

RUDYARD AREA SCHOOLS

RUDYARD, MICHIGAN

JUNE 30, 2007

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2007

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August 9, 2007

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Rudyard Area Schools
Rudyard, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Rudyard Area Schools, Rudyard, Michigan, 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 Rudyard Area Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2007, on our consideration of Rudyard Area Schools' internal control over financial reporting and on 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 that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through xii and 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rudyard Area Schools, Rudyard, Michigan basic financial statements. The combining and individual fund financial statements and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Rudyard Area Schools, a pre-K-12 School District located in Mackinaw and Chippewa Counties, Michigan, has implemented the provisions of Government Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Rudyard Area Schools Management's discussion and analysis of the financial results for the fiscal year ended June 30, 2007.

Generally Accepted Accounting Principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

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

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the 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, Capital Projects, and the School Service Funds.

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

District-Wide Financial Statements:

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

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Summary of Net Assets:

The following summarizes the net assets at fiscal years ended June 30:

Assets	<u>2007</u>	<u>2006</u>
Current Assets	\$ 4,427,862	\$ 4,066,924
Capital Assets	16,948,588	16,850,055
Less Accumulated Depreciation	<u>(10,236,254)</u>	<u>(9,743,222)</u>
Capital Assets, Net Book Value	<u>6,712,334</u>	<u>7,106,833</u>
Total Assets	<u>\$ 11,140,196</u>	<u>\$ 11,173,757</u>
Liabilities		
Current Liabilities	3,106,854	2,584,891
Non Current Liabilities	<u>5,409,519</u>	<u>5,512,804</u>
Total Liabilities	<u>8,516,373</u>	<u>8,097,695</u>
Net Assets		
Invested in capital assets, net of related debt	1,393,764	1,582,583
Restricted for Debt Service	582,067	644,101
Unrestricted	<u>647,992</u>	<u>849,378</u>
Total Net Assets	<u>\$ 2,623,823</u>	<u>\$ 3,076,062</u>

Analysis of Financial Position:

During fiscal year ended June 30, 2007, the District's net assets decreased by \$(452,239). A few of the significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

For fiscal year ended June 30, 2007, the depreciation expense was \$512,832.

Depreciation expense is calculated on a straight-line basis over the estimated useful lives of assets. In accordance with generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset less an estimated salvage value.

2. Capital Outlay Acquisitions

Actual capital acquisitions for fiscal year ended June 30, 2007 were \$118,333.

Since accumulated depreciation is based on original cost, it does not take into consideration inflation.

3. Debt, Principal Payments

The District made principal payments on bonded, long-term debt obligations and notes payable that reduced the amount of the District's long-term liabilities as follows:

	Balance 6/30/2006	New Borrowings	Principal Payments	Balance 6/30/2007
Bonds Payable	\$ 5,507,366	\$ 0	\$ 200,000	\$ 5,307,366
Notes Payable	16,884	0	5,680	11,204
	<u>\$ 5,524,250</u>	<u>\$ 0</u>	<u>\$ 205,680</u>	<u>\$ 5,318,570</u>

Additionally, long-term accrued expenses for sick pay were increased by \$99,954 during the year.

Results of Operations:

For the fiscal years ended June 30, the District-wide results of operations were:

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
General Revenues				
Property Taxes Levied for General Operations	\$ 765,634	7.19%	\$ 746,749	7.17%
State of Michigan Aid - All Sources	6,393,379	60.04%	6,455,333	61.95%
Property Taxes Levied for Debt Services	362,869	3.41%	344,717	3.31%
Other - Federal, State and Local	744,843	7.00%	705,082	6.77%
Other - Investment Earnings, Fees	99,144	0.93%	78,957	0.75%
Total General Revenue	8,365,869	78.57%	8,330,838	79.95%
Program Revenues				
Charges for Services - Local	243,278	2.29%	213,697	2.05%
Operating Grants - Federal and State	2,038,301	19.14%	1,875,661	18.00%
Total Program Revenues	2,281,579	21.43%	2,089,358	20.05%
Total Revenues	\$ 10,647,448	100.00%	\$ 10,420,196	100.00%
Expenses				
Instruction and Instructional Support	\$ 6,166,501	55.56%	\$ 6,034,764	55.11%
Supporting Services	3,461,139	31.18%	3,220,612	29.41%
Public Library	84,159	0.76%	71,143	0.65%
Food Services	416,681	3.75%	400,385	3.66%
Athletic Activities	208,656	1.88%	193,716	1.77%
Interest and Fiscal Charges	245,971	2.22%	260,717	2.38%
Depreciation (Unallocated)	512,832	4.62%	550,356	5.03%
Other Transactions	3,748	0.03%	218,009	1.99%
Total Expenses	11,099,687	100.00%	10,949,702	100.00%
Decrease in Net Assets	\$ (452,239)		\$ (529,506)	

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

1. Property Taxes levied for General Operations (General Fund Property Taxes)

The District levies 16.495 mills of property taxes for operations (General Fund) on non-homestead properties. Under Michigan law, the tax levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5%, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50% of the market value.

The District's non-homestead property tax levy for the 2006–2007 fiscal year was \$765,634. The amount of unpaid personal property taxes at fiscal year end June 30, 2007 was \$44,295.

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

<u>Fiscal Year</u>	<u>Non- Homestead Tax Levy</u>	<u>% Increase (Decrease) from Prior Year</u>
2006 - 2007	\$ 765,634	2.47
2005 - 2006	746,749	5.52
2004 - 2005	707,649	2.21
2003 - 2004	692,395	7.09

2. State of Michigan Aid, Unrestricted

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

- a. State of Michigan Aid Act per student foundation allowance
- b. Student Enrollment – Blended fall count and prior year winter count over the past three years using a weighted average
- c. The District's non-homestead levy

Per Student, Foundation Allowance:

Annually, the State of Michigan sets the per student foundation allowance. The Rudyard Area Schools foundation allowance was \$7,085 per student for the 2006–2007 school year. This was a \$210 increase over the district's 2005–2006 foundation allowance per student of \$6,875.

Student Enrollment:

The District's student enrollment for the fall count of 2006-2007 was 956.56 students. The District's enrollments have gradually declined in the past five years. The following summarizes fall student enrollments in the past five years:

RUDYARD AREA SCHOOLS
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MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

	Student FTE	FTE Change From Prior Year
2006-2007	956.56	(19.87)
2005-2006	976.43	(26.41)
2004-2005	1,002.84	(91.18)
2003-2004	1,067.64	(28.05)
2002-2003	1,090.00	(2.55)

3. 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 properties: homestead and non-homestead.

For 2006-2007, the District's debt millage levy was 3.70 mills which generated a levy of \$364,161. As of June 30, 2007, \$11,279 of debt service personal property taxes were not paid to the District.

4. Food Service Operations:

The District's food and milk sales to students and adults increased by approximately \$7,736 to \$131,998 from the prior school year, due to a addition of a healthy vending machine.

Total expenditures from food service operations exceeded total revenues for the year by \$8,906.

We still utilize the Direct Certification process offer through the Michigan Department of Education. Direct certification is a process where any student receiving food stamp assistance is automatically marked free in our food service system and the parents do not have to complete a free or reduced application unless their situation changes. A letter is sent home to the parents stating that their student has been direct certified for free breakfast and lunch.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

General Fund Expenditures Budget Vs. Actual 5-Year History

Fiscal Year	Expenditures Original Budget	Expenditures Final Budget	Expenditures Final Actual	Variance Actual & Original Budget	Variance Actual & Final Budget
2002-2003	\$ 8,150,761	\$ 9,326,725	\$ 9,153,259	(12.30) %	1.86 %
2003-2004	9,514,314	9,695,710	9,897,089	(4.02) %	(2.08) %
2004-2005	9,121,444	10,123,704	10,749,679	(17.85) %	(6.19) %
2005-2006	9,296,681	9,687,625	9,514,389	(2.34) %	1.79 %
2006-2007	9,630,471	9,637,382	9,618,489	0.12 %	(2.61) %
	Five Year Average (Over) Under Budget			(7.28) %	(1.45) %

General Fund Revenue Budget Vs. Actual 5-Year History

Fiscal Year	Revenues Original Budget	Revenues Final Budget	Revenues Final Actual	Revenues Variance Actual & Original Budget	Revenues Variance Actual & Final Budget
2002-2003	\$ 7,944,517	\$ 9,870,116	\$ 9,714,443	22.28 %	(1.57) %
2003-2004	9,393,444	9,726,009	9,754,996	3.85 %	0.29 %
2004-2005	9,443,138	9,870,995	10,029,455	6.21 %	1.61 %
2005-2006	9,277,956	9,759,346	9,532,733	2.67 %	(2.32) %
2006-2007	9,598,205	9,545,014	9,744,348	1.50 %	2.05 %
	Five Year Average Over (Under) Budget			7.30 %	0.01 %

Original vs. Final Budget:

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

As a matter of practice, Rudyard Area Schools amends its budget quarterly during the school year. For the fiscal year 2006-2007, the budget was amended in August 2006, February 2007 and June 2007. The June 2007 budget amendment was the final budget for the fiscal year. As a general rule, the Rudyard Area Schools Board does not budget for expenditures covered by grants or for the grant revenue until an award is received. The General Fund does not budget for capital outlays in the original budget.

General Fund Revenues, Change from Original to Final Budget:

General Fund Revenues

Total Revenues Original Budget	\$ 9,598,205	100.00 %
Total Revenues Final Budget	<u>9,545,014</u>	<u>99.45 %</u>
Decrease in Budgeted Revenues	<u>\$ 53,191</u>	<u>0.55 %</u>

The District's original General Fund revenues differed from final budget by \$53,191, a variance of .55%.

General Fund Expenditures, Change from Original to Final Budget:

General Fund Expenditures:

Total Expenditures Original Budget	\$ 9,630,471	100.00 %
Total Expenditures Final Budget	<u>9,367,382</u>	<u>97.27 %</u>
Decrease in Budgeted Expenditures	<u>\$ 263,089</u>	<u>2.73 %</u>

The District's original General Fund expenditures differed from final budget by \$263,089, a variance of 2.73%.

Factors bearing on the District's Future:

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

- Rudyard Area Schools had a loss of 20 students for the February 2007 student count. Over the past five years Rudyard had an accumulative loss of 168 students. This loss resulted in the closing of RJ Wallis Elementary for the beginning of 2007/2008

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

- Rudyard Area Schools Foundation Allowance increased by \$210 per student for the 2006-2007 school years.
- Rudyard Area Schools has also acquired a new Rural Health Grant which will allow medical treatment for staff and students located in the Rudyard High School/ Middle School Building.
- After many hours of meetings and discussions between the board, staff and public a decision was made on April 16, 2007, by the Board of Education, to close R.J. Wallis Elementary School. The school, located in Kinross, had an enrollment of 240.50 students (as of Feb 14, 2007).

Enrollment in RAS as of Feb 2, 2007 was as follows:

R.J. Wallis Elementary	240.50	Turner Howson	201.43
Middle School	224.00	High School	288.49
Total Enrollment	954.42		

As a result of the closure of a school building the Turner Howson Elementary School building will have grades K-2, the Middle School complex will hold grades 3-8, and the High School will remain at grades 9-12.

The building closure has resulted in the lay-off and/or reassignment of the following positions for the 2007-08 school year:

1 Nurse	4 Teacher Aides
1 Teacher	1 Teacher from full time to part time
1 Cook	1 Dishwasher
1 Custodian	1 Computer Liaison
½ Maintenance - reassigned to ½ Maintenance and ½ Custodian	
1 Principal eliminated/reassigned to a classroom teaching position	

Reduced 2 % funding has resulted in 1 teacher reduced from full time to part time for the 2007-08 school year.

A new grant written by the EUPISD in collaboration with Brimley and Rudyard Area Schools has resulted in a Rural Health Grant. This grant will pay for a nurse and a clerical position for 2-3 days per week. The nurse will be in Rudyard 2 days one week and Brimley 3 days with the following week switched to 3 days in Rudyard and 2 in Brimley.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

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 Administration Office, Rudyard Area Schools.

RUDYARD AREA SCHOOLS

RUDYARD, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2007

ASSETS

CURRENT ASSETS

Cash	\$ 948,695
Taxes Receivable	44,295
Accounts Receivable	1,790,773
Inventories	50,389
Prepaid Expenses	265,657
Investments	1,328,053
Total Current Assets	<u>4,427,862</u>

NON CURRENT ASSETS

Capital Assets	16,948,588
Less Accumulated Depreciation	<u>(10,236,254)</u>
Total Non Current Assets	<u>6,712,334</u>

TOTAL ASSETS

\$ 11,140,196

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 128,994
State Aid Anticipation Note Payable	1,500,000
Accrued Interest Payable	41,625
Accrued Expenses	145,274
Salaries and Fringes Payable	974,534
Deferred Revenue	85,972
Current Portion of Non Current Liabilities	<u>230,455</u>
Total Current Liabilities	<u>3,106,854</u>

NON CURRENT LIABILITIES

Bonds Payable	5,307,366
Note Payable	11,204
Compensated Absences	321,404
Less Current Portion of Non Current Liabilities	<u>(230,455)</u>
Total Non Current Liabilities	<u>5,409,519</u>

Total Liabilities

8,516,373

NET ASSETS

Invested in Capital Assets Net of Related Debt	1,393,764
Restricted for Debt Service	582,067
Unrestricted	647,992
Total Net Assets	<u>2,623,823</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 11,140,196

The notes to the financial statements are an integral part of this statement.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>				
Instruction				
Basic Programs	\$ 4,962,183	\$ 29,317	\$ 816,006	\$ (4,116,860)
Added Needs	1,204,318	0	856,802	(347,516)
Supporting Services				
Pupil	245,763	0		(245,763)
Instructional Staff	285,457	0	88,249	(197,208)
General Administration	202,036	0	0	(202,036)
School Administration	635,850	0	0	(635,850)
Business	283,256	0	0	(283,256)
Operation and Maintenance of Plant	929,920	39,584	3,522	(886,814)
Pupil Transportation Services	559,168	0	0	(559,168)
Central	6,990	0	0	(6,990)
Other Supporting Services	312,699	0	0	(312,699)
Public Library	84,159	7,377	0	(76,782)
Food Service	416,681	131,998	273,722	(10,961)
Athletic Activities	208,656	35,002	0	(173,654)
Interest and Fiscal Charges	245,971	0	0	(245,971)
Other Transactions	3,748	0	0	(3,748)
Unallocated Depreciation	512,832	0	0	(512,832)
Total Governmental Activities	<u>\$11,099,687</u>	<u>\$ 243,278</u>	<u>\$ 2,038,301</u>	<u>(8,818,108)</u>
 <u>GENERAL REVENUES</u>				
Property Taxes - General Purposes				765,634
Property Taxes - Debt Service				362,869
Investment Earnings				99,144
State Sources				6,393,379
Other				744,843
Total General Revenues				<u>8,365,869</u>
Change in Net Assets				(452,239)
<u>NET ASSETS</u> - Beginning of Year				<u>3,076,062</u>
<u>NET ASSETS</u> - End of Year				<u>\$ 2,623,823</u>

The notes to the financial statements are an integral part of this statement.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2007

	<u>GENERAL</u> <u>FUND</u>	<u>OTHER</u> <u>NONMAJOR</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>	<u>TOTAL</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>
<u>ASSETS</u>			
Cash	\$ 315,756	\$ 632,939	\$ 948,695
Taxes Receivable	33,016	11,279	44,295
Accounts Receivable	1,680,711	110,062	1,790,773
Due from Other Funds	74,480	7,096	81,576
Inventories	43,553	6,836	50,389
Prepaid Expenditures	265,657	0	265,657
Investments	1,328,053	0	1,328,053
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$ 3,741,226	\$ 768,212	\$ 4,509,438
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 128,994	\$ 0	\$ 128,994
State Aid Anticipated Note Payable	1,500,000	0	1,500,000
Accrued Expenses	145,274	0	145,274
Salaries and Fringes Payable	952,247	22,287	974,534
Due to Other Funds	7,096	74,480	81,576
Deferred Revenue	117,640	11,104	128,744
	<hr/>	<hr/>	<hr/>
Total Liabilities	2,851,251	107,871	2,959,122
<u>FUND BALANCES</u>			
Reserved for Inventories	43,553	6,836	50,389
Reserved for Prepaid Expenditures	265,657	0	265,657
Reserved for Debt Service	0	612,286	612,286
Unreserved, Designated for			
Forestry	88,735	0	88,735
Capital Outlay	99,028	7,850	106,878
Public Library	0	50,133	50,133
Unreserved, Undesignated - (Deficit)	393,002	(16,764)	376,238
	<hr/>	<hr/>	<hr/>
Total Fund Balances	889,975	660,341	1,550,316
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,741,226	\$ 768,212	\$ 4,509,438

The notes to the financial statements are an integral part of this statement.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO
STATEMENT OF NET ASSETS

JUNE 30, 2007

Total Governmental Fund Balances		\$ 1,550,316
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 are not reported in the funds		
The cost of the capital assets is	16,948,588	
Accumulated depreciation is	<u>(10,236,254)</u>	6,712,334
Long term liabilities are not due and payable in the current period and are not reported in the funds		
Bonds Payable		(5,307,366)
Note Payable		(11,204)
Compensated Absences		(321,404)
Balance of taxes receivable at June 30, 2007, expected to be collected after September 1, 2007		42,772
Accrued interest on long-term debt is not included as a liability in government funds, it is recorded when paid		<u>(41,625)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 2,623,823</u>

The notes to the financial statements are an integral part of this statement.

RUDYARD AREA SCHOOLS

RUDYARD, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2007

	GENERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>			
Local Sources	\$ 1,012,467	\$ 632,402	\$ 1,644,869
Revenues Received Through Another Non-Educational Entity	16,684	0	16,684
State Sources	6,787,292	21,925	6,809,217
Federal Sources	1,927,905	249,797	2,177,702
Total Revenues	<u>9,744,348</u>	<u>904,124</u>	<u>10,648,472</u>
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	4,872,421	0	4,872,421
Added Needs			
Special Education	485,122	0	485,122
Compensatory Education	720,735	0	720,735
Supporting Services			
Pupil	245,763	0	245,763
Instructional Staff	290,665	0	290,665
General Administration	202,036	0	202,036
School Administration	634,238	0	634,238
Business	284,375	0	284,375
Operation and Maintenance of Plant	943,372	0	943,372
Pupil Transportation Services	621,267	0	621,267
Central	6,990	0	6,990
Other Supporting Services	311,505	0	311,505
Public Library	0	84,159	84,159
Food Service	0	416,338	416,338
Athletic Activities	0	208,656	208,656
Capital Outlay	0	36,375	36,375
Debt Service			
Principal and Interest	0	447,106	447,106
Total Expenditures	<u>9,618,489</u>	<u>1,192,634</u>	<u>10,811,123</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>125,859</u>	<u>(288,510)</u>	<u>(162,651)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	0	266,375	266,375
Transfers Out	(266,375)	0	(266,375)
Total Other Financing Sources (Uses)	<u>(266,375)</u>	<u>266,375</u>	<u>0</u>
Net Change in Fund Balance	(140,516)	(22,135)	(162,651)
<u>FUND BALANCE</u> - Beginning of Year	<u>1,030,491</u>	<u>682,476</u>	<u>1,712,967</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 889,975</u>	<u>\$ 660,341</u>	<u>1,550,316</u>

The notes to the financial statements are an integral part of this statement.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

Net change in Fund Balances Total Governmental Funds \$ (162,651)

Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities.
These costs are allocated over their estimated useful lives as depreciation.

Assets Capitalized	118,333	
Depreciation Expense	<u>(512,832)</u>	(394,499)

Accrued interest on bonds is recorded in the statement of activities when incurred;
it is not recorded in governmental funds until it is paid:

Accrued Interest Payable - Beginning of Year	41,834
Accrued Interest Payable - End of Year	(41,625)

Repayments of principal on long-term debt is an expenditure in the governmental
funds, but not in the statement of activities (where it is a reduction of liabilities) 205,680

Revenue is recorded on the accrual method in the statement of activities; in the
governmental funds it is recorded on the modified accrual method and not
considered available.

Deferred Revenue - Earned But Unavailable - Beginning of Year	(43,796)
Deferred Revenue - Earned But Unavailable - End of Year	42,772

Employees Early Retirement and Compensated Absences are reported on the
accrual method in the statement of activities, and recorded as an expenditure
when financial resources are used in the governmental funds:

Early Retirement - Beginning of Year	6,000
Compensated Absences - Beginning of Year	215,450
Compensated Absences - End of Year	<u>(321,404)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (452,239)

The notes to the financial statements are an integral part of this statement.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	<u>Agency Fund - Student Activities</u>	<u>Private Purpose Trust Funds</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 90,636	\$ 38,813
Investments	0	52,696
Due from Private Purpose Trust	28,000	0
	<hr/>	<hr/>
Total Assets	\$ 118,636	\$ 91,509
	<hr/> <hr/>	<hr/> <hr/>
<u>LIABILITIES</u>		
Due to Clubs and Organizations	\$ 118,636	\$ 28,000
<u>NET ASSETS</u>		
Reserved for Scholarships	0	63,509
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 118,636	\$ 91,509
	<hr/> <hr/>	<hr/> <hr/>

The notes to the financial statements are an integral part of this statement.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>	
Income	\$ 3,484
<u>DEDUCTIONS:</u>	
Scholarship Payments	<u>0</u>
Net Increase (Decrease)	3,484
<u>Net Assets - Beginning of Year</u>	<u>88,025</u>
<u>Net Assets - End of Year</u>	<u><u>\$ 91,509</u></u>

The notes to the financial statements are an integral part of this statement.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The School District is located in Mackinaw and Chippewa Counties with its administrative offices located in Rudyard, Michigan. The District operates under an elected seven-member board of education and provides services to its 1,010 students in elementary, middle school, high school and special education instruction, guidance, health, transportation, food service, athletics and recreation. As required by generally accepted accounting principles, these financial statements present the School District and its component units, entities for which the School is considered to be financially accountable. There are no component units to be included in the District's reporting entity.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services 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. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

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

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

The District reports the following **major** governmental fund:

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

Other Non-major Funds

The *SPECIAL REVENUE FUNDS* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects).

The *DEBT SERVICE FUND* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *CAPITAL PROJECTS FUNDS* are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Funds

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

The *AGENCY FUND* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

The *PRIVATE PURPOSE TRUST FUND* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where the principal is considered to be either expendable or non-expendable and the earnings may be spent. These funds are not reported on the District financial statements as they are not used to support District operations or programs.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. 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.

Modified Accrual Method

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 District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

foundation allowance was based on pupil membership counts taken in February and September of 2006. For fiscal year ended June 30, 2007, the per pupil foundation allowance was \$7,085 for Rudyard Area Schools.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as accounts receivable.

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

D. Assets, Liabilities and Equity

1. Cash and Investments

Cash includes amounts in demand deposits.

Investments are carried at market value.

The School's Investment Policy authorizes the School District to invest in funds as follows:

- (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.
- (b) Certificates of deposit issued by financial institutions which means a state or nationally-chartered bank or a state or federally-chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office in Michigan under Michigan and Federal laws.
- (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.
- (e) United States government or federal agency obligation repurchase agreements.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

- (f) Bankers' acceptances issued by a bank that is a member of the federal deposit insurance corporation.
- (g) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (h) Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

The above Investment Policy is in compliance with State Statutes.

The School's deposits and investments are held separately by several of the School District's funds.

2. Short-Term Interfund Receivables/Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. Property taxes are assessed as of January 1 and billed and due December 1. Unpaid taxes become delinquent as of February 14th and are subject to penalties and interest after that date.

For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund – Non-homestead	16.495
1999 Debt Service Fund – Homestead and Non-homestead	3.7000

4. Inventories and Prepaid Expenditures

Inventories are valued at cost. The General Fund inventories consist of supplies. The food service inventories are food products held for consumption. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

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. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

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

Buildings and Improvements	5-50 years
Furniture and Fixtures	5-25 years
Machinery and Equipment	3-36 years
Vehicles and Other	3-15 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000, as well as all technology assets.

6. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused sick pay benefits. The amount allowable to be compensated for depends on the position and the longevity of the individual employee. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Deferred Revenue

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

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. 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 issuance and issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other financing uses. The District has opted to apply the provisions of GASB 34 paragraph 146 which allows the amortization of premiums, discounts and bond issuance costs to be applied prospectively for all bonds issued after July 1, 2002.

9. Fund Balance

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of net current assets does not constitute "available spendable resources". The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

10. Use of Estimates

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

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

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

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) lapse at year-end and do not constitute expenditures or liabilities because the commitments will generally be reappropriated and honored during the subsequent year.

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

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

1. In June, the superintendent submits to the school board a proposed operating budget for the fiscal year commencing on July 1.
2. A public hearing is conducted during June to obtain taxpayer comments.
3. Prior to June 30, the budgets are legally enacted through passage of a resolution.
4. All transfers of budget amounts and any amendments to the formal appropriation act are approved by the Board of Education.
5. The superintendent is charged with general supervision of the budgets.
6. During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
7. Budgeted amounts are as originally adopted on June 19, 2006, or as amended by the School Board of Education on August 11, 2006, February 21, 2007, and June 27, 2007.

B. Excess of Expenditures Over Appropriations

Excess of expenditures over appropriations occurred in the following funds:

School Service Funds – Public Library expenditures of \$84,159 exceeded appropriations of \$83,694 by \$465. Food Service expenditures of \$416,338 exceeded appropriations of \$381,433 by \$34,905. Athletic Fund expenditures of \$208,656 exceeded appropriations of \$207,597 by \$1,059. General Fund expenditures of \$9,618,489 exceeded appropriations of \$9,367,382 by \$251,107. These over expenditures were funded by available fund balance.

(3) DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The District's deposits and investments are all on deposit with Central State Bank and Michigan School District Liquid Asset Fund Plus.

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

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

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Credit risk. The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in Section 3 of the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

Concentration of credit risk. The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2007, \$560,691 of the government's bank balance of \$869,172 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year end all of the District's investments were uncategorized as to risk.

Investments

The District invests certain excess funds in the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports that as of June 30, 2007, the fair value of the District's investments is the same as the value of the pool shares.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Balance sheet classifications:

	Statement of Net Assets	Statement of Fiduciary Assets	Total
Cash	\$ 948,695	\$ 129,449	\$ 1,078,144
Investments	1,328,053	52,696	1,380,749
	<u>\$ 2,276,748</u>	<u>\$ 182,145</u>	<u>\$ 2,458,893</u>

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor Funds	Total
Receivables			
Taxes	\$ 33,016	\$ 11,279	\$ 44,295
Accounts Receivable	1,680,711	110,062	1,790,773
Total Receivables	<u>\$ 1,713,727</u>	<u>\$ 121,341</u>	<u>\$ 1,835,068</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent Property Taxes Receivable (General Fund)	\$ 31,668	\$ 0
Delinquent Property Taxes Receivable (Debt Service Funds)	11,104	0
Grants Receipts Received, But Not Yet Utilized	0	85,972
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$ 42,772</u>	<u>\$ 85,972</u>

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

C. Interfund Receivables, Payables and Transfers

Interfund receivables and payables at June 30, 2007, were as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 74,480	\$ 7,096
School Services		
Food Service	0	31,403
Athletic Activities	0	13,756
Library	0	19,653
Debt Retirement		
1989 Debt Service	0	5,177
1999 Debt Service	7,096	0
Capital Project Funds		
Building and Site	0	4,491
	\$ 81,576	\$ 81,576

The outstanding balances between funds result mainly 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.

	Transfer In:			
	General Fund	Building and Site Fund	Athletic Fund	Total
Transfers Out:				
General Fund	\$ 0	\$ 36,375	\$ 230,000	\$ 266,375
Building and Site Fund	0	0	0	0
Athletic Fund	0	0	0	0
Total	\$ 0	\$ 36,375	\$ 230,000	\$ 266,375

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

D. Lease Information

Operating Leases – During the year, the school leased various equipment. The rent expense was \$27,442 for the year ending June 30, 2007. The rent expense was all minimum rental payments with no contingent rentals being paid. Also, on April 1, 2002, the school entered into a five-year lease agreement for office copiers. This lease was paid in full in March 2007. There are no other operating leases as of June 30, 2007.

Capital Leases – The School District has entered into a lease agreement as lessee for financing the acquisition of a new tractor. A \$1 purchase option exists at the end of the lease. This lease qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The tractor acquired through this lease has been capitalized, at a cost of \$27,360.

Asset	\$ 27,360
Less Accumulated Depreciation	<u>(5,472)</u>
Total	<u><u>\$ 21,888</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2007, were as follows:

2008	\$ 6,061
2009	<u>6,060</u>
Total minimum lease payments	\$ 12,121
Less amount representing interest	<u>(917)</u>
Present value of minimum lease payments	<u><u>\$ 11,204</u></u>

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

E. Capital Assets

A summary of changes in the District's capital assets follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Assets not being depreciated - Land	\$ 1,369	\$ 0	\$ 0	\$ 1,369
Other capital assets				
Land improvements	134,173	0	0	134,173
Buildings and improvements	12,973,231	0	0	12,973,231
Machinery and equipment	2,357,070	8,228	19,800	2,345,498
Furniture and fixtures	412,094	15,754	0	427,848
Transportation equipment and Other	972,118	94,351	0	1,066,469
Subtotal	16,848,686	118,333	19,800	16,947,219
Less accumulated depreciation				
Land improvements	26,328	6,709	0	33,037
Buildings and improvements	7,015,965	245,459	0	7,261,424
Machinery and equipment	1,763,266	170,745	19,800	1,914,211
Furniture and fixtures	168,483	30,790	0	199,273
Transportation equipment and Other	769,180	59,129	0	828,309
Total Accumulated Depreciation	9,743,222	512,832	19,800	10,236,254
Capital assets being depreciated	7,105,464	(394,499)	0	6,710,965
Total capital assets	\$ 7,106,833	\$(394,499)	\$ 0	\$ 6,712,334

Depreciation for the fiscal year ended June 30, 2007 amounted to \$512,832. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

F. Long-Term Debt

The following is a summary of the Long-Term Debt transactions for the School District for the year ended June 30, 2007:

	BONDS PAYABLE	SELF LIQUIDATING SERIAL BONDS	ACCRUED EXPENSES	NOTES	TOTAL
Long-Term Debt at July 1, 2006	\$ 5,455,000	\$ 52,366	\$ 221,450	\$ 16,884	5,745,700
Increase (Decrease) in Accrued Expenses	0	0	99,954	0	99,954
New Debt Incurred	0	0	0	0	0
Debt Retired	(200,000)	0	0	(5,680)	(205,680)
 LONG-TERM DEBT AT JUNE 30, 2007	 \$ 5,255,000	 \$ 52,366	 \$ 321,404	 \$ 11,204	 5,639,974

At June 30, 2007, the School's Long-Term Debt consisted of the following:

Series 1998 Durant Bonds *

Rudyard Area Schools elected to bond and received a lump sum amount of \$83,850. Annual installments are due in varying amounts between \$5,888 and \$39,562 through May 15, 2013, including interest at 3.431% per annum. \$ 52,366

General Obligation - Unlimited Tax Bonds

1999 School Building and Site Bonds due in annual installments of \$225,000 to \$430,000 through May 1, 2021, with interest varying from 4.20% to 4.65% per annum. 5,255,000

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Other Long-Term Debt

\$27,360 capital lease for New Holland Tractor. Annual installments are due in amounts of \$6,061 through February 15, 2009 including interest at 5.4% per annum. 11,204

Accrued Employee Benefits

Sick leave payable 321,404

5,639,974

Less Current Portion of Long-Term Debt 230,455

\$ 5,409,519

*An annual State of Michigan appropriation makes the debt service payments; however, the Bonds shall not be in any way a debt or liability of the State of Michigan. However, if the Michigan legislature fails to appropriate the funds, the School District is under no obligation for payment.

The annual requirements to amortize all debts outstanding, except accumulated sick pay, as of June 30, 2007, including interest payments of \$1,982,368, are as follows:

Year ending June 30,	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2008	230,455	236,764	467,219
2009	260,749	232,907	493,656
2010	288,291	218,595	506,886
2011	357,878	205,712	563,590
2012	360,504	198,651	559,155
2013-2017	2,100,693	690,111	2,790,804
2018-2022	1,720,000	199,628	1,919,628
	<u>\$5,318,570</u>	<u>\$1,982,368</u>	<u>\$7,300,938</u>

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

The accumulated sick pay is not included in the above schedule of annual requirements because it is not known which years the employees will retire and receive a payment for the accumulated sick pay.

G. Short-Term Debt

On August 18, 2006, the District issued a State Aid Note in the amount of \$1,500,000. The note matured on August 20, 2007 with interest at 3.68%. The District has pledged its future State Aid revenue for payment of this liability at maturity. Interest expense for the year was \$53,285. The balance at June 30, 2006 and 2007 was \$1,300,000 and \$1,500,000 respectively.

(4) OTHER INFORMATION

A. Employee Retirement System

Plan Description. Rudyard Area Schools contributes to the Michigan Public School Employees Retirement System (MPSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Department of Management and Budget, Office of Retirement Systems. General oversight of the retirement system resides with the MPSERS' board. MPSERS provides retirement and disability and survivor benefits with annual 3% increases in pensions of members who are in the Member Investment Plan. With certain exceptions, pension recipients are also eligible for Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage. Benefits are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Office of Retirement Systems, Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing Michigan 48909 or by calling 1-517-322-5103.

Funding Policy. Members Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution 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. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the first quarter of the year ended June 30, 2007, was 16.34%, and for the last three quarters it was 17.74%. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2007, 2006, and 2005 were \$943,500, \$884,424, and \$783,889 respectively, and were equal to the required contribution for those years.

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

Other Post-employment Benefits.

Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

B. Related Party Transaction

During the year the District purchased \$14,581 of supplies and materials from a company controlled by a school board member.

C. Single Audit Report

The School District is required to have an audit when federal funds expended exceed \$500,000. For the year ended June 30, 2007, the District did expend in excess of \$500,000 of federal funds, thus a single audit was necessary.

D. Risk Management

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

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2007 or any of the prior three years.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

E. Accumulated Sick Pay

The contracts for teachers and non-teaching personnel have various provisions for the accumulation of sick pay. Upon retirement or termination, if the employee has met certain contract provisions, the employee may receive a cash payment for the accumulated sick pay. At June 30, 2007, the liability to the employees for accumulated sick leave and related fringe benefits is estimated at \$321,404. It is reasonably possible that the estimated liability could change significantly due to non-vested teachers leaving the district or a higher or lower than normal use of employee sick leave.

F. Prior Period Adjustment

During the current year, it was determined that certain prior year accounts receivables totaling \$55,654 were not recorded as revenues in the Public Library Fund. To correct this error, the beginning fund balance of the Library Fund of \$6,837, as originally reported, has been increased to \$62,491. In addition, beginning net assets for governmental activities of \$3,020,408, as originally reported, have been increased to \$3,076,062.

G. Deficit Fund Balance

The District had a deficit fund balance in its Athletic Activities Fund in the amount of \$9,745, and in the Food Service Fund in the amount of \$183.

H. Designated and Reserved Fund Balance

The School has reserved or designated the fund balances as follows:

1. Food Service, Public Library and Debt Service Funds
The School's policy is to show fund balance of the Food Service Fund, Public Library Fund and Debt Service Funds as designated or reserved for those purposes.
2. Forestry
The board has designated proceeds from timber harvested from the school forest.
3. Capital Outlay
The board has designated a portion of its fund balance for future capital outlay expenditures.
4. Inventory and Prepaid Expenditures
The General Fund balance and Food Service Fund balance are reserved for inventories to emphasize that these amounts are not appropriable for other purposes. Also, the General Fund balance is reserved for prepaid expenditures for the same reason.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2007

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Local Sources	\$ 922,540	\$ 967,333	\$ 1,012,467
Revenues Received Through Another Non-Educational Entity	158,700	215,407	16,684
State Sources	6,859,382	6,623,953	6,787,292
Federal Sources	1,657,583	1,738,321	1,927,905
Total Revenues	<u>9,598,205</u>	<u>9,545,014</u>	<u>9,744,348</u>
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	4,175,304	3,924,725	4,872,421
Added Needs			
Special Education	537,339	612,197	485,122
Compensatory Education	809,853	1,560,058	720,735
Supporting Services			
Pupil	272,578	162,551	245,763
Instructional Staff	1,157,626	196,365	290,665
General Administration	190,562	200,500	202,036
School Administration	632,324	629,566	634,238
Business	309,099	290,417	284,375
Operation and Maintenance of Plant	949,100	935,433	943,372
Pupil Transportation Services	535,986	613,485	621,267
Central	5,700	0	6,990
Other Supporting Services	55,000	242,085	311,505
Total Expenditures	<u>9,630,471</u>	<u>9,367,382</u>	<u>9,618,489</u>
Excess (Deficiency) of Revenues Over Expendures	<u>(32,266)</u>	<u>177,632</u>	<u>125,859</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out	<u>(443,845)</u>	<u>(275,000)</u>	<u>(266,375)</u>
Net Change in Fund Balance	(476,111)	(97,368)	(140,516)
<u>FUND BALANCE</u> - Beginning of Year	<u>1,144,221</u>	<u>1,030,491</u>	<u>1,030,491</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 668,110</u>	<u>\$ 933,123</u>	<u>\$ 889,975</u>

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

OTHER SUPPLEMENTAL INFORMATION

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2007

	<u>Nonmajor Special Revenue Funds</u>		
	<u>Public Library</u>	<u>Food Service</u>	<u>Athletics</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 9,311	\$ 0	\$ 1,095
Taxes Receivable	0	0	0
Accounts Receivable	64,568	42,578	2,916
Due from Other Funds	0	0	0
Inventories	0	6,836	0
	<hr/>		
Total Assets	<u>\$ 73,879</u>	<u>\$ 49,414</u>	<u>\$ 4,011</u>
<u>LIABILITIES</u>			
Due to Other Funds	\$ 19,653	\$ 31,403	\$ 13,756
Deferred Revenue	0	0	0
Accrued Salaries and Related Liabilities	4,093	18,194	0
	<hr/>		
Total Liabilities	<u>23,746</u>	<u>49,597</u>	<u>13,756</u>
<u>FUND BALANCE</u>			
Reserved:			
Reserved for Inventories	0	6,836	0
Reserved for Debt Service	0	0	0
Unreserved:			
Undesignated - (Deficit)	0	(7,019)	(9,745)
Designated	50,133	0	0
	<hr/>		
Total Fund Balance - (Deficit)	<u>50,133</u>	<u>(183)</u>	<u>(9,745)</u>
	<hr/>		
Total Liabilities and Fund Balance	<u>\$ 73,879</u>	<u>\$ 49,414</u>	<u>\$ 4,011</u>

<u>Nonmajor Debt Service Funds</u>		<u>Nonmajor Capital Project Funds</u>		<u>Total</u>
<u>1999 Debt Service</u>	<u>1989 Debt Service</u>	<u>Building & Site</u>	<u>Building Renovations</u>	<u>Nonmajor Governmental Funds</u>
\$ 301,928	\$ 308,264	\$ 10,011	\$ 2,330	\$ 632,939
6,524	4,755	0	0	11,279
0	0	0	0	110,062
7,096	0	0	0	7,096
0	0	0	0	6,836
<u>\$ 315,548</u>	<u>\$ 313,019</u>	<u>\$ 10,011</u>	<u>\$ 2,330</u>	<u>\$ 768,212</u>
\$ 0	\$ 5,177	\$ 4,491	\$ 0	\$ 74,480
6,349	4,755	0	0	11,104
0	0	0	0	22,287
<u>6,349</u>	<u>9,932</u>	<u>4,491</u>	<u>0</u>	<u>107,871</u>
0	0	0	0	6,836
309,199	303,087	0	0	612,286
0	0	0	0	(16,764)
0	0	5,520	2,330	57,983
<u>309,199</u>	<u>303,087</u>	<u>5,520</u>	<u>2,330</u>	<u>660,341</u>
<u>\$ 315,548</u>	<u>\$ 313,019</u>	<u>\$ 10,011</u>	<u>\$ 2,330</u>	<u>\$ 768,212</u>

RUDYARD, MICHIGAN

OTHER SUPPLEMENTAL INFORMATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Nonmajor Special Revenue Funds</u>		
	<u>Public Library</u>	<u>Food Service</u>	<u>Athletics</u>
<u>REVENUES</u>			
Local Sources	\$ 68,001	\$ 139,510	\$ 39,198
State Sources	3,800	18,125	0
Federal Sources	0	249,797	0
Total Revenues	<u>71,801</u>	<u>407,432</u>	<u>39,198</u>
<u>EXPENDITURES</u>			
Support Services:			
Food Service	0	416,338	0
Athletics	0	0	208,656
Community Services:			
Library	84,159	0	0
Principal and Interest	0	0	0
Capital Outlay	0	0	0
Total Expenditures	<u>84,159</u>	<u>416,338</u>	<u>208,656</u>
Excess (Deficiency) of Revenues over Expenditures	(12,358)	(8,906)	(169,458)
Other Financing Sources			
Operating Transfers	0	0	230,000
Net Change in Fund Balance	(12,358)	(8,906)	60,542
<u>Fund Balance</u> - July 1, 2006 - (Deficit)	<u>62,491</u>	<u>8,723</u>	<u>(70,287)</u>
<u>Fund Balance</u> - June 30, 2007 - (Deficit)	<u>\$ 50,133</u>	<u>\$ (183)</u>	<u>\$ (9,745)</u>

Nonmajor Debt Service Funds		Nonmajor Capital Project Funds		Total Nonmajor Governmental Funds
1999 Debt Service	1989 Debt Service	Building & Site	Building Renovations	
\$ 368,298	\$ 17,287	\$ 0	\$ 108	\$ 632,402
0	0	0	0	21,925
0	0	0	0	249,797
<u>368,298</u>	<u>17,287</u>	<u>0</u>	<u>108</u>	<u>904,124</u>
0	0	0	0	416,338
0	0	0	0	208,656
0	0	0	0	84,159
371,929	75,177	0	0	447,106
0	0	36,375	0	36,375
<u>371,929</u>	<u>75,177</u>	<u>36,375</u>	<u>0</u>	<u>1,192,634</u>
(3,631)	(57,890)	(36,375)	108	(288,510)
0	0	36,375	0	266,375
(3,631)	(57,890)	0	108	(22,135)
<u>312,830</u>	<u>360,977</u>	<u>5,520</u>	<u>2,222</u>	<u>682,476</u>
<u>\$ 309,199</u>	<u>\$ 303,087</u>	<u>\$ 5,520</u>	<u>\$ 2,330</u>	<u>\$ 660,341</u>

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

FIDUCIARY FUND TYPES
AGENCY FUND

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2007

	BALANCE 07/01/06	RECEIPTS (Including Transfers)	DISBURSEMENTS	BALANCE 06/30/07
Art	\$ 4,406	\$ 5	\$ 0	\$ 4,411
School Store	753	3,503	2,769	1,487
Band	4,184	2,255	4,087	2,352
Boys Track	159	0	0	159
Boys Varsity Basketball	(155)	1,036	450	431
Cheerleaders	138	0	0	138
Chorus	1,821	4,429	5,110	1,140
Cross Country	1,735	492	563	1,664
Baseball	824	4,519	6,840	(1,497)
Drama	1,923	5,479	4,479	2,923
FFA	152	0	0	152
FHA	143	0	0	143
Girls Track	(74)	262	294	(106)
French Club	22	0	0	22
Fine Arts	10,670	4,826	4,470	11,026
Girls Basketball	1,199	900	579	1,520
Girls Softball	1,334	0	0	1,334
Golf	(158)	1,300	422	720
Health Careers	(112)	0	0	(112)
Jeff Dickenson Memorial	5	0	0	5
Library Auxiliary Fund	2,888	910	175	3,623
Middle School Drama	774	1,314	734	1,354
Middle School Project Close Up	(203)	0	950	(1,153)
Middle School Student Council	6,658	1,160	3,851	3,967
National Honor Society	235	856	1,046	45
New Scoreboard	311	0	0	311
Personal Living	40	0	109	(69)
Project Close Up	(360)	1,378	0	1,018
RAS Athletics Memorial	(289)	0	0	(289)
SADD	1,144	341	325	1,160
School Newspaper	258	167	90	335
Shop	2,484	1,831	1,133	3,182
Spirit Team	(106)	0	0	(106)
Stand	377	0	0	377
High School Student Council	1,753	4,355	2,828	3,280
Swim Club	(450)	2,523	769	1,304
Teachers Flower Fund	(875)	0	299	(1,174)
Varsity Club	1,088	2,108	425	2,771
Varsity Football	(618)	5,886	5,269	(1)
JV & Varsity Girls Volleyball	1,860	1,776	3,538	98
Wrestling	2,262	4,336	3,347	3,251

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

FIDUCIARY FUND TYPES
AGENCY FUND

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2007

	BALANCE 07/01/06	RECEIPTS (Including Transfers)	DISBURSEMENTS	BALANCE 06/30/07
6th Grade Alt Program	(1,716)	0	0	(1,716)
Elem Boys BB	657	466	334	789
Class of 1996	195	0	0	195
Class of 1997	3,349	0	200	3,149
Class of 1999	2,801	0	0	2,801
Class of 2000	81	0	0	81
Class of 2002	2,123	0	0	2,123
Class of 2003	1,648	0	0	1,648
Class of 2004	1,675	0	0	1,675
Junior Service Club	276	0	0	276
Revolving Loan Fund	2,842	1,120	4,742	(780)
Class of 2006	2,564	0	1,887	677
Yearbook 2000-2001	272	0	0	272
Class of 2005	4,872	0	0	4,872
Class of 2007	12,125	16,368	24,667	3,826
Ski Club	2,176	2,919	2,635	2,460
Senior Celebration	296	12,320	10,492	2,124
Soccer	367	0	0	367
Yearbook	414	9,291	9,141	564
Class of 2008	9,721	11,381	10,597	10,505
Class of 2009	8,584	766	336	9,014
Class of 2010	0	5,377	1,341	4,036
Class of 2013	0	120	0	120
RAS 100 Club	4,022	1,896	3,180	2,738
Young Authors Club	1,755	100	110	1,745
RJW Playground Fund	6,955	13,201	17,731	2,425
Interest Payable	5,047	3,014	0	8,061
8th Grade Pub	826	2,401	1,325	1,902
Weight Room	133	0	0	133
Midnight Madness	1,526	300	468	1,358
	<u>\$ 123,786</u>	<u>\$ 138,987</u>	<u>\$ 144,137</u>	<u>\$ 118,636</u>
Represented by				
Assets				
Cash	\$ 95,786			\$ 90,636
Due from Private Purpose Trust	28,000			28,000
Total Assets	<u>\$ 123,786</u>			<u>\$ 118,636</u>
Liabilities				
Due to Groups and Organizations	<u>\$ 123,786</u>			<u>\$ 118,636</u>

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

1989 BONDS PAYABLE SCHEDULE
JUNE 30, 2007

<u>TITLE OF ISSUE</u>	1989 BOND ISSUE		
<u>DATE OF ISSUE</u>	July 1, 1989		
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year		
<u>AMOUNT OF ISSUE</u>			\$ 750,000
<u>AMOUNT REDEEMED</u>			
Prior to Current Year		\$ 680,000	
Current Year		<u>70,000</u>	<u>750,000</u>
<u>BALANCE OUTSTANDING - June 30, 2007</u>			<u><u>\$ 0</u></u>

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

1998 DURANT BOND SCHEDULE
JUNE 30, 2007

<u>TITLE OF ISSUE</u>	1998 DURANT BOND ISSUE		
<u>DATE OF ISSUE</u>	November 15, 1998		
<u>INTEREST PAYABLE</u>	May 15 Annually		
<u>AMOUNT OF ISSUE</u>		\$	83,850
<u>AMOUNT REDEEMED</u>			
Prior to Current Year	\$	31,484	
Current Year		<u>0</u>	<u>31,484</u>
<u>BALANCE OUTSTANDING - June 30, 2007</u>			<u><u>\$ 52,366</u></u>

<u>DUE DATES</u>	INTEREST	<u>REQUIREMENTS</u>		
	<u>RATES</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
May 15, 2008	3.431%	\$ 0	\$ 0	\$ 0
May 15, 2009	3.431%	0	5,888	5,888
May 15, 2010	3.431%	3,291	2,597	5,888
May 15, 2011	3.431%	37,878	1,684	39,562
May 15, 2012	3.431%	5,504	384	5,888
May 15, 2013	3.431%	5,693	195	5,888
		<u>\$ 52,366</u>	<u>\$ 10,748</u>	<u>\$ 63,114</u>

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

1999 BOND ISSUE
JUNE 30, 2007

<u>TITLE OF ISSUE</u>	1999 BOND ISSUE	
<u>DATE OF ISSUE</u>	November 1, 1999	
<u>INTEREST PAYABLE</u>	May 1 and November 1 of each year	
<u>INTEREST RATE</u>	4.20% to 4.65%	
<u>AMOUNT OF ISSUE</u>		\$ 5,750,000
<u>AMOUNT REDEEMED</u>		
Prior to Current Year	\$ 365,000	
Current Year	130,000	495,000
<u>BALANCE OUTSTANDING - June 30, 2007</u>		\$ 5,255,000

<u>DUE DATES</u>	<u>REQUIREMENTS</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
November 1, 2007		\$ 118,079	\$ 118,079
May 1, 2008	\$ 225,000	118,079	343,079
November 1, 2008		113,354	113,354
May 1, 2009	255,000	113,354	368,354
November 1, 2009		107,999	107,999
May 1, 2010	285,000	107,999	392,999
November 1, 2010		102,014	102,014
May 1, 2011	320,000	102,014	422,014
November 1, 2011		99,133	99,133
May 1, 2012	355,000	99,134	454,134
November 1, 2012		87,412	87,412
May 1, 2013	390,000	87,413	477,413
November 1, 2013		78,832	78,832
May 1, 2014	425,000	78,833	503,833
November 1, 2014		69,270	69,270
May 1, 2015	425,000	69,270	494,270

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

1999 BOND ISSUE
JUNE 30, 2007

<u>DUE DATES</u>	<u>REQUIREMENTS</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
November 1, 2015		59,601	59,601
May 1, 2016	425,000	59,602	484,602
November 1, 2016		49,841	49,841
May 1, 2017	430,000	49,842	479,842
November 1, 2017		39,882	39,882
May 1, 2018	430,000	39,883	469,883
November 1, 2018		29,939	29,939
May 1, 2019	430,000	29,939	459,939
November 1, 2019		19,995	19,995
May 1, 2020	430,000	19,995	449,995
November 1, 2020		9,997	9,997
May 1, 2021	430,000	9,998	439,998
	<u>\$ 5,255,000</u>	<u>\$ 1,970,703</u>	<u>\$ 7,225,703</u>

RUDYARD AREA SCHOOLS

RUDYARD, MICHIGAN

SINGLE AUDIT

JUNE 30, 2007

Baird, Cotter and Bishop, P.C.

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RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

SINGLE AUDIT
YEAR ENDED JUNE 30, 2007

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August 9, 2007

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

To the Board of Education
Rudyard Area Schools
Rudyard, Michigan

COMPLIANCE

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

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

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

INTERNAL CONTROL OVER COMPLIANCE

The management of Rudyard Area Schools' 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 Rudyard Area Schools' 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.

A *control deficiency* in an 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 or 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.

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 district's internal control.

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Rudyard Area Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated August 9, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Rudyard Area Schools basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2006	(MEMO ONLY) PRIOR YEAR EXPENDITURES	(A) CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2007	ADJUSTMENTS
U.S. Department of Education								
Impact Aid	84.041	\$ 510,946	\$ 0	\$ 471,909	\$ 479,014	\$ 510,946	\$ (31,932)	\$ 0
Indian Education Project No. B060A050047	84.060A	88,269	29,747	91,150	88,269	107,313	10,703	0
Safe and Drug Free Schools and Communities Project No. Q184A040088	84.184A	611,513	130,096	405,767	440,748	451,569	119,275	0
Elementary and Secondary School Counseling Demonstration Program Project No. Q215E060246	84.215E	313,212	0	0	202,624	135,699	66,925	0
Passed Through Michigan Department of Education (M.D.E.)								
Title I - Part A								
Project No. 061530-0506	84.010	342,270	122,247	342,270	0	122,247	0	0
Project No. 051530-0506	84.010	36,371	11,099	36,371	0	11,099	0	0
Project No. 061530-0607	84.010	9,666	0	0	9,666	9,273	393	0
Project No. 071530-0607	84.010	317,693	0	0	294,397	228,166	66,231	0
Total	84.010	706,000	133,346	378,641	304,063	370,785	66,624	0
Title V LEA Allocation								
Project No. 070250-0607	84.298	4,176	0	0	292	546	(254)	0
Project No. 060250-0607	84.298	4,402	0	0	4,402	2,246	2,156	0
Project No. 050250-0506	84.298	3,645	1,306	3,645	0	1,306	0	0
Project No. 060250-0506	84.298	4,460	4,460	4,460	0	4,460	0	0
Total	84.298	16,683	5,766	8,105	4,694	8,558	1,902	0
Technology Literacy Challenge Grants								
Project No. 064290-0506	84.318	6,566	988	6,566	0	988	0	0
Project No. 074290-0607	84.318	3,261	0	0	2,341	2,341	0	0
Total	84.318	9,827	988	6,566	2,341	3,329	0	0
Improving Teacher Quality								
Project No. 060520-0506	84.367	82,725	22,694	82,725	0	22,694	0	0
Project No. 060520-0607	84.367	4,137	0	0	4,137	0	4,137	0
Project No. 070520-0607	84.367	84,949	0	0	81,771	62,566	19,205	0
Total	84.367	171,811	22,694	82,725	85,908	85,260	23,342	0
Total Passed Through M.D.E.		904,321	162,794	476,037	397,006	467,932	91,868	0

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2006	(MEMO ONLY) PRIOR YEAR EXPENDITURES	(A) CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2007	ADJUSTMENTS
Passed Through E.U.P. Intermediate School District (I.S.D.)								
Special Education - Flowthrough - IDEA								
Project No. 070450-0607	84.027	183,312	0	0	173,681	53,489	120,192	0
Freedom to Learn Lead Teachers								
Project No. None	84.318	350	0	0	350	0	350	0
21st Century Community Learning Center								
Project No. 062110/04028	84.287	44,505	9,091	44,505	1,200	9,091	1,200	0
Project No. 072110/04-28	84.287	46,305	0	0	46,305	33,776	12,529	0
Total	84.287	90,810	9,091	44,505	47,505	42,867	13,729	0
Total Passed Through E.U.P.I.S.D.								
		274,472	9,091	44,505	221,536	96,356	134,271	0
Total U.S. Department of Education								
		2,702,733	331,728	1,489,368	1,829,197	1,769,815	391,110	0
U.S Department of Agriculture								
Passed Through Michigan Department of Education								
Child Nutrition Cluster								
National School Lunch								
Section 4 - Total Servings - 071950 and 061950	10.555	26,021	3,642	25,169	26,021	26,109	3,554	0
Local Wellness Policy - 060980	10.555	500	0	0	500	500	0	0
Snack Program - 071980 and 061980	10.555	4,329	466	3,439	4,329	4,091	704	0
Section 11 - Total Servings - 071960 and 061960	10.555	141,803	21,005	143,254	141,803	143,197	19,611	0
Total	10.555	172,653	25,113	171,862	172,653	173,897	23,869	0
National School Lunch - Breakfast								
Breakfast - 071970 and 061970	10.553	51,887	8,228	49,028	51,887	52,191	7,924	0
Total Child Nutrition Cluster								
		224,540	33,341	220,890	224,540	226,088	31,793	0
Food Distribution								
Entitlement Commodities	10.550	24,765	0	26,457	24,765	24,765	0	0
Bonus Commodities	10.550	492	0	2,851	492	492	0	0
Total	10.550	25,257	0	29,308	25,257	25,257	0	0
Total Passed Through M.D.E.								
		249,797	33,341	250,198	249,797	251,345	31,793	0
Passed Through County								
Schools and Roads								
National Forest Land	10.665	98,708	0	96,869	98,708	98,708	0	0
Total U.S. Department of Agriculture								
		348,505	33,341	347,067	348,505	350,053	31,793	0
Total Federal Financial Assistance								
		\$ 3,051,238	\$ 365,069	\$ 1,836,435	\$ 2,177,702	\$ 2,119,868	\$ 422,903	\$ 0
					(B)	(C)		

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(A) Significant Accounting Policies Used in Preparing Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting and presents transactions in the same manner as reflected in the basic financial statements of the school district. The significant accounting policies used are described in footnote (1) to the June 30, 2007, basic financial statements.

(B) Reconciliation of Revenues with Expenditures for Federal Financial Assistance Programs

Revenues from Federal Sources - Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ <u>2,177,702</u>
Federal Expenditures per Schedule of Expenditures of Federal Awards	\$ <u>2,177,702</u>

(C) Reconciliation of Grant Section Auditor's Report with Schedule of Expenditures of Federal Awards

Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

Current Cash Payments per Cash Management System (CMS)	\$ 795,229
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Add Items Not on CMS Report:

Amounts Received Through Intermediate School District	
21st Century Community Learning Center	42,867
Special Education Flowthrough	53,489
Amounts Received Through Counties	
National Forest	98,708
Amounts Received Directly from	
U.S. Department of Education and Agriculture	
Impact Aid	510,946
Indian Education	107,313
Safe and Drug Free Schools and Communities	451,569
Elementary and Secondary School Counseling	
Demonstration Program	135,699

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Report not recorded (or recorded incorrectly) on CMS Grant

Auditor Report

Title I	051530-0506	11,099	
Title I	061530-0506	122,247	
Title II D	064290-0506	988	
Title V	050250-0506	1,306	
Title II A	060520-0506	22,694	
Child Nutrition Cluster			
	National School Lunch Program	173,897	
	National School Breakfast Program	52,191	1,785,013

Reconciliation of errors on new CMS Report

Title II D	062490-0506 (see above for correct amounts from R7120)	(6,566)	
Title I	061530-0506 (see above for correct amounts from R7120)	(342,270)	
Title II A	060520-0506 (see above for correct amounts from R7120)	(82,725)	(431,561)

Amounts Received as Payments in Kind

Food Distribution Program			
	Entitlement Commodities	24,765	
	Bonus Commodities	492	25,257

Less Payments made in June per

Grant Section Auditor's Report and Not Received until July by District		(54,070)
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Current Year Receipts (Cash Basis) per

Schedule of Expenditures of Federal Awards	\$ 2,119,868
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August 9, 2007

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

To the Board of Education
Rudyard Area Schools
Rudyard, Michigan

We have audited the financial statements of Rudyard Area Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated August 9, 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 Rudyard Area Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rudyard Area School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rudyard Area School's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the district's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the district's financial statements that is more than inconsequential will not be prevented or detected by the district's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs (Item B) to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Rudyard Area School'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*.

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

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

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

There were no prior year findings and questioned costs.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

A. Summary of Auditor's Results

Financial Statements

Type of auditors' report issued: Unqualified

Significant deficiencies identified: X Yes No

Significant deficiencies identified as material weakness(es)? Yes X No

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Significant deficiencies identified: Yes X No

Significant deficiencies identified as material weakness(es)? Yes X No

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

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010 84.041	Title I – Improving Basic Programs Impact Aid

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

B. Financial Statement Findings

1) Lack of Adequate Internal Controls Over Payroll Reporting and Remittance Process

Management is responsible for establishing and maintaining internal controls over payroll reporting and remittance process which includes correct posting to accounts within the general ledger, correct reporting to other units of government through the use of retirement reports and 941 reports, and the correct and timely remittance of amounts due for payroll taxes and retirement amounts.

The District currently does not have an effective internal control to ensure the payroll reporting process is functioning properly.

This condition was caused in part by lack of the time needed by the business office to implement a control system that was recommended to them in the past, due to other job responsibilities that were deemed to be more important than the implementation of the proper controls and the monitoring of those controls.

The effect of this condition is that an environment is created in which the potential exists for improper postings within the general ledger, as well as the potential for untimely reporting or remittance of required amounts due to other agencies. In July 2007 it was determined that the district had been paying an incorrect retirement amount to the state since October 2006.

(View of Responsible official) – The district is in the process of evaluating and implementing internal controls to correct or mitigate this situation in the future.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

(View of Responsible official) – The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

3) Lack of Adequate Controls to Timely Record, Process and Summarize Accounting Data

Management is responsible for ensuring that a reliable system exists for recording, processing, and summarizing accounting data.

The district utilizes a computerized accounting software program to assist with this requirement. The district's computerized system does not consistently process transactions in a manner expected by the district. As such, the reliability of the data being produced by the system must be continuously verified by the business office, and the business office does not always have the time to adequately verify the data before closing the accounting month.

This condition was caused by one or more of the following factors: the original set-up of the software was not properly done; the annual maintenance to the system was not properly done; data was input into the system in an incorrect manner. The district does not have anyone on staff with the ability to diagnose and solve the problems.

As a result of this condition, significant resources are used throughout the year and at year end in an effort to mitigate the effect of unreliable data. While the extra effort of the mitigating controls reduces the significance of the deficiency to a level below a material weakness, the business office does not always have the time to adequately verify the data. This lack of a consistently applied internal control raises the risk that the district's computerized system will not process transactions in a manner expected by the district, and that those problems may not be timely identified and corrected by the district.

(View of Responsible Official) – The district is aware of this limitation and is in the process of evaluating options. These options include potentially obtaining outside technical assistance to determine the root cause of the problems and implementing new controls to correct or mitigate this situation in the future.

RUDYARD AREA SCHOOLS
RUDYARD, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

C. Federal Award Findings and Questioned Costs

None

Baird, Cotter and Bishop, P.C.

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August 9, 2007

LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Education
Rudyard Area Schools
Rudyard, Michigan

Dear Members of the Board of Education:

We have completed our audit of the basic financial statements of the Rudyard Area Schools for the fiscal year ended June 30, 2007, and would like to comment on the following items relative to the management and accounting records/procedures of the School District:

Budgeting

Expenditures exceeded appropriations in the General Fund, Food Service Fund, Athletic Fund and Public Library Fund. State law requires that the District amend its budget before expending any funds in excess of original appropriations. In the General Fund, several expenditure functions exceeded appropriations, and since the actual loss was more than the budgeted loss, the Board President may receive a letter from the Michigan Department of Education warning of this budget violation. The Department of Education will also request information from the District related to the budgeting process.

Deficit Fund Balance

The Athletic Activities Fund had a deficit fund balance of \$9,745 and the Food Service Fund had a deficit fund balance of \$183. The District should then implement a policy of monitoring fund balance in all funds on a monthly basis to prevent this from occurring in the future.

Credit Card Policy

During our Audit we found that the District has certain employees using a credit card, but that no official credit card policy exists. We recommend the District adopt a credit card policy.

Potential Future Lack of Segregation of Duties

As the District continues to cut staffing, care must be taken to evaluate the effect potential future cuts will have on internal control over segregation of duties. Our evaluation of segregation of duties in the business office this year indicated that the District is on the verge of having an internal control problem due to lack of segregation of duties.

We sincerely thank the Board for awarding this firm the audit assignment. We appreciate the confidence you have expressed in us. If you have any questions relative to the preceding comments and recommendations or other areas of your annual audit, please feel free to contact us.

BAIRD, COTTER AND BISHOP, P.C.

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