6,700	1.1%
2003 – 2004	2,893	(4.8)%	6,626	(0.4)%
2002 – 2003	3,039	(2.0)%	6,655	2.4%

Subsequent to June 30, 2007, preliminary student enrollment for 2007-2008 is anticipated to decrease by 115 students. In 2002-2003 and 2003-2004 the foundation allowance was \$6,700; however there was a mid-year reduction per student of \$45 in 2002-2003 and \$74 per student in 2003-2004.

Sault Schools Fall Enrollment Predictions

<u>Year</u>	<u>Most Likely</u>	<u>Low Prediction</u>	<u>Actual</u>	<u>Fall Count Likely</u>	<u>Fall Count Low</u>
98-99	(33)	(92)	(14)	3,139	
99-00	7	(74)	38	3,177	
00-01	(50)	(120)	(39)	3,138	
01-02	(19)	(85)	(37)	3,101	
02-03	(58)	(112)	(62)	3,039	
03-04	(108)	(167)	(146)	2,893	
04-05	(58)	(114)	(79)	2,814	
05-06	(55)	(123)	(116)	2,699	
06-07	(87)	(114)	(60)	2,639	
07-08	(115)	(162)		2,524	2,477
08-09	(70)	(93)		2,454	2,384
09-10	(22)	(44)		2,432	2,340



Property Taxes levied for debt service

The 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 homestead and non-homestead properties. In addition, the District collects IFT (Industrial Facilities Taxes) in lieu of taxes that are essentially taxed at 50% of the regular tax rate.

For 2006-2007, the District’s debt millage levy was 2.11 mills and generated a revenue of \$963,528. As of June 30, 2007, \$21,456 of personal debt taxes was not paid to the District. The unpaid taxes represent 2.2% of the total levy.

Original vs. Final Budget

The Uniform Budget Act (PA 621) 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 of each fiscal year.

As a matter of practice, Sault Ste. Marie Area Public Schools amends its budget periodically during the school year. For the fiscal year 2006-2007, the budget was amended in December 2006, and March and June 2007. The June 2007 budget amendment was the final budget amendment for the fiscal year. The Sault Ste. Marie Area Public Schools Board does not budget for expenditures covered by grants or for the grant revenue until an award is received.

Change from Original to Final Budget (in thousands)

General Fund Revenues - Original vs. Final Budget

Total Expenditures and Transfers Original Budget	\$ 23,572
Total Expenditures and Transfers Final Budget	<u>23,306</u>

Decrease in budgeted revenues \$ (266)

Some of the significant budget adjustments for the year include:

Revenues

Increase interest on investments	\$ 60
Increase Title I carryover	27
Increase current Title I grant	36
Increase Special Education Headlee	167
Decrease in community recreation	(70)
State Aid adjusted for actual fall count	(274)
Increase property tax collections	104
Decrease Federal impact aid allocation	(330)
Increase ISD Special Education funding	82
Increase State Aid equity payment	61
Increase State Aid declining enrollment payment	55

General Fund Expenditures - Original vs. Final Budget

Total expenditures original budget	\$ 23,084
Total expenditures final budget	<u>22,812</u>

Decrease in Budgeted Expenditures \$ (272)

Some significant budget adjustments for the year include:

Expenditures

Middle School	
Decrease salaries	\$ (128)
Decrease employee benefits	(92)
Increase copier charges	5
Decrease capital outlay	(6)
Elementary	
Increase salaries	142
Increase benefits	29
Vocational	
Decrease salaries	(75)
Decrease benefits	(43)
Decrease supplies/equipment	(49)

High School		
Increase salaries	\$	148
Decrease benefits		(14)
Operation of Plant		
Decrease heating fuel		(150)
Decrease electricity		(11)
Decrease disposal costs		(11)
Decrease legal fees		(40)
Increase Federal and state expenditures		133
Decrease community sports expenditures		(70)

General Fund Budget & Actual Revenues & Expenditures

General Fund Revenue Budget vs. Actual 5-Year History

<u>Fiscal Year</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Revenues Final Difference Favorable (Unfavorable)</u>	<u>Revenues Final Variance Favorable (Unfavorable)</u>
2002 – 2003	\$ 24,765,343	\$ 24,625,328	\$ (140,015)	(0.60)%
2003 – 2004	24,331,230	24,234,263	(96,967)	(0.40)%
2004 – 2005	23,859,813	23,581,804	(278,009)	(1.17)%
2005 – 2006	22,765,978	22,892,670	126,692	0.56%
2006 – 2007	22,564,461	22,577,252	12,791	0.06%

Some of the significant budget variances for the year include:

<u>Revenue Source</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Revenues Final Difference Favorable (Unfavorable)</u>	<u>Revenues Final Variance Favorable (Unfavorable)</u>
State Aid - Unrestricted	\$ 14,267,307	\$ 14,287,872	\$ 20,565	.14%
State Aid – Categorical	1,852,059	1,780,149	(71,910)	(3.88)%
Medicaid Outreach	83,000	105,237	22,237	26.79%
Interest on investments	110,000	122,449	12,449	11.32%
Sales – Varsity Blues	35,500	26,335	(9,165)	(25.82)%

General Fund Expenditures Budget vs. Actual 5-Year History

<u>Fiscal Year</u>	<u>Final Budget</u>	<u>Actual</u>	Revenues Final Difference Favorable (Unfavorable)	Revenues Final Variance Favorable (Unfavorable)
2002 – 2003	\$ 25,513,345	\$ 24,853,857	\$ 659,488	2.65%
2003 – 2004	24,978,894	24,459,195	519,699	2.13%
2004 – 2005	24,598,267	24,464,249	134,018	.55%
2005 – 2006	24,026,875	23,657,167	369,708	1.56%
2006 – 2007	22,812,400	22,471,900	340,500	1.52%

Some of the significant budget variances for the year include:

<u>Expenditures</u>	<u>Final Budget</u>	<u>Actual</u>	Revenues Final Difference Favorable (Unfavorable)	Revenues Final Variance Favorable (Unfavorable)
Teaching salaries	\$ 7,984,772	\$ 7,917,477	\$ 67,295	0.84%
MPSERS retirement	2,226,447	2,193,602	32,845	1.48%
Supplies	1,316,713	1,248,393	68,320	5.12%
Interest on State Aid note	-	52,159	(51,159)	(100.00)%
Contracted buildings	165,000	62,728	102,272	61.98%
Capital outlay – HS gym roof	-	96,653	(96,653)	(100.00)%
Custodial supplies	101,000	85,443	15,557	15.40%

2007 – 2008 Budget

The preliminary budget for the 2007-08 fiscal year was adopted by the Board of Education on June 11, 2007. Several important factors were known as the budget was being drafted, others were projected with best estimates.

Impact on Revenues

- Use of \$1,104,158 of fund equity to compensate for lost State Aid revenue.
- State Aid foundation remains at \$7,085 per pupil.
- Decrease in enrollment projected at 115 students.
- Decrease in Federal and State grant revenues.
- Decrease in contributions and insurance refunds.
- Decrease of Federal Impact aid.

Impact on Expenditures

- Increase in health care costs: 2.84% for MESSA.
- Decrease in retirement rate from 17.74% to 16.72%.
- Reduce staffing due to declining enrollment: 1 administrator, 8 teachers, 1 secretary and 1 food service.
- Increase staffing: 2 paraprofessionals.
- Purchase of one new bus and one used bus as available.
- Reduced Federal and State grant expenditures.

Estimated 2007-2008 Budget

2007-2008 revenues	\$ 21,243,969
2007-2008 expenditures	<u>22,348,127</u>
Excess expenses over revenues	\$ (1,104,158)
July 1, 2007 fund balance	<u>1,746,338</u>
Estimated June 30, 2008 budgeted fund balance	<u>\$ 642,180</u>

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Superintendent's Office of the Sault Ste. Marie Area Public Schools at (906) 635-6609.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

SAULT STE. MARIE AREA PUBLIC SCHOOLS

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,588,721
Investments	633,905
Receivables	3,758,306
Prepaid items and other assets	44,985
Capital assets not being depreciated	70,722
Capital assets being depreciated, net	14,953,615
Total assets	23,050,254
Liabilities	
Accounts payable and accrued liabilities	4,622,936
Unearned revenue	461,411
Noncurrent liabilities	
Due within one year	551,613
Due in more than one year	10,544,868
Total liabilities	16,180,828
Net assets	
Invested in capital assets, net of related debt	4,037,669
Restricted for	
Debt service	955,614
Unrestricted	1,876,143
Total net assets	\$ 6,869,426

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

SAULT STE. MARIE AREA PUBLIC SCHOOLS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

<u>Functions / Programs</u>	Program Revenues			<u>Net (Expense) Revenue</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities				
Instruction	\$ 13,867,916	\$ 85,337	\$ 4,115,667	\$ (9,666,912)
Supporting services	8,206,559	-	-	(8,206,559)
Community service	162,552	-	-	(162,552)
Food service	886,027	497,655	495,166	106,794
Athletics	417,650	176,723	-	(240,927)
Interest on long-term debt	477,073	-	-	(477,073)
Unallocated depreciation	654,253	-	-	(654,253)
Total governmental activities	\$ 24,672,030	\$ 759,715	\$ 4,610,833	(19,301,482)
General revenues				
Property taxes				4,645,421
Unrestricted state aid				14,287,872
Grants and contributions not restricted to specific programs				246,111
Unrestricted investment earnings				153,606
Total general revenues				19,333,010
Change in net assets				31,528
Net assets, beginning of year				6,837,898
Net assets, end of year				\$ 6,869,426

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

FUND FINANCIAL STATEMENTS

SAULT STE. MARIE AREA PUBLIC SCHOOLS

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2007

ASSETS	General	Other Governmental Funds	Totals
Assets			
Cash and cash equivalents	\$ 2,868,407	\$ 720,314	\$ 3,588,721
Investments	70,258	563,647	633,905
Accounts receivable	14,277	406,135	420,412
Due from other funds	-	77,685	77,685
Due from other governments	3,329,961	7,933	3,337,894
Inventory	23,003	7,982	30,985
Prepaid expenses	14,000	-	14,000
Total assets	\$ 6,319,906	\$ 1,783,696	\$ 8,103,602
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 137,609	\$ 21,001	\$ 158,610
Salaries and benefits payable	2,665,206	21,560	2,686,766
Due to other funds	77,685	-	77,685
Due to other governments	1,638,710	-	1,638,710
Unearned revenue	54,358	407,053	461,411
Total liabilities	4,573,568	449,614	5,023,182
Fund balances			
Reserved			
Inventory	23,003	7,982	30,985
Prepaid expenses	14,000	-	14,000
Debt service	-	955,614	955,614
Designated			
General fund - for subsequent year's expenditures	1,096,098	-	1,096,098
Varsity Blues	30,311	-	30,311
Unreserved			
Undesignated	582,926	-	582,926
Undesignated, reported in nonmajor Special revenue funds	-	370,486	370,486
Total fund balances	1,746,338	1,334,082	3,080,420
Total liabilities and fund balances	\$ 6,319,906	\$ 1,783,696	\$ 8,103,602

Continued...

SAULT STE. MARIE AREA PUBLIC SCHOOLS

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2007

Reconciliation of fund balances on the balance sheet for governmental funds to net assets of governmental activities on the statement of net assets

Fund balances - total governmental funds **\$ 3,080,420**

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	25,431,230
Deduct - accumulated depreciation	(10,406,893)

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 and loans payable	(10,917,628)
Deduct - accrued interest on bonds payable	(138,850)
Deduct - compensated absences	(178,853)

Net assets of governmental activities **\$ 6,869,426**

Concluded

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

SAULT STE. MARIE AREA PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	General	Other Governmental Funds	Totals
Revenues			
Local sources	\$ 3,971,700	\$ 1,659,135	\$ 5,630,835
State sources	16,083,022	64,200	16,147,222
Federal sources	1,853,711	430,966	2,284,677
Other local sources	143,011	-	143,011
Tuition	59,002	-	59,002
Transfers from other districts	466,806	-	466,806
Total revenues	22,577,252	2,154,301	24,731,553
Expenditures			
Instruction	13,864,290	-	13,864,290
Support services	8,607,610	-	8,607,610
Food service activities	-	891,527	891,527
Athletic programs	-	417,650	417,650
Debt service			
Principal	-	525,000	525,000
Interest	-	438,891	438,891
Unrealized market loss	-	27,995	27,995
Total expenditures	22,471,900	2,301,063	24,772,963
Revenues over (under) expenditures	105,352	(146,762)	(41,410)
Other financing (uses) sources			
Transfers out	(407,986)	-	(407,986)
Transfers in	-	407,986	407,986
Total other financing (uses) sources	(407,986)	407,986	-
Net change in fund balances	(302,634)	261,224	(41,410)
Fund balances, beginning of year	2,048,972	1,072,858	3,121,830
Fund balances, end of year	\$ 1,746,338	\$ 1,334,082	\$ 3,080,420

Continued...

SAULT STE. MARIE AREA PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

**Reconciliation of the statement of revenues, expenditures and changes in fund balances
of governmental funds to the statement of activities**

Net change in fund balances - total governmental funds **\$ (41,410)**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add	- capital outlay	119,455
Deduct	- depreciation expense	(654,253)

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 the repayment reduces long-term liabilities in the statement of net assets.

Add	- principal and special assessment payments on long-term liabilities	530,558
-----	--	---------

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.

Deduct	- increase in accrued interest payable on bonds and loans	(38,182)
Add	- decrease in the accrual for compensated absences	52,304

Change in net assets of governmental activities **\$ (31,528)**

Concluded

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

SAULT STE. MARIE AREA PUBLIC SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Revenues				
Local sources	\$ 3,875,040	\$ 3,946,059	\$ 3,971,700	\$ 25,641
State sources	16,064,686	16,134,366	16,083,022	(51,344)
Federal sources	2,121,206	1,873,801	1,853,711	(20,090)
Other local sources	137,410	137,410	143,011	5,601
Tuition	40,000	40,000	59,002	19,002
Transfers from other districts	379,750	432,825	466,806	33,981
Total revenue	22,618,092	22,564,461	22,577,252	12,791
Expenditures				
Instruction				
Basic programs	9,867,224	9,934,123	9,888,562	(45,561)
Added needs	4,236,395	4,071,192	3,975,728	(95,464)
Total instruction	14,103,619	14,005,315	13,864,290	(141,025)
Supporting services				
Pupil services	1,290,314	1,409,840	1,399,849	(9,991)
Instructional support	1,105,593	1,096,437	1,033,366	(63,071)
General administration	297,970	297,970	279,865	(18,105)
School administration	1,350,480	1,350,480	1,332,060	(18,420)
Business services	301,585	239,095	282,992	43,897
Operations and maintenance	2,898,685	2,730,671	2,649,014	(81,657)
Transportation	1,144,741	1,130,656	1,086,720	(43,936)
Technology	458,911	488,949	482,791	(6,158)
Community services	132,512	62,987	60,953	(2,034)
Total supporting services	8,980,791	8,807,085	8,607,610	(199,475)
Total expenditures	23,084,410	22,812,400	22,471,900	(340,500)
Revenue over (under) expenditures	(466,318)	(247,939)	105,352	353,291
Other financing (uses) sources				
Transfers out	(487,594)	(493,794)	(407,986)	85,808
Transfers in	80,000	80,000	-	(80,000)
Total other financing (uses) sources	(407,594)	(413,794)	(407,986)	5,808
Net change in fund balance	(873,912)	(661,733)	(302,634)	359,099
Fund balances, beginning of year	2,048,972	2,048,972	2,048,972	-
Fund balances, end of year	\$ 1,175,060	\$ 1,387,239	\$ 1,746,338	\$ 359,099

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

SAULT STE. MARIE AREA PUBLIC SCHOOLS

**STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS**

JUNE 30, 2007

	Private- Purpose Trust Fund	Agency Funds
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 7,321	\$ 281,179
Investments	15,000	-
	<u> </u>	<u> </u>
Total assets	22,321	281,179
		<u><u> </u></u>
Liabilities		
Accounts payable	1,500	
Due to student groups	-	\$ 281,179
	<u> </u>	<u><u> </u></u>
Total liabilities	1,500	
	<u> </u>	
Net assets		
Restricted	\$ 20,821	
	<u><u> </u></u>	

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

SAULT STE. MARIE AREA PUBLIC SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2007

Additions	
Contributions	\$ 3,250
Interest on deposits	707
	3,957
Total additions	
Deductions	
Scholarships	4,250
Other	308
	4,558
Total deductions	
Decrease in net assets	(601)
Net assets, beginning of year	21,422
	\$ 20,821
Net assets, end of year	

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

NOTES TO THE FINANCIAL STATEMENTS

SAULT STE. MARIE AREA PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Sault Ste. Marie Area Public Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. 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 are 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 District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

SAULT STE. MARIE AREA PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

C. Measurement focus, basis of accounting, and financial statement presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. However, agency funds do not have a measurement focus. 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.

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 reimbursement type 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.

Property taxes 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 government.

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

Additionally, the District reports the following fund types:

The *Special Revenue Funds* account for the various food service and athletic programs sponsored by the District.

The *Debt Service Fund* accounts for the principal and interest payments and other expenditures on long-term debt.

The *Agency Fund* accounts for assets held for other groups and organizations and is custodial in nature.

The *Private Purpose Trust Fund* accounts for the maintenance of scholarship funds for future beneficiaries.

SAULT STE. MARIE AREA PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

D. Assets, liabilities and equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). There were no interfund advance loans outstanding at June 30, 2007.

SAULT STE. MARIE AREA PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

3. *Inventory and prepaid items*

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists of expendable supplies held for sale or consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute “available spendable resources” even though they are a component of net current assets.

Payments made to vendors for services that will benefit future periods are reported as prepaid items.

4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 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 primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20-50
Buildings	30-50
Buildings improvements	5-20
Furniture and equipment	5-20
Buses	4-10
Vehicles	5-10
Software	2-5

5. *Compensated absences*

District policy permits certain employees to accumulate earned but unused sick and vacation pay benefits that are paid when the employee separates from service with the District. A liability is recorded in the government-wide financial statements for such amounts.

SAULT STE. MARIE AREA PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

6. Long-term obligations

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

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

7. Fund equity

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

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

The General Fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budget for the General Fund is adopted on a functional basis.

B. Excess of expenditures over appropriations

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund.

SAULT STE. MARIE AREA PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and cash equivalents and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets	
Cash and cash equivalents	\$ 3,588,721
Investments	<u>633,905</u>
Total Statement of Net Assets	<u>4,222,626</u>
Statement of Fiduciary Net Assets	
Cash and cash equivalents	288,500
Investments	<u>15,000</u>
Total Statement of Fiduciary Net Assets	<u>303,500</u>
Total deposits and investments	<u>\$ 4,526,126</u>

A reconciliation of cash and investments as shown in the financial statements to the District's deposits and investments is as follows:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 3,962,479
Investments	<u>563,647</u>
Total deposits and investments	<u>\$ 4,526,126</u>

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

SAULT STE. MARIE AREA PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

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

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Bank deposits	n/a	\$ 1,753,664	n/a
Federal backed securities	n/a	563,647	n/a
Michigan Liquid Asset Fund	n/a	<u>2,208,815</u>	S&P – AAAM
Total deposits and investments		<u>\$ 4,526,126</u>	

Certificate of deposits of \$85,258 are considered bank deposits for risk purposes.

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.

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 specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not 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.

SAULT STE. MARIE AREA PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

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. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$1,749,733 of the District's bank balance of \$1,974,743 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. State law does not require and the District does not have a policy for investment custodial credit risk. The District's investments are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

B. Receivables

Receivables in the governmental activities are mainly due from other governments.

SAULT STE. MARIE AREA PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

C. Capital assets

Capital assets activity was as follows for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Transfers	Balance June 30, 2007
Capital assets not being depreciated				
Land	\$ 70,722	\$ -	\$ -	\$ 70,722
Construction in process	<u>4,375</u>	<u>-</u>	<u>(4,375)</u>	<u>-</u>
Total capital assets not being depreciated	<u>75,097</u>	<u>-</u>	<u>(4,375)</u>	<u>70,722</u>
Capital assets being depreciated				
Land improvements	2,090,446	-	-	2,090,446
Buildings	19,814,295	-	-	19,814,295
Building improvements	473,852	96,653	4,375	574,880
Furniture and equipment	1,168,400	22,802	-	1,191,202
Buses	1,361,389	-	-	1,361,389
Vehicles	116,889	-	-	116,889
Software	<u>211,407</u>	<u>-</u>	<u>-</u>	<u>211,407</u>
Total capital assets being depreciated	<u>25,236,678</u>	<u>119,455</u>	<u>4,375</u>	<u>25,360,508</u>
Accumulated depreciation				
Land improvements	(518,461)	(105,060)	-	(623,521)
Buildings	(7,114,042)	(363,734)	-	(7,477,776)
Building improvements	(176,675)	(33,726)	-	(210,401)
Furniture and equipment	(532,591)	(75,394)	-	(607,985)
Buses	(1,105,552)	(64,130)	-	(1,169,682)
Vehicles	(97,183)	(10,439)	-	(107,622)
Software	<u>(208,136)</u>	<u>(1,770)</u>	<u>-</u>	<u>(209,906)</u>
Total accumulated depreciation	<u>(9,752,640)</u>	<u>(654,253)</u>	<u>-</u>	<u>(10,406,893)</u>
Total capital assets being depreciated, net	<u>15,484,038</u>	<u>(534,798)</u>	<u>4,375</u>	<u>14,953,615</u>
Governmental activities capital assets, net	<u>\$ 15,559,135</u>	<u>\$ (534,798)</u>	<u>\$ -</u>	<u>\$ 15,024,337</u>

Unallocated depreciation expense of \$654,253 was charged to the governmental activities.

SAULT STE. MARIE AREA PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

D. Accounts payable and accrued expenses

Payables are 35 percent due to other governments, 49 percent accrued salaries, and 16 percent accrued expenses.

E. Interfund receivables, payables and transfers

The following balances represent individual fund interfund receivables and payables at June 30, 2007:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ -	\$ 77,685
Nonmajor Funds	<u>77,685</u>	<u>-</u>
Total	<u>\$ 77,685</u>	<u>\$ 77,685</u>

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

	<u>Transfers out</u>
	<u>General Fund</u>
<u>Transfers in</u>	
Athletic Fund	\$ 285,500
Debt Service Fund	<u>122,486</u>
Transfers out	<u>\$ 407,986</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

SAULT STE. MARIE AREA PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

F. Long-Term Debt

Long-term debt of the District consists of the following:

	Balance July 1, 2006	Increases	(Decreases)	Balance June 30, 2007	Due Within One Year
Assessments and bonds payable					
2005 General Advance Obligation Refunding Bonds	\$ 7,780,000	\$ -	\$ -	\$ 7,780,000	\$ -
2002 QZAB	600,000	-	-	600,000	-
2001 QZAB	999,950	-	-	999,950	-
1999 School Building and Site Bonds	1,655,000	-	(525,000)	1,130,000	550,000
1998 Durant Bonds	406,065	-	-	406,065	-
City of Sault Ste. Marie special assessments	5,558	-	(5,558)	-	-
Total bonds payable	11,446,573	-	(530,558)	10,916,015	550,000
Other liabilities					
Compensated absences	231,157	-	(52,304)	178,853	-
Total long-term liabilities	<u>\$ 11,677,730</u>	<u>\$ -</u>	<u>\$ (582,862)</u>	<u>\$ 11,094,868</u>	<u>\$ 550,000</u>

Long-term debt at June 30, 2007 includes the following:

General Obligation Bonds

2005 General Obligation Advance Refunding Bonds; annual principal payments varying from \$620,000 - \$945,000 beginning May 2010, interest is charged semi-annually bearing interest of 4% to 5%; final payment due May 2019.

\$ 7,780,000

SAULT STE. MARIE AREA PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

2002 School Improvement (General Obligation – Limited Tax) Qualified Zone Academy Bonds (QZAB). These bonds require a sinking fund to be established with \$38,963 annual transfers to an escrow agent annually on September 10th. These zero-coupon bonds are due in total on September 10, 2016. \$ 600,000

2001 School Improvement (General Obligation – Limited Tax) Qualified Zone Academy Bonds (QZAB). These bonds require a sinking fund to be established with \$83,000 annual transfers to an escrow agent annually on June 1st. These zero-coupon bonds are due in total on June 1, 2013. 999,950

1999 School Building and Site Bonds; due through May 2009 in semiannual installments of interest and annual principal payments varying from \$550,000 - \$580,000; bearing interest rate of 5.125%. 1,130,000

Total general obligation bonds **10,509,950**

Durant Resolution Bond

1998 series, school improvement bond due in annual installments ranging from \$30,323 to \$62,102 with interest charged at 4.76%. This bond is a self-liquidating bond. The principal and interest is payable solely through annual appropriations by the State of Michigan. If the legislature fails to appropriate the funds, the District is under no obligation for payment. Final payment is due May 15, 2013. 406,065

Total bonds **10,916,015**

Compensated absences 178,853

Total long-term debt **\$ 11,094,868**

SAULT STE. MARIE AREA PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service. During the year ended June 30, 2003, the State of Michigan postponed all Durant debt service requirements. No debt service was required for May 15, 2003 through 2005. The debt payments resumed in 2006, but were again deferred in 2007 and 2008.

Bond debt service requirements

The annual requirements to service the bonds (not including accrued compensated absences) to maturity, including both principal and interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 550,000	\$ 411,362	\$ 961,362
2009	813,872	473,777	1,287,649
2010	660,093	361,649	1,021,742
2011	692,003	328,740	1,020,743
2012	729,001	294,240	1,023,241
2013-2017	5,621,046	910,545	6,531,590
2018-2019	<u>1,850,000</u>	<u>111,800</u>	<u>1,961,800</u>
Total	<u>\$ 10,916,015</u>	<u>\$ 2,892,113</u>	<u>\$ 13,808,127</u>

Interest expense and paying agent fees were \$477,073 for the year ended June 30, 2007.

Compensated absences are generally liquidated by the General Fund.

The District is required to deposit, yearly, payments into an escrow agent for the future payment of the 2001 and 2002 School Improvement Bonds. The future payments are as follows:

2008	\$ 83,000	\$ 38,963
2009	83,000	38,963
2010	83,000	38,963
2011	83,000	38,963
2012	83,000	38,963
2013	83,000	38,963
2014	-	38,963
2015	-	38,963
2016	-	38,963
2017	<u>-</u>	<u>38,963</u>
Total	<u>\$ 498,000</u>	<u>\$ 389,630</u>

SAULT STE. MARIE AREA PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 and December 1 of the following year. School related property taxes are levied on December 1 each year, based on the previous years assessment, by township governments whose boundaries include property within the District, and are due and payable on August 31 and February 28, respectively. Delinquent real taxes are advanced to the District by the Revolving Tax Fund of the applicable County. Taxes are recorded as revenue in the year levied. Taxes receivable are recorded for property taxes collected within 60 days of year end, if any.

C. Defined benefit pension 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, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, PO Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

SAULT STE. MARIE AREA PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

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 current rate is 17.74 % of annual 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 \$2,297,512, \$2,213,847, and \$2,044,719, respectively, equal to the required contributions for each year.

Other Post-employment Benefits

The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages 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, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Commitments and contingencies

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

SAULT STE. MARIE AREA PUBLIC SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2007.

On March 27, 1998 and May 22, 2000, the District entered into Irrevocable Standby Letter of Credit in the amount of \$10,000 and \$50,000, respectively, which are to be held by a local financial institution until construction of the Wetland Mitigation Projects are completed and approved by the Michigan Department of Environmental Quality (MDEQ), at which time 50% shall be returned. The remaining 50% shall be returned at the end of a five year monitoring period when the MDEQ makes a formal determination that the wetland is functional.

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SUPPLEMENTARY INFORMATION

SAULT STE. MARIE AREA PUBLIC SCHOOLS

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2007

	<u>Special Revenue</u>		<u>Debt Service</u>		<u>Total</u>
	<u>Athletics</u>	<u>Food Service</u>	<u>Other Debt Service</u>	<u>QZAB Debt Service</u>	
ASSETS					
Cash and cash equivalents	\$ -	\$ 328,347	\$ 325,284	\$ 66,683	\$ 720,314
Investments	-	-	-	563,647	563,647
Accounts receivable	-	70	406,065	-	406,135
Due from other funds	77,685	-	-	-	77,685
Due from other governments	-	7,933	-	-	7,933
Inventory	-	7,982	-	-	7,982
Total assets	\$ 77,685	\$ 344,332	\$ 731,349	\$ 630,330	\$ 1,783,696
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 1,817	\$ 19,184	\$ -	\$ -	\$ 21,001
Salaries payable	-	21,560	-	-	21,560
Unearned revenue	-	988	406,065	-	407,053
Total liabilities	1,817	41,732	406,065	-	449,614
Fund balances					
Reserved for inventory	-	7,982	-	-	7,982
Reserved for debt service	-	-	325,284	630,330	955,614
Unreserved, undesignated	75,868	294,618	-	-	370,486
Total fund balances	75,868	302,600	325,284	630,330	1,334,082
Total liabilities and fund balances	\$ 77,685	\$ 344,332	\$ 731,349	\$ 630,330	\$ 1,783,696

SAULT STE. MARIE AREA PUBLIC SCHOOLS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Special Revenue</u>		<u>Debt Service</u>		<u>Total</u>
	<u>Athletics</u>	<u>Food Service</u>	<u>Other Debt Service</u>	<u>QZAB Debt Service</u>	
Revenues					
Local sources	\$ 176,723	\$ 510,598	\$ 971,814	\$ -	\$ 1,659,135
State sources	-	64,200	-	-	64,200
Federal sources	-	430,966	-	-	430,966
Total revenues	176,723	1,005,764	971,814	-	2,154,301
Expenditures					
Food service activities	-	891,527	-	-	891,527
Athletic programs	417,650	-	-	-	417,650
Debt service					
Principal repayment	-	-	525,000	-	525,000
Interest	-	-	438,891	-	438,891
Unrealized market loss	-	-	-	27,995	27,995
Total expenditures	417,650	891,527	963,891	27,995	2,301,063
Revenue over (under) expenditures	(240,927)	114,237	7,923	(27,995)	(146,762)
Other financing sources (uses)					
Transfers in	285,500	-	-	122,486	407,986
Total other financing sources (uses)	285,500	-	-	122,486	407,986
Net change in fund balances	44,573	114,237	7,923	94,491	261,224
Fund balances, beginning of year	31,295	188,363	317,361	535,839	1,072,858
Fund balances, end of year	\$ 75,868	\$ 302,600	\$ 325,284	\$ 630,330	\$ 1,334,082

SAULT STE. MARIE AREA PUBLIC SCHOOLS
STATEMENT OF CHANGES IN ASSETS AND LIABILITES -
AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Balance July 1, 2006</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance June 30, 2007</u>
ASSETS				
Cash and cash equivalents	\$ 300,953	\$ 862,453	\$ 882,227	\$ 281,179
LIABILITIES				
Due to clubs and organizations	\$ 300,953	\$ 862,453	\$ 882,227	\$ 281,179
The balances consist of the following				
Deposits due to clubs and organizations				
High School				
Administration				
Driver education	\$ 150	\$ 48,427	\$ 48,387	\$ 190
Maintenance/vandalism	10	5	-	15
Health	68	-	-	68
Advanced placement	801	7,677	7,785	693
Technology fines	5,757	1,380	219	6,918
TMI	79	126	190	15
Book deposits	16,743	8,037	7,495	17,285
Sr. class booth tree	333	-	-	333
Chipley fund	262	1,319	1,345	236
Pop machine	4,065	11,814	14,458	1,421
Parking fees	2,416	1,399	700	3,115
General	1,297	14,605	15,120	782
Library fines	174	1,034	317	891
Special revolving	(319)	-	(27)	(292)
Staff remembrance	68	-	-	68
Fines/obligations	2,739	1,474	3,562	651
Woods supplies	1,732	2,579	3,011	1,300
Activity fee donations	-	17,825	1,507	16,318
Activity fee	16,851	76,873	93,724	-
Total administration	<u>53,226</u>	<u>194,574</u>	<u>197,793</u>	<u>50,007</u>

Continued...

SAULT STE. MARIE AREA PUBLIC SCHOOLS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Balance July 1, 2006</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance June 30, 2007</u>
Athletics				
Boys basketball	\$ (681)	\$ 4,381	\$ 3,412	\$ 288
Cheerleaders	771	1,951	1,438	1,284
Cross country	3,760	12,546	9,548	6,758
Boys & girls basketball	1,915	200	2,115	-
Elementary basketball	4,871	2,376	2,402	4,845
MS volleyball	437	-	223	214
MS girls basketball	-	1,351	454	897
MS boys basketball	-	1,657	1,769	(112)
Football	490	5,397	2,671	3,216
Gate receipts & pass	-	71,528	71,528	-
Boys track	82	589	482	189
Girls track	(93)	-	100	(193)
Girls basketball	(1,353)	6,793	5,773	(333)
Varsity softball	2,506	5,430	4,126	3,810
Baseball	17	1,008	1,269	(244)
Hockey team	10,205	12,104	18,828	3,481
Science supplies	626	-	590	36
Boys soccer team	3,504	1,319	1,480	3,343
Girls soccer	6,693	2,618	2,467	6,844
JV soccer	-	137	-	137
Swim team	1,885	4,146	1,517	4,514
Boys golf	759	770	12	1,517
Girls golf	2,291	1,775	383	3,683
Volleyball team	1,439	5,912	3,949	3,402
Wrestling	5,114	5,512	8,247	2,379
Richard Benoit Memorial	-	3,301	-	3,301
Total athletics	<u>45,238</u>	<u>152,801</u>	<u>144,783</u>	<u>53,256</u>

SAULT STE. MARIE AREA PUBLIC SCHOOLS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 3007

	Balance July 1, 2006	Receipts	Disbursements	Balance June 30, 2007
Classes and clubs				
Art department	\$ 1,072	\$ 297	\$ 1,064	\$ 305
Art club	5,122	9,256	13,013	1,365
Metal sculpture	389	-	-	389
Band	804	169	403	570
Choir	190	821	723	288
Class of 2007	3,419	1,570	3,550	1,439
Class of 2008	1,047	6,560	3,787	3,820
Class of 2005	-	1,580	1,580	-
Class of 2009	805	341	385	761
Class of 2010	-	713	83	630
Drama club	7,274	4,110	3,694	7,690
Student publications	1,208	963	1,681	490
Science club	-	1,517	1,248	269
Key club	861	3,639	4,004	496
Northern light	2,937	32,872	33,798	2,011
Poms Poms	1,557	5,754	8,976	(1,665)
Quiz bowl	2	-	-	2
SADD	169	200	171	198
Student council	2,241	2,727	2,182	2,786
PE Activities	59	463	388	134
WOW	947	1,271	2,597	(379)
Total classes and clubs	30,103	74,823	83,327	21,599
Vocational youth organizations				
MOUS	980	3,192	1,791	2,381
IC3	60	190	60	190
BPA	1,227	20,959	21,376	810
Health occupation	648	11,226	8,424	3,450
Home economics	14	-	14	-
VICA auto mechanics	909	565	1,157	317
VICA drafting	924	3,160	3,897	187
VICA graphic arts	2,243	2,839	5,082	-
VICA machine shop	131	78	201	8
VICA welding	985	320	865	440
VSO	5,825	5,322	5,864	5,283
Construction	3,716	-	-	3,716
Total vocational youth organizations	17,662	47,851	48,731	16,782
Other high school				
Athletic development	17,314	24,950	33,690	8,574
First robotics	4,647	20,179	20,740	4,086
Scat club	13	-	-	13
Total other high school	21,974	45,129	54,430	12,673
Total high school	168,203	515,178	529,064	154,317

Continued...

SAULT STE. MARIE AREA PUBLIC SCHOOLS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 3007

	Balance July 1, 2006	Receipts	Disbursements	Balance June 30, 2007
Middle school				
Art Supplies	\$ 45	\$ -	\$ -	\$ 45
General athletics	8,995	340	720	8,615
Band	70	3	51	22
Book deposits	12,543	3,383	4,736	11,190
Book fines	64	7	-	71
Cafeteria	-	111,043	111,043	-
Cheerleading	178	-	-	178
Chipley	-	1,580	1,580	-
Coffee fund	21	-	21	-
Computers	522	10	400	132
Concession	3,099	613	177	3,535
Drafting/Zielke	385	21	-	406
Elementary cheerleading	153	-	-	153
Faculty/flower	350	552	324	578
Fun funds	2,791	910	2,490	1,211
A57Garden SE science	59	-	-	59
General fund	201	-	-	201
Home Econ Lab	291	300	311	280
Iowa testing incentive	4,791	26	1,378	3,439
Japan - student	-	3,206	3,206	-
Library	2,032	3,443	3,555	1,920
Math - K. Zielke	1,160	100	481	779
Metals - D. Panik	15	-	15	-
Office - principal	3,310	3,005	3,005	3,310
Performing arts	1,636	2,904	2,803	1,737
Pop machine - lobby	21,716	1,302	-	23,018
Pride and culture grant	749	26	694	81
Science - Gorsuch	150	-	-	150
Science - Dougherty	300	2,480	2,632	148
6th grade activity	639	-	-	639
Social committee	403	97	233	267
Social studies	56	-	34	22
Student council	17,144	23,919	29,255	11,808
Student needs	-	500	96	404
Student planner book	3,032	442	1,050	2,424
Tobacco grant	1,047	-	518	529
Track team	560	-	-	560
Washington DC	99	-	-	99
Vending machine	1,224	-	1,224	-
Woodshop - Prac. Arts	763	489	366	886
Woodshop - Prac. Arts	432	42	47	427
WOW	21	369	304	86
Yearbook	1,191	11,312	8,740	3,763
Total middle school	<u>92,237</u>	<u>172,424</u>	<u>181,489</u>	<u>83,172</u>

Continued...

SAULT STE. MARIE AREA PUBLIC SCHOOLS

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUND**

FOR THE YEAR ENDED JUNE 30, 3007

	Balance July 1, 2006	Receipts	Disbursements	Balance June 30, 2007
Lincoln School				
Book fair	\$ 396	\$ 4,742	\$ 3,522	\$ 1,616
Book fines	688	2	-	690
Book orders	-	1,196	1,196	-
Dress down	234	82	22	294
Fundraiser, Inc.	2,180	5,906	5,432	2,654
General fund	6,739	17,802	17,155	7,386
Kymes	61	-	-	61
Laminating	187	-	-	187
Lunch	69	26,651	26,651	69
Office - principal	203	-	-	203
Pop	822	560	357	1,025
Rogers/Bump	610	2,357	2,903	64
Rogers	-	100	100	-
Store	529	1,007	1,027	509
Total Lincoln School	12,718	60,405	58,365	14,758
Soo Township School				
General fund	9,663	7,726	10,184	7,205
Lunch	-	40,470	40,470	-
Library	1,160	7,675	7,874	961
Community fund for students	-	247	-	247
Environmental education	500	-	-	500
Teacher room 1 and 2	505	2,370	2,199	676
Teacher room 5	25	3	-	28
Teacher room 6	-	269	269	-
Teacher room 7	32	1,575	1,379	228
Teacher room 8	-	15	-	15
Teacher room 9	115	134	-	249
Teacher room 10	-	642	638	4
Teacher room 11	-	1,213	1,070	143
Teacher room 12	728	-	652	76
Teacher room 13	166	-	127	39
Teacher room 14	48	-	5	43
Teacher room 17	712	973	1,221	464
Total Soo Township School	13,654	63,312	66,088	10,878

Continued...

SAULT STE. MARIE AREA PUBLIC SCHOOLS

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUND**

FOR THE YEAR ENDED JUNE 30, 3007

	Balance July 1, 2006	Receipts	Disbursements	Balance June 30, 2007
Washington School				
Book orders	\$ 164	\$ 187	\$ 187	\$ 164
Dress down	68	116	10	174
General fund	2,819	4,764	4,160	3,423
Library/book fair	954	8,942	7,937	1,959
Lunch	-	26,388	26,265	123
Pop	2,402	1,355	806	2,951
Popcorn	1,667	1,086	405	2,348
Store	1,587	2,104	1,466	2,225
Sunshine	36	311	374	(27)
PTO	14	-	-	14
	<u>9,711</u>	<u>45,253</u>	<u>41,610</u>	<u>13,354</u>
Total Washington School				
Alternative Education				
Lunch	-	3,683	3,503	180
Store	4,430	2,198	2,108	4,520
	<u>4,430</u>	<u>5,881</u>	<u>5,611</u>	<u>4,700</u>
Total Alternative Education				
Total liabilities	<u>\$ 300,953</u>	<u>\$ 862,453</u>	<u>\$ 882,227</u>	<u>\$ 281,179</u>

Concluded



**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***

November 7, 2007

Board of Education
Sault Ste. Marie Area Public Schools
Sault Ste. Marie, Michigan

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of *Sault Ste. Marie Area Public Schools* (the "District") as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 7, 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 the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 affect the District's ability to initiate, authorize, record, prove, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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 District's internal control.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the finance committee, management, others within the organization, the Board of Education, 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.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

SINGLE AUDIT

SAULT STE. MARIE AREA PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	Federal CFDA Number	Project Number	Approved Award/Grant Amount
U.S. Department of Agriculture			
Passed through State of Michigan Department of Education			
Commodities			
Entitlement Commodities	10.550	-	\$ 15,227
Bonus Commodities	10.550	-	110
Total Commodities			15,337
National School Lunch Programs			
National School Lunch - Breakfast	10.553	1970	84,651
National School Lunch Program - All Lunches	10.555	1950	57,391
National School Lunch Program - Free and Reduced	10.555	1960	268,026
Total National School Lunch Programs			410,068
Total - U.S. Department of Agriculture			425,405
U.S. Department of Labor			
Passed through Eastern Upper Peninsula Employment Training Consortium			
WIA - Adult	17.258		23,550
WIA - Dislocated Worker	17.260		975
WIA - Displaced Homemaker	17.260		975
WIA - Youth	17.259		4,265
Total - U.S. Department of Labor			29,765
U.S. Department of Education			
Direct Awards			
Indian Education - LEA 06-07Regular	84.060A	S060A060124	231,675
Indian Education - LEA 05-06Regular	84.060A	B060A050124	239,869
Impact Aid	84.041	S041B-2007-5977	193,372
Impact Aid	84.041	S041B-2004-5977	101,656
Total Direct Awards			766,572
Passed through State of Michigan Department of Education			
Title I			
Title I, Part A - 2007 Regular	84.010	071530 0607	523,206
Title I, Part A - 2006 Regular	84.010	061530 0506	573,545
Title I, Part A - 2006 Regular Carryover	84.010	061530 0506	27,193
Title I, Part A - 2005 Regular Carryover	84.011	051530 0405	116,181
Total Title I			1,240,125
IDEA Part B, Service Provider Self Review	84.027A	060440 SPSR	4,200

Accrued (Deferred) Revenue June 30, 2006	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Current Year Revenue Recognized	Accrued (Deferred) Revenue June 30, 2007
\$ (8,451)	\$ 43,820	\$ 15,227	\$ 20,778	\$ 20,778	\$ (2,900)
(12)	416	110	122	122	-
(8,463)	44,236	15,337	20,900	20,900	(2,900)
-	86,606	84,651	84,651	84,651	-
-	56,510	57,391	57,391	57,391	-
-	258,846	268,026	268,026	268,026	-
-	401,962	410,068	410,068	410,068	-
(8,463)	446,198	425,405	430,968	430,968	(2,900)
-	7,800	23,550	23,550	23,550	-
-	975	975	975	975	-
-	-	975	975	975	-
-	1,950	4,265	4,265	4,265	-
-	10,725	29,765	29,765	29,765	-
-	-	103,467	214,234	214,234	110,767
63,529	239,869	63,529	-	-	-
-	-	193,372	193,372	193,372	-
-	-	101,656	101,656	101,656	-
63,529	239,869	462,024	509,262	509,262	110,767
-	-	284,500	517,963	517,963	233,463
110,598	551,439	110,598	-	-	-
-	-	27,193	27,193	27,193	-
2,102	116,181	2,102	-	-	-
112,700	667,620	424,393	545,156	545,156	233,463
3,100	3,100	3,100	-	-	-

SAULT STE. MARIE AREA PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	Federal CFDA Number	Project Number	Approved Award/Grant Amount
Title V			
Title V, Part A - LEA Allocation	84.298	060250 0506	\$ 9,224
Title V, Part A - LEA Allocation	84.298	070250 0607	587
Total Title V			9,811
Title II			
Title II, Part D - Enhancing Education Through Technology	84.318	064290 0506	10,700
Title II, Part D - Enhancing Education Through Technology	84.318	074290 0607	5,371
Title II, Part A - Improving Teacher Quality	84.367	060520 0506	207,782
Title II, Part A - Improving Teacher Quality	84.367	070520 0607	204,644
Total Title II			428,497
Total Passed Through Michigan Department of Education			1,682,633
Passed through Eastern Upper Peninsula Intermediate School District			
Handicapped Persons Title VI			
Handicapped Persons Title VI - B: Flowthrough	84.027	060450-0506	403,700
Handicapped Persons Title VI - B: Flowthrough	84.027	070450-0607	370,272
Total Handicapped Persons Title VI			773,972
Carl Perkins VEA			
Regional Allocation	84.048	063540-6012-3	110,273
Regional Allocation	84.048a	073540-7012-3	94,636
Total Carl Perkins VEA			204,909
IDEA			
IDEA - Special Education - Preschool Incentive	84.173A	760460-0607	39,967
IDEA - Special Education - Preschool Incentive	84.173A	060460-0506	43,649
Total IDEA			83,616
Carl Perkins Tech Prep			
Carl Perkins Tech Prep	84.243A	063540-6014-3	28,349
Carl Perkins Tech Prep	84.243A	073540-7014-3	25,587
Total Carl Perkins Tech Prep			53,936
Freedom to Learn	84.318		1,750
Medical Assistance Program TIT: Transportation	93.778		8,499
Total Passed through Eastern Upper Peninsula Intermediate School District			1,126,682
Passed through Macomb Intermediate School District			
Michigan's Integrated Behavior and Learning Support Initiative	Unknown		9,000
Total U.S. Department of Education			3,584,887
Total Federal Financial Awards			\$ 4,040,057

Accrued (Deferred) Revenue June 30, 2006	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Current Year Revenue Recognized	Accrued (Deferred) Revenue June 30, 2007
\$ 9,224	\$ 9,224	\$ 9,224	\$ -	\$ -	\$ -
-	-	-	587	587	587
9,224	9,224	9,224	587	587	587
500	10,700	500	-	-	-
-	-	-	5,371	5,371	5,371
40,758	207,782	40,758	-	-	-
-	-	99,250	204,644	204,644	105,394
41,258	218,482	140,508	210,015	210,015	110,765
166,282	898,426	577,225	755,758	755,758	344,815
145,565	403,700	145,565	-	-	-
-	-	246,964	370,272	370,272	123,308
145,565	403,700	392,529	370,272	370,272	123,308
34,998	110,273	34,998	-	-	-
-	-	64,764	94,636	94,636	29,872
34,998	110,273	99,762	94,636	94,636	29,872
-	-	39,967	39,967	39,967	-
10,159	28,389	25,419	15,260	15,260	-
10,159	28,389	65,386	55,227	55,227	-
20,484	28,349	20,484	-	-	-
-	-	16,618	25,587	25,587	8,969
20,484	28,349	37,102	25,587	25,587	8,969
-	-	1,750	1,750	1,750	-
-	-	8,499	8,499	8,499	-
211,206	570,711	605,028	555,971	555,971	162,149
-	-	9,000	2,953	2,953	(6,047)
441,017	1,709,006	1,653,277	1,823,944	1,823,944	611,684
\$ 432,554	\$ 2,165,929	\$ 2,108,447	\$ 2,284,677	\$ 2,284,677	\$ 608,784



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

November 7, 2007

Board of Education
Sault Ste. Marie Area Public Schools
Sault Ste. Marie, Michigan

Compliance

We have audited the compliance of *Sault Ste. Marie Area Public Schools* (the "District") 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. The District's 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 the District's management. Our responsibility is to express an opinion on the District's 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 the District's 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 on the District's compliance with those requirements.

In our opinion, the District 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. However, the results of our auditing procedures disclosed certain instances of non-compliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as finding 2007-1.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's 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, 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 the District's internal control over compliance.

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

A *control deficiency* in the District'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 District'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 District's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-1 to be a significant deficiency.

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. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

This report is intended solely for the information and use of the finance committee, management, the Board of Education, others within the organization, 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.



SAULT STE. MARIE AREA 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 control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to basic financial statements noted?	No

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies(s) identified not considered to be material weaknesses?	Yes
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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Program</u>
84.010	Title I, Part A
10.555	National School Lunch Program
84.027	Title VI – Part B Handicapped Persons

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

Continued...

SAULT STE. MARIE AREA PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS

No financial statement findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 07-01 Time records

Type of Finding: Compliance and internal control over compliance

Applicable to: CFDA #84.010, Department of Education – Title I, Part A

Questioned Costs: None

Criteria: Co-funded employees are required to document their time spent working on Title I as defined in OMB Circular A-87, Attachment B, Item 8h.

Deficiency: The co-funded employees did not have after-the-fact documentation of their time spent working on Title I projects.

Context: The seven co-funded employees had written schedules and semi-annual certifications, however, they did not complete personnel activity reports (PARS) confirming that the schedules were followed or after-the-fact time sheets.

Effect: There was no documentation to support that the schedules prepared were followed as defined by OMB Circular A-87, Attachment B, Item 8h. The District does not have an internal control procedure that ensures co-funded employees complete an after-the-fact documentation of their time.

Recommendation: We recommend that all co-funded employees be required to complete PARS or after-the-fact time sheets on at least a monthly basis to support their time spent working on Title I.

Management's Response: The District's management will require that co-funded employees complete after-the-fact documentation to support time dedicated to Title I, Part A programs which will be reviewed and approved by management.

SAULT STE. MARIE AREA PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

RESPONSE TO PRIOR YEAR FINDINGS

FINDING 06-01

Expenditures of the Food Service fund were appropriated in accordance with the Uniform Budgeting and Accounting Act.

FINDING 06-02

Finding was not resolved; see finding 07-01 above.

* * * * *

ADDITIONAL INFORMATION (UNAUDITED)

SAULT STE. MARIE AREA PUBLIC SCHOOLS

ADDITIONAL INFORMATION (UNAUDITED)

DEBT ISSUES APPLICABLE TO SEC RULE 15c2-12 DISCLOSURES REQUIREMENTS

Debt issues of \$1,000,000 or more sold on or after July 3, 1995 are applicable to SEC rule 15c2-12 disclosure requirements. As of June 30, 2007, the District has the following debt issues that apply to SEC Rule 15c2-12.

- \$12,175,000 Sault Ste Marie Area Public Schools, County of Chippewa, State of Michigan, 1999 School Building and Site Bonds.
- \$7,780,000 Sault Ste. Marie Area Public Schools, County of Chippewa, State of Michigan, 2005 Refunding Bonds.

The following tables are included in the debt issues and are required to be updated annually to comply with the Municipal Securities disclosure requirements of the SEC Rule 15c2-12

A. SCHOOL DISTRICT TAX RATES

<u>Year</u>	<u>Voted Operating*</u>	<u>Debt</u>	<u>Total</u>
2006-07	17.9604	2.1100	20.0704
2005-06	17.9604	2.4600	20.4204
2004-05	17.9604	2.5000	20.4604
2003-04	17.9604	2.6200	20.5804
2002-03	18.0000	2.7500	20.7500
2001-02	18.0000	2.7500	20.7500
2000-01	18.0000	2.7500	20.7500

* Levied on non-homestead property only
Adjusted for Headlee Millage Reduction
Source: Chippewa County Equalization Department and School District

SAULT STE. MARIE AREA PUBLIC SCHOOLS

ADDITIONAL INFORMATION (UNAUDITED)

B. STATE AID PAYMENTS

<u>Fiscal Year Ended 6/30</u>	<u>State Aid Received</u>	<u>Amount Received Per Pupil</u>	<u>Foundation Allowance Per Pupil</u>
2007	\$ 15,719,923	\$ 5,929	\$ 7,085
2006	16,301,566	5,985	6,875
2005	16,307,662	5,770	6,700
2004	17,546,563	6,015	6,700
2003	17,830,335	5,853	6,700
2002	18,518,871	5,969	6,300
2001	17,348,904	5,548	6,000
2000	16,014,992	5,062	5,700

Source: School District and Michigan Department of Education

C. LABOR FORCE

<u>Contract Grouping</u>	<u>Employees</u>						<u>5 Year %Change</u>	<u>Union Affiliation</u>	<u>Contract Expiration Date</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Projected 2007</u>	<u>2008</u>			
Administrators	16	15	14	14	14	13	(13)%	Non-affiliated	6/30/2008
Support Group	16	15	13	13	13	13	(19)%	Non-affiliated	6/30/2007
Teachers	195	191	178	174	165	157	(19)%	SEA/MEA	8/31/2007
Secretaries	22	21	19	18	18	17	(23)%	USWA	6/30/2008
Paraprofessionals	49	41	43	43	42	44	(10)%	USWA	6/30/2008
Maintenance/ Custodial	25	23	23	21	21	21	(16)%	USWA	6/30/2008
Transportation	16	16	16	16	16	16	0%	USWA	6/30/2008
Food Service	29	26	24	21	21	20	(31)%	USWA	6/30/2008
Total Contract Grouping	<u>368</u>	<u>348</u>	<u>330</u>	<u>320</u>	<u>310</u>	<u>301</u>	<u>(16)%</u>		

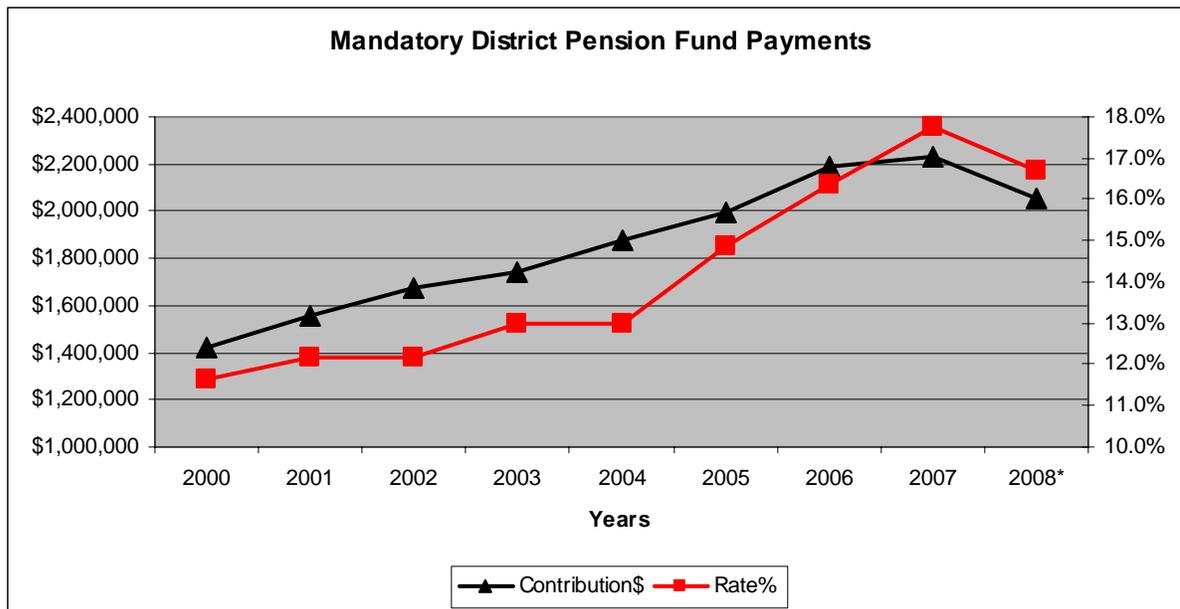
SEA – Sault Education Association
 MEA – Michigan Education Association
 USWA – United Steel Workers of America
 Source: School District

SAULT STE. MARIE AREA PUBLIC SCHOOLS

ADDITIONAL INFORMATION (UNAUDITED)

D. PENSION FUND (MPSERS)

<u>Fiscal Year Ended</u>	<u>Rate</u>	<u>Contribution</u>
2000	11.66%	\$ 1,425,857
2001	12.16%	1,556,173
2002	12.17%	1,672,558
2003	12.99%	1,739,441
2004	12.99%	1,880,440
2005	14.87%	2,044,719
2006	16.34%	2,213,847
2007	17.74%	2,297,512
2008*	16.72%	2,053,780 (*Estimated)



SAULT STE. MARIE AREA PUBLIC SCHOOLS

ADDITIONAL INFORMATION (UNAUDITED)

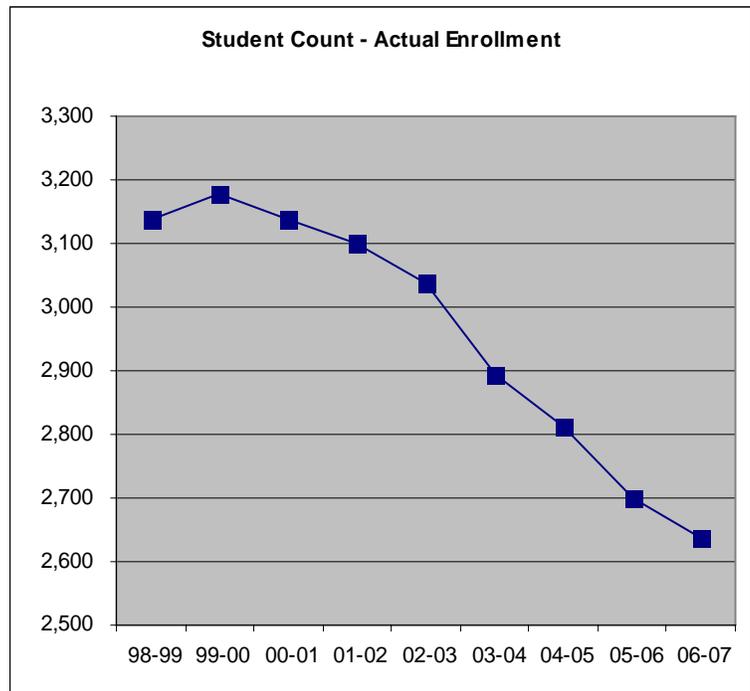
E. DEBT STATEMENT – DIRECT DEBT

<u>Bonds Dated</u>	<u>Description</u>	<u>Contribution</u>
8/1/99	Building and Site, UTQ	\$ 1,130,000
6/1/01	Building and Site, QZAB, LT	999,950
6/1/02	Building and Site, QZAB, LT	600,000
3/1/05	Refunding Bond, UTQ	<u>7,780,000</u>
		<u>\$ 10,509,950</u>

UTQ – Unlimited Tax Qualified
 QZAB – Qualified Zone Academy Bonds
 LT – Limited Tax

F. SCHOOL ENROLLMENT HISTORY

<u>School Year</u>	<u>Enrollment</u>
2006/07	2,639
2005/06	2,699
2004/05	2,814
2003/04	2,893
2002/03	3,039
2001/02	3,101
2000/01	3,138
1999/00	3,177
1998/99	3,139



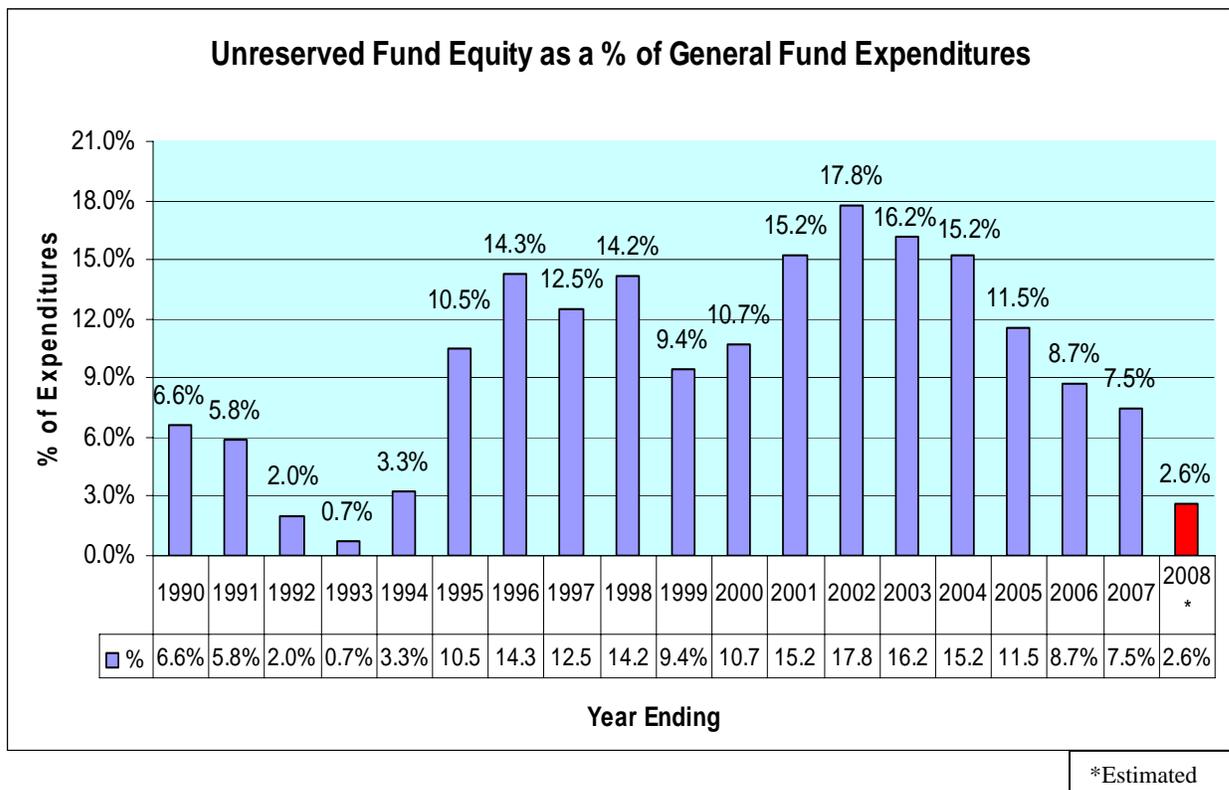
SAULT STE. MARIE AREA PUBLIC SCHOOLS

ADDITIONAL INFORMATION (UNAUDITED)

G. 2006-2007 GENERAL FUND SUMMARY

2006/07 Revenues	\$ 22,577,252
2006/07 Expenditures	<u>(22,879,886)</u>
Excess Revenues Over Expenditures	(302,634)
July 1, 2006 Fund Balance	<u>2,048,972</u>
June 30, 2007 Fund Balance	<u>\$ 1,746,338</u>

H. UNRESERVED FUND EQUITY





REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

November 7, 2007

Superintendent and Members of
the Board of Education
Sault Ste. Marie Area Public Schools
Sault Ste Marie, MI

In planning and performing our audit of the financial statements of *Sault Ste. Marie Area Public Schools* (the "District"), 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 District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. We have reported on the District's internal control in our report dated November 7, 2007. This letter does not affect our report dated November 7, 2007 on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Best wishes for a successful 2007-2008.

Encl.1

SAULT STE. MARIE AREA PUBLIC SCHOOLS

COMMENTS AND RECOMMENDATIONS

JUNE 30, 2007

CASH MANAGEMENT

Through the process of confirming the bank accounts of the District, it was determined that the Sault Ste. Marie Area Public School's PTO has a savings and checking account at National City and is utilizing the District's tax identification number on the those bank accounts. As a separate organization outside the internal control structure or financial reporting requirements of the District, the PTO should establish a bank account using their own tax identification number. We recommend that the District contact the treasurer of the PTO, Judy McGahey, and request that they update the records at the Bank with the proper tax identification number.

We also noted that the McKinley/Washington PTO is using the District's tax identification number on a bank account held at Central Savings Bank. This is also a separate organization outside the internal control structure or financial reporting requirements of the District. The McKinley/Washington PTO should update the bank account using their own tax identification number. We recommend that the District contact the McKinley/Washington PTO and request that they update the records at the Bank with the proper tax identification number.

CASH DISBURSMENTS

We noted some charges on the District's credit card and purchasing cards, as well as other disbursement checks, such as travel reimbursements, were approved by the same individual that initiated the charge. We further noted during our testing of cash disbursements that checks are sometimes released prior to approval to avoid finance charges or late fees or to remit payroll related amounts such as payroll taxes and withholdings, friend of the court payments, etc. on a timely basis. We recommend that all disbursements be approved prior to releasing the check and approved by someone other than the person initiating the expense. We recognize that there are times where recurring utility payments or credit cards payments must be released prior to obtaining approval to avoid late fees and finance charges. We recommend that the District establish a formal policy to authorize checks to be released to specific vendors prior to approval to avoid finance or late charges. The policy must be very limited and a list of checks released prior to approval must be presented to the board for subsequent approval.

DISTRICTS CREDIT CARD AND PURCHASING CARDS

We noted during our audit procedures that the District has one credit card that is used solely by the Superintendent. Although, we noted that the charges appeared appropriate, no formal written approvals are generally obtained unless the expense is for out of state travel. It is good practice to always have approvals on all purchases; therefore, we recommend that a designated person is assigned the responsibility to approve all charges on the Superintendents monthly credit card statement.

SAULT STE. MARIE AREA PUBLIC SCHOOLS

COMMENTS AND RECOMMENDATIONS

JUNE 30, 2007

DISTRICTS CREDIT CARD AND PURCHASING CARDS (Continued)

We also noted that the District is utilizing a Purchasing Card Program that is intended to streamline the purchasing function. There are currently approximately fifty employees of the District that have a purchasing card. Each individual is responsible for all charges that are incurred. We noted approvals for all charges were not always obtained; however, we were informed that inquiries were made for any questionable charge to determine the expensed is an appropriate expense of the District. We recommend that a Principal, Superintendent or the Business Manager, sign off on all charges. Due to the number of cards issued to employees, we also recommend that at least on an annual basis, a listing of employees and their positions with the District for those who hold a purchasing card is provided to the board to approve. This additional oversight will assist in determining all cards upon termination of employment are obtained and deactivated.

EXPENDITURES – COMPLIANCE WITH STATE OF MICHIGAN REGULATIONS

In order to keep the District's management informed regarding State of Michigan regulations, we present below a list of examples of illegal or unauthorized expenditures as defined in the Bulletin for Audits of Local Units of Government in Michigan as revised (Appendix H). We recommend that the District's management become familiar with this list in order to prevent the potential for illegal or unauthorized expenditures of the District's funds.

- Contributions to churches, veterans, nonprofit organizations.
- Payment of funeral expenses for a person injured on government property.
- Donations to a private ambulance or EMS service not under contract with the governmental unit.
- Donations, including use of property or equipment to Little League, Scouts, Big Brothers/Sisters.
- Donations to community organizations.
- Expenses for private road constructions or maintenance.
- Office refreshments, picnics.
- Presents to officials and employees or retirement recognition events.
- Flowers to the sick or departed.
- Mileage of officials and employees to and from their residence to the City Hall.
- Extra compensation for summer tax collections unless part of the initial salary resolution or authorized with statutory procedures for an increase in salary.
- Extra compensation for special elections unless part of initial salary resolution or authorized under statutory procedures for an increase in salary.

SAULT STE. MARIE AREA PUBLIC SCHOOLS

COMMENTS AND RECOMMENDATIONS

JUNE 30, 2007

GASB 34 FUND

Governmental Accounting Standards Board (GASB) Statement No. 34 required governmental entities, such as schools, to present certain information in District-wide financial statements. The District successfully implemented GASB 34 for its year ending June 30, 2003. A separate fund is to be setup in order to account for GASB 34 requirements. However, the District currently does not have this fund set up on its trial balance. We noted per Sault Ste Marie Area Public Schools Bylaws and Policies, that it is the policy of the Board of Education that a chart of accounts be established in accordance with the requirements of the State Department of Education for the accounting of all District funds. While the State of Michigan does not yet require the GASB 34 fund to be included in the District's accounting records, we recommend that the District create this fund on its trial balance and adjust it annually.

FIDUCIARY FUNDS

The District uses the general ledger account, Due to other organizations, to account for the balance and transactions in three fundraising groups. The groups are Science Park, SCAT and Soccer. The District is processing checks, with District signatures and accepting deposits. Because the District is acting in a fiduciary capacity for these groups, we recommend that the cash should be moved to the Fiduciary Fund and the activity should be processed in this fund.

FOOD SERVICE DEPOSITS

We noted that the District collects money for food services at each building. For the buildings that deposit the funds into their agency bank account, a split deposit should be recorded so that the portion of the deposit pertaining to the various activities such as food service can be easily identified. In addition, these deposits should be made as soon as reasonably possible, but not longer than two business days of collecting the funds. This will allow for better cash management of decentralized operations and an enhanced system of accounting for money in funds that also receive grant proceeds.

CONCLUSION

It has been a pleasure to provide audit services to *Sault Ste. Marie Area Public Schools*. Management was prepared for the audit, providing us with a reasonably adjusted trial balance and all supporting documents requested. Thank you for providing all requested information.

We appreciate your business! Thank you.