

BRIMLEY AREA SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required and additional information)
JUNE 30, 2007

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INDEPENDENT AUDITORS' REPORT

October 5, 2007

Board of Education
Brimley Area Schools
Brimley, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Brimley Area Schools 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 basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

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 Brimley Area Schools as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 5, 2007 on our consideration of Brimley Area Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of 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 managements discussion and analysis and required budgetary comparison information identified in the table of contents, 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 inquires 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 Brimley Area School's basic financial statements. The combining and individual nonmajor fund financial statements and additional information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and additional information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants

**BRIMLEY AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

During 2006 – 2007 fiscal year, the District continued to present Governmental Accounting Standards Board Statement 34 (GASB 34), Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments. This section of the Brimley Area Schools annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2007.

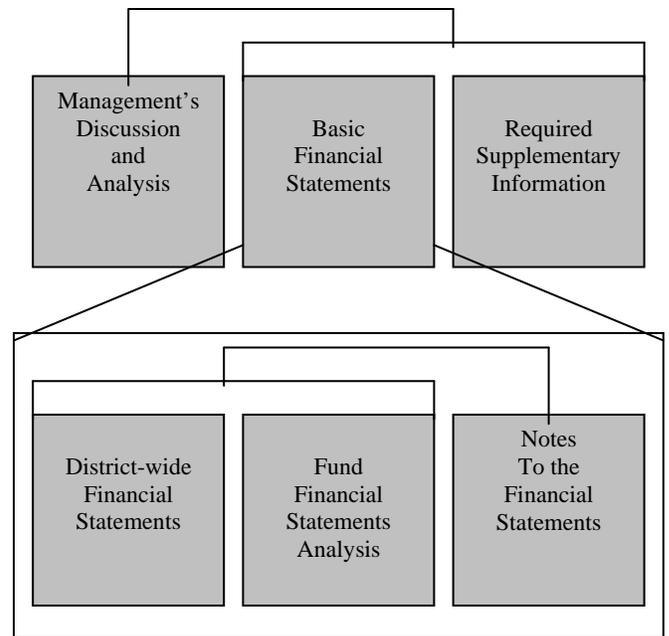
Financial Highlights

- The District's financial status declined this year. Total net assets decreased by 8.7% to approximately \$608,000 compared to \$666,000 last year.
- During the year the District's expenses were \$57,899 greater than the \$5.74 million in revenues.
- At the end of the current fiscal year, the fund balance in the General Fund was \$522,022 or 10.5% of the total expenditures.
- The District's tax base increased again this year by 7.52%.
- The District's lost \$34,682 in tax revenue, by not having a Headlee override approved by the taxpayers.
- Student enrollment based on a blended count, increased by 2.8% to approximately 500 students.
- The General Fund transferred \$12,000 less to the Special Revenue funds than last year.
- The District incurred \$21,000 interest expense due to borrowing \$500,000 to meet cash flow needs.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the district.

**Figure A-1
Required Components of
The District's Annual Financial Report**



- The first two statements are district-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
 - Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

Detail
↔
Summary

**BRIMLEY AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the financial statements with a comparison of the district's budget for the years. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the district's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2 Major Features of the District-Wide and Fund Financial Statements			
	District-Wide Statements	Fund Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district is the trustee or agent for someone else's resources such as student activities monies
Required Financial Information	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset Liability Information	All assets and liabilities, both financial and capital, and short- term and long- term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long- term; funds do not currently contain capital assets, although they can
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year regardless of when cash is received or paid.

**BRIMLEY AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the districts financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school building and other facilities.

The government-wide financial statements of the District are:

- Governmental activities – Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds: not the district as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues.

The District has two kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which focus on (1) how much cash and other financial assets that can readily be converted to cash flow in and out and (2) The balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, this report includes reconciliation schedules that explain the relationship (or differences) between the District-wide Statements and the Fund financial Statements.
- Fiduciary funds – The District is trustee, or fiduciary, for assets that belong to others, such as student activities and scholarship funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

**BRIMLEY AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

Financial Analysis of the District as a Whole

Net Assets. The District's combined net assets were less on June 30, 2007 than they were the year before, decreasing more than 8.7% to approximately \$608,000. Figure A-3 illustrates the valuation of net assets on June 30, 2007 and 2006.

Figure A-3

Condensed Statement of Net Assets

	2007	2006
Assets		
Current	\$ 1,736,789	\$ 1,559,286
Non-current	6,821,406	7,018,534
Total assets	\$ 8,558,195	\$ 8,577,820
Liabilities		
Current	\$ 1,349,684	\$ 1,091,660
Non-Current	6,600,104	6,819,854
Total liabilities	7,949,788	7,911,514
Net Assets		
Invested in capital assets, net of related debt	184,082	(31,800)
Unrestricted	424,325	698,106
Total net assets	608,407	666,306
Total liabilities and net assets	\$ 8,558,195	\$ 8,577,820

**BRIMLEY AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

Figure A-4

Results of Operations:

	2007	2006
Revenues:		
Property taxes	\$ 1,426,836	\$ 1,344,672
Unrestricted state aid	2,841,495	2,746,533
Other general revenues	102,728	84,046
Charges for services	103,213	114,486
Operating grants and contributions	1,273,290	1,092,330
Total revenues	5,747,562	5,382,067
Expenditures:		
Instruction	3,433,054	3,379,649
Pupil and instructional services	131,013	194,555
Administration and business	797,944	834,478
Operation and maintenance	430,350	456,541
Pupil transportation	322,349	317,781
Food service activities	269,947	277,949
Other support services	102,056	109,880
Interest on long-term debt	318,748	335,507
Total expenditures	5,805,461	5,906,340
CHANGE IN NET ASSETS	\$ (57,899)	\$ (524,273)

The District's financial position is the product of many factors:

- The State's per pupil funding allowance increased by \$210 this year.
- Enrollment in the District increased by 14 (blended count) compared to 486 students in the prior year.
- Expenses exceeded revenues by \$57,899 due to increases in labor and energy costs, and operating deficits in the Food Service and Athletic Programs.

Financial Analysis of the District's Funds

As the District completed the year its governmental funds reported combined fund balances of \$681,037 well below last year's ending fund balance of \$1,007,398. All but one of the District's governmental funds had fewer revenues than expenses, thereby, contributing to the decrease in total fund balance.

The District's Food Service and Athletic programs were over spent by \$17,743 and \$79,147 respectively. The District's labor costs decreased by approximately \$4,000. This resulted from a savings of approximately \$60,000 by the early retirement of the librarian, and changing health care coverage for all staff, however, increases in the retirement contribution rate and long term substitute teachers of \$56,000 offset this savings. The District experienced increased revenues generated by taxes and state aid by approximately \$175,000 as well as increased Impact Aid of \$164,000.

**BRIMLEY AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget two times. The budget amendments were for changes made at the end of the second quarter to account for final enrollment counts and changes made in assumptions since the original budget was adopted. Significant items causing budget adjustments are:

- Our student membership increased, providing an additional \$99,190 in State Aid.
- The District received \$11,500 less in At Risk funding.
- The District received \$6,800 less due to a prior period adjustment for Special Education.
- Property values increased, increasing revenue by approximately \$35,000.

At the end, actual expenditures were \$4,974,412 compared to \$5,047,953 budgeted, which represents a favorable budget variance of \$73,541.

Actual revenues were \$4,839,799 compared to \$4,837,800 budgeted, which represents an unfavorable budget variance of \$1,999.

Capital Asset and Debt Administration

Capital Assets:

By the end of 2006, the District had invested \$8,814,232 in a broad range of capital assets, including school buildings, athletic facility improvements, software, busses, technology and electronic surveillance equipment.

The amount represents a \$11,000 increase from last year. During the year the District made some improvements to a bus for \$11,000.

Total depreciation expense for the year exceeded \$208,000.

Long Term Debt:

Total long-term debt at June 30, 2007 was \$6,845,104. The District repaid \$449,909 in principal during the year.

**BRIMLEY AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

Factors Bearing on the District's Future

The following factors have been considered in preparing the budget for the 2007/2008 school year:

- The District continues to face significant increases in rates for health insurance and retirement benefits.
- With the current economic condition in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for 2007- 2008 fiscal year. This will pose a challenge to the District to provide a quality education to our citizens through use of our existing fund equity, which has been declining for the past several years.
- The District passed a Headlee override which will allow the District to collect the full 18 mills.
- The District will need to continue to borrow funds for cash flow purposes, which will increase operational expenses.
- The contracts with the unions that represent the teaching staff and support staff expire on August 31, 2008.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brimley Area Schools Business Office, 7134 South Highway 221, Brimley, Michigan 49715.

BRIMLEY AREA SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2007

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 1,150,892
Other Receivables	12,781
Due from other governmental units	541,739
Inventory and prepaid items	<u>31,377</u>
Total current assets	<u>1,736,789</u>
Noncurrent assets:	
Capital assets	8,814,232
Less: accumulated depreciation	<u>(1,992,826)</u>
Total noncurrent assets	<u>6,821,406</u>
	<u><u>\$ 8,558,195</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Note payable	\$ 500,000
Accounts payable and other current liabilities	199,824
Checks written in excess of deposits	3
Salaries payable	404,857
Current portion of long term debt	<u>245,000</u>
Total current liabilities	1,349,684
Noncurrent liabilities:	
Noncurrent portion of long-term debt and liabilities	<u>6,600,104</u>
Total liabilities	<u>7,949,788</u>
Net Assets:	
Invested in capital assets, net of related debt	184,082
Unrestricted	<u>424,325</u>
Total Net Assets	<u>608,407</u>
	<u><u>\$ 8,558,195</u></u>

See notes to financial statements.

**BRIMLEY AREA SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (expenses) And changes in Net assets Total
Governmental activities:					
Instruction:					
Basic programs	\$ 2,534,697	\$	\$ 752,399	\$	\$ (1,782,298)
Added needs	581,584		69,312		(512,272)
Compensatory education	316,773		223,150		(93,623)
	3,433,054		1,044,861		(2,388,193)
Supporting services:					
Pupil	78,875		62,603		(16,272)
Instructional staff	52,138		15,825		(36,313)
General administration	356,265		2,450		(353,815)
School administration	307,102				(307,102)
Business	134,577				(134,577)
Operation and maintenance	430,350				(430,350)
Pupil transportation services	322,349				(322,349)
Food service	269,947	80,304	147,551		(42,092)
Athletic activities	102,056	22,909			(79,147)
	2,053,659	103,213	228,429		(1,722,017)
Other activities:					
Interest on long term debt	318,748				(318,748)
Total governmental activities	\$ 5,805,462	\$ 103,213	\$ 1,273,290	\$	(4,428,958)
General revenues:					
Property taxes, levied for general purposes					777,921
Property taxes, levies for debt services					648,915
Unrestricted state aid					2,841,495
Interest and investment earnings					102,728
Total General revenues					4,371,059
CHANGES IN NET ASSETS					
Net assets – beginning of year					666,306
Net assets – end of year					\$ 608,407

See notes to financial statements.

**BRIMLEY AREA SCHOOLS
BALANCE SHEETS
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	General	2005 Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 981,443	\$ 121,018	\$ 48,431	\$ 1,150,892
Receivables:				
Accounts	6,521	195	6,065	12,781
Due from other funds			1,193	1,193
Due from other governmental units	538,746		2,993	541,739
Prepaid expenses	29,537		1,305	30,842
Inventory			535	535
	<u>\$ 1,556,247</u>	<u>\$ 121,213</u>	<u>\$ 60,522</u>	<u>\$ 1,737,982</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Note payable	\$ 500,000	\$	\$	\$ 500,000
Accounts payable and accrued expenses	139,769		11,123	150,892
Checks written in excess of deposits			3	3
Due to other funds	1,193			1,193
Salaries payable	393,263		11,594	404,857
Total liabilities	<u>1,034,225</u>	<u></u>	<u>22,720</u>	<u>1,056,945</u>
Fund balances:				
Reserved for:				
Debt retirement		121,213	29,323	150,536
Unreserved:				
Undesignated	522,022		8,479	530,501
Total fund balances	<u>522,022</u>	<u>121,213</u>	<u>37,802</u>	<u>681,037</u>
	<u>\$ 1,556,247</u>	<u>\$ 121,213</u>	<u>\$ 60,522</u>	<u>\$ 1,737,982</u>

See notes to financial statements.

BRIMLEY AREA SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS
JUNE 30, 2007

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

Total Fund Balance - Governmental Funds **\$ 681,037**

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

	The cost of capital assets is \$	8,814,232	
	Accumulated depreciation is	<u>(1,992,826)</u>	6,821,406

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

	Bonds Payable	7,080,118	
	Bond discount and issuance cost	(107,104)	
	Deferred charge on refunding	(461,360)	
	Accrued interest payable	48,932	
	School Bond Loan Fund Payable	125,670	
	Early Retirement Incentives	179,060	
	Compensated absences (vacations)	<u>28,720</u>	<u>(6,894,036)</u>

Total net assets - governmental activities **\$ 608,407**

See notes to financial statements.

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

	General	2005 Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property taxes	\$ 777,921	\$ 339,891	\$ 309,024	\$ 1,426,836
Other local sources	106,254	564	119,628	226,446
State sources	2,917,122		11,610	2,928,732
Federal sources	1,025,480		147,551	1,173,031
Other sources	13,022			13,022
	<u>4,839,799</u>	<u>340,455</u>	<u>587,813</u>	<u>5,768,067</u>
Instruction:				
Basic instruction	2,462,685			2,462,685
Added needs	581,584			581,584
Compensatory education	316,773			316,773
Total Instruction	<u>3,361,042</u>	<u></u>	<u></u>	<u>3,361,042</u>
Support Services:				
Pupil services	78,875			78,875
Instructional staff	52,138			52,138
General Administration	339,453			339,453
School Administration	292,610			292,610
Business	128,226			128,226
Operations and Maintenance	410,042			410,042
Transportation	312,026			312,026
Capital outlay			5,868	5,868
Food service			257,208	257,208
Athletic activities			102,056	102,056
Debt principal payments		157,789	259,819	417,608
Debt interest and other charges		268,075	69,201	337,276
Total support services	<u>1,613,370</u>	<u>425,864</u>	<u>694,152</u>	<u>2,733,386</u>
	<u>4,974,412</u>	<u>425,864</u>	<u>694,152</u>	<u>6,094,428</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(134,613)</u>	<u>(85,409)</u>	<u>(106,339)</u>	<u>(326,361)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in			96,890	96,890
Operating transfers out	(96,890)			(96,890)
Total other financing sources (uses)	<u>(96,890)</u>	<u></u>	<u>96,890</u>	<u></u>
NET CHANGES IN FUND BALANCES	(231,503)	(85,409)	(9,449)	(326,361)
FUND BALANCE - beginning of year	<u>753,525</u>	<u>206,622</u>	<u>47,251</u>	<u>1,007,398</u>
FUND BALANCE - End of year	<u>\$ 522,022</u>	<u>\$ 121,213</u>	<u>\$ 37,802</u>	<u>\$ 681,037</u>

See notes to financial statements.

**BRIMLEY AREA SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Total net change in fund balances - governmental funds **\$ (326,361)**

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

This is the amount by which depreciation exceeds capital outlays in the period. (197,128)

Interest on long-term debt in the statement of activities differs from the amount recorded in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. 2,621

In the statement of activities, certain compensated absences (vacations) and special termination benefits are measured by amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by essentially the amounts actually paid. The amounts included in the statement of activities are:

Decrease in Early retirement incentive (net)	44,304
Compensated absences (vacations)	5,655

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

Repayment of principle & accrued interest 449,909

The issuance of long-term debt provides current financial resources to governmental funds, But does not have any effect on the net assets. Also, governmental funds report the effect of Issuance costs, discounts and similar items when debt is first issued, whereas these amounts Are deferred and amortized in the statement of activities. The adjustment to the statement Of activities is as follows:

Amortization of bond issue cost and discount	(4,760)	
Deferred charge on refunding	(20,505)	(25,265)

An amount of \$11,634 for interest costs were accreted to the district's SBLF liability. This is a long-term debt that is not included as an expenditure in the governmental funds. It is treated as an expense in the statement of activities. (11,634)

Change in net assets of governmental activities. **\$ (57,899)**

See notes to financial statements.

**BRIMLEY AREA SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
TRUST AND AGENCY FUNDS
JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash	<u>\$ 68,672</u>	<u>\$ 64,322</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	<u>\$ 68,672</u>	<u>\$ 64,322</u>

See notes to financial statements.

**BRIMLEY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements of Brimley Area Schools (the District) have been prepared in conformity with generally accepted accounting principles (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

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

Based on the application of these criteria, the general purpose financial statements of Brimley Area Schools contain all the funds and account groups controlled by the District's Board of Education as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the District nor is the District a component unit of another entity.

B. Government-wide and fund financial statements

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

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

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

**BRIMLEY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 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 provided have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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 are recorded only when a payment is due.

The district reports the following major governmental funds:

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.

The *2005 debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the district reports the following fund types:

The *agency fund* is custodial in nature and does not present the 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).

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

**BRIMLEY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (continued)

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

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

Property taxes, state foundation revenue, interest and charges for services are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the District and are recognized as revenue at that time. State and federal revenues are recognized as follows:

State Foundation Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide 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 foundation allowance was based on the pupil membership counts taken in February and September 2006.

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 due from other governmental units. The local revenue is recognized as outlined in Note 1 C-3– Accounting for Property Taxes.

Categorical

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

Federal Revenue

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

**BRIMLEY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities and Equity

1. Cash and investments

The District reports its investments in accordance with GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, such as certificates of deposit, and the district intends to hold the investment until maturity.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected

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

Fund	Mills
General Fund (non-homestead)	17.228
Debt service funds (homestead & non-homestead)	7.560

**BRIMLEY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities and Equity (continued)

4. Inventories and Prepaid Items

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the special revenue funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized and are not included as a reservation of fund balance.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Capital Assets

Capital assets, which include property, plant, equipment are reported in the government-wide financial statements. Capital assets are defined by the district as assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donations.

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

Property, plant and equipment of the district is depreciated using the straight line method over the following estimated useful lives:

Buildings	50 yrs
Building and site improvements	20 yrs
General equipment	10-15 yrs
Vehicles	8 yrs
Office furniture and fixtures	7 yrs
Computer equipment	5 yrs

6. Compensated Absences

Accumulated vacation and sick pay amounts which are expected to be liquidated with expendable available resources (generally sixty days) are recorded in the general fund while the remainder of the liability is recorded in the general long-term debt group of accounts.

7. Unemployment Insurance

The District reimburses the State of Michigan for the actual amount of unemployment benefits disbursed by the State on behalf of the District. Billings are received for amounts paid by the State through June 30 are accrued.

BRIMLEY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

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

**BRIMLEY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

The District maintains a formalized encumbrance accounting system.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditure and changes in fund balances – budget and actual – GAAP basis – general, special revenue and debt service funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the Budgeting Act are disclosed as unfavorable variances on the combined statement of revenues, expenditures and changes in fund balance – budget and actual – GAAP basis – general, special revenue and debt service funds.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

B. The district has the following funds a deficit fund balance:

Food Service fund	\$2,590
Athletic Activities Fund	\$2,310

**BRIMLEY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – DEPOSITS, INVESTMENTS AND CREDIT RISK

Cash and cash equivalents are held separately in the name of the District by each of the District’s funds.

Deposits

At year-end, the carrying amount of the District’s deposits were \$331,726 and the bank balance was \$371,320 of which \$100,000 was covered by federal depository insurance and \$271,320 was uninsured and uncollateralized. The District has \$329 in petty cash on hand.

Investments

The District had the following investments in external investment pools as of June 30, 2007:

MILAF (mutual fund, cost = market)	\$ <u>887,507</u>
------------------------------------	-------------------

Interest Rate Risk – The district will monitor interest rate risk by using and analyzing, segmented time distribution, specific identification and time duration of investments.

Credit Risk - State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers’ acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The district has no investment policy that would further limit its investment choices. As of June 30, 2007, that district’s investment in the MILAF pool was rated AAAM by Standard and Poor’s.

Concentration of Credit Risk – The district may invest 100% of available reserves with U.S. Treasury securities completely guaranteed by the Treasury.

A reconciliation of cash as shown on the combined balance sheet follows:

Cash on hand	\$ 329
Carrying amount of deposits	331,725
Investments	<u>887,507</u>
Total	<u>\$ 1,219,561</u>
Cash and cash equivalents:	
Governmental activities	\$ 1,150,892
Governmental activities - checks written in excess of deposits	(3)
Fiduciary funds	<u>68,672</u>
Total	<u>\$ 1,219,561</u>

**BRIMLEY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 – RECEIVABLES

Receivables at June 30, 2007 consist of the following:

Governmental units	\$	541,739
Other		12,781
		\$ 554,520

Amounts due from governmental units include amounts due from federal, state and local sources for various projects and programs. Because of the District’s favorable collection experience, no allowance for doubtful accounts has been recorded.

NOTE 5 – LONG-TERM DEBT

At June 30, 2007, a total of \$5,370,000 of bonds outstanding are considered defeased. General obligation debts and other long-term obligations currently outstanding are as follows:

\$1,350,000 1998 refunding bonds payable in annual installments of \$20,000 to \$115,000 through May 1, 2016; interest at 4.15% to 4.8%	\$	930,000
\$6,295,000 1999 serial bonds payable in annual installments of \$105,000 to \$110,000 through May 1, 2009; interest at 5.125% to 5.8% Partially refunded by the 2006 refunding bonds payable		215,000
\$5,915,000 2005 refunding bonds payable in annual installments of \$40,000 to \$390,000 through May 1, 2029; interest at 2.5% to 4.6%		5,835,000
Limited obligation Durant bonds payable in annual installments of \$7,476 to \$15,312 through May 2013, interest at 4.76%		100,118
Total bonded debt		7,080,118
Borrowings from State of Michigan under the School Bond Loan Fund, including interest		125,670
Early retirement incentive		179,060
Termination benefits		28,720
		\$ 7,413,568

BRIMLEY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – LONG-TERM DEBT (concluded)

The annual requirements to amortize long-term obligations outstanding as of June 30, 2007 including interest of \$3,713,155 are as follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 245,000	\$ 293,595	\$ 538,595
2008	269,436	285,204	554,640
2010	279,885	273,005	552,890
2011	290,356	262,785	553,141
2012	349,076	271,770	620,846
2013-2017	1,531,365	1,073,731	2,605,096
2018-2022	1,540,000	774,635	2,314,635
2023-2027	1,800,000	424,840	2,224,840
2028-2029	775,000	53,590	828,590
	<u>7,080,118</u>	<u>3,713,155</u>	<u>10,793,273</u>
Due to School Bond Loan Fund	125,670		125,670
Early Retirement Incentives	179,060		179,060
Termination benefits	28,720		28,720
	<u>\$ 7,413,568</u>	<u>\$ 3,713,155</u>	<u>\$ 11,126,723</u>

At June 30, 2007, net assets of \$150,536 are available in the debt service funds to service the general obligation debt.

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2007:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One year
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$ 7,215,000	\$	\$ 235,000	\$ 6,980,000	\$ 245,000
Limited obligation bonds	100,118			100,118	
Less deferred amounts:					
For issuance	(111,864)		(4,560)	(107,304)	
On refunding	(481,865)		(20,505)	(461,360)	
Total bonds payable	6,721,389		209,935	6,511,454	245,000
Other liabilities:					
School bond loan fund	328,945	11,634	214,909	125,670	
Early retirement incentive	223,364	18,369	67,673	179,060	
Termination benefits	34,375		5,655	28,720	
Total long-term liabilities	<u>\$ 7,308,073</u>	<u>\$ 30,003</u>	<u>\$ 498,172</u>	<u>\$ 6,844,904</u>	<u>\$ 245,000</u>

**BRIMLEY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 – LINE OF CREDIT

The District has a letter of credit of \$28,000 as required by the Michigan Department of Environmental Quality (MDEQ). This letter of credit is to provide financial assurance to the MDEQ for the conditions specified in Permit Number 00-17-0113 where the principal is required to establish a wetland mitigation area in accordance with the provisions of the Wetlands Protections Act. As of June 30, 2007 the District has complied with all aspects with the act and there were no funds advanced on the letter of credit.

NOTE 7 – DISCLOSURE OF INFORMATION ABOUT CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2007 were as follows:

	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>End of year</u>
Governmental activities: Capital assets not being depreciated:				
Land	\$ 62,372	\$	\$	\$ 62,372
Capital assets, being depreciated				
Buildings	\$ 8,019,358	\$	\$	\$8,019,358
Equipment and technology	188,826			188,826
Vehicles	532,676	11,000		543,676
Total historical cost	<u>\$ 8,740,860</u>	<u>\$ 11,000</u>	<u>\$</u>	<u>\$ 8,751,860</u>
Less accumulated depreciation:				
Buildings	\$ 1,259,971	\$ 159,566	\$	\$ 1,419,537
Equipment and technology	73,107	23,047		96,154
Vehicles	451,620	25,515		477,135
Total accumulated depreciation	<u>\$ 1,784,698</u>	<u>\$ 208,128</u>	<u>\$</u>	<u>\$ 1,992,826</u>
Governmental activities capital assets, net	<u>\$ 7,018,534</u>			<u>\$ 6,821,406</u>

Depreciation expense was charged to governmental functions as follows:

Basic programs	\$ 121,971
General administration	16,812
School administration	14,492
Business office	6,351
Operations and maintenance	20,308
Transportation	15,454
Food service	12,740
	<u>\$ 208,128</u>

**BRIMLEY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 – GOVERNMENTAL FUND TYPE INTERFUND TRANSACTIONS

Amounts due to and from other funds for the Districts governmental fund types at June 30, 2007 are as follows:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Food Service	General fund	\$ 1,090
Athletics	General fund	<u>103</u>
		<u>\$ 1,193</u>

Interfund transfers for the year ended June 30, 2007 were as follows:

<u>Fund Transferred Out</u>	<u>Fund Transferred In</u>	<u>Amount</u>
General fund	Food Service fund	\$ 17,743
General fund	Athletic Activities	<u>79,147</u>
		<u>\$ 96,890</u>

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN

Plan Description – The District contributes to the statewide Michigan Public School Employees’ Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS. The MPSERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute 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.

**BRIMLEY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN - continued

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

The District is required to contribute the full actuarial funding contribution amount to the pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2007 were 14.87%. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2007, 2006 and 2005 were \$485,505, \$453,375, and \$435,414 respectively, equal to the required contribution for each year.

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

Other Postemployment Benefits – Under the MPSERS' Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risk 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 one 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 assessments 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.

**BRIMLEY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NONMAJOR GOVERNMENTAL FUNDS

Special revenue funds account for revenue sources that are legally restricted to expenditure for specific purposes.

Food Service fund – This fund accounts for the Districts school lunch program.

Athletic Activities fund – This fund accounts for the Athletic activities of the District.

Debt service funds account for the receipt of tax revenues to repay the principle and interest of outstanding debt issues.

The *1998, 1999 and Durant debt service funds* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital project funds are used to purchase equipment and other long-term fixed assets within the district.

REQUIRED SUPPLEMENTARY INFORMATION

**BRIMLEY AREA SCHOOLS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GAAP BASIS
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>			Variance with Final Budget- Favorable (unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Local sources	\$ 830,835	\$ 877,446	\$ 884,175	\$ 6,729
State sources	3,043,747	2,922,535	2,917,122	(5,413)
Federal sources	943,992	1,024,819	1,025,480	661
Other sources	6,000	13,000	13,022	22
Total revenues	<u>4,824,574</u>	<u>4,837,800</u>	<u>4,839,799</u>	<u>1,999</u>
EXPENDITURES:				
Instruction:				
Basic instruction	2,283,178	2,472,581	2,462,685	9,896
Added needs	467,057	586,449	581,584	4,865
Compensatory education	331,448	318,914	316,773	2,141
Total Instruction	<u>3,081,683</u>	<u>3,377,944</u>	<u>3,361,042</u>	<u>16,902</u>
Support Services:				
Pupil services	75,792	80,560	78,875	1,685
Instructional staff	48,868	52,510	52,138	372
General Administration	396,237	347,918	339,453	8,465
School Administration	302,887	296,091	292,610	3,481
Business	130,370	133,673	128,226	5,447
Operations and Maintenance	442,133	426,831	410,042	16,789
Transportation	322,712	332,426	312,026	20,400
Total support services	<u>1,718,999</u>	<u>1,670,009</u>	<u>1,613,370</u>	<u>56,639</u>
Total expenditures	<u>4,800,682</u>	<u>5,047,953</u>	<u>4,974,412</u>	<u>73,541</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>23,892</u>	<u>(210,153)</u>	<u>(134,613)</u>	<u>75,540</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(139,500)	(119,613)	(96,890)	22,723
NET CHANGES IN FUND BALANCES	<u>\$ (115,608)</u>	<u>\$ (329,766)</u>	<u>(231,503)</u>	<u>\$ 98,263</u>
FUND BALANCES:				
Beginning of year			<u>753,525</u>	
End of year			<u>\$ 522,022</u>	

BRIMLEY AREA SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1 – BUDGETARY COMPARISON SCHEDULES

Brimley Area Schools is not legally required to present budgetary information for debt service funds. Accordingly, the budgetary comparison schedules for the 2006 Debt Service funds are not required.

ADDITIONAL INFORMATION

**BRIMLEY AREA SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007**

	Special Revenue Funds			Debt Service Funds				Capital Projects	Nonmajor Governmental Funds
	Food Service	Athletic Activities	Total	1998 Debt Service	1999 Debt Service	Durant Debt Service	Total		
ASSETS									
Cash and cash equivalents	\$ 28	\$	\$ 28	\$ 22,509	\$ 6,647	\$	\$ 29,156	\$ 19,247	\$ 48,431
Receivables:									
Accounts/Taxes	5,636	262	5,898	84	83		167		6,065
Due from other funds	1,090	103	1,193						1,193
Due from other governmental units	2,993		2,993						2,993
Inventory	535		535						535
Prepaid Expenses	1,305		1,305						1,305
	<u>\$ 11,587</u>	<u>\$ 365</u>	<u>\$ 11,952</u>	<u>\$ 22,593</u>	<u>\$ 6,730</u>	<u>\$</u>	<u>\$ 29,323</u>	<u>\$ 19,247</u>	<u>\$ 60,522</u>
Liabilities:									
Accounts payable and accrued expenses	\$ 4,031	\$ 1,224	\$ 5,255	\$	\$	\$	\$	\$ 5,868	\$ 11,123
Checks written in excess of deposits		3	3						3
Due to other funds									
Salaries payable	10,146	1,448	11,594						11,594
Total liabilities	<u>14,177</u>	<u>2,675</u>	<u>16,852</u>					<u>5,868</u>	<u>22,720</u>
Fund balances:									
Designated - debt service				22,593	6,730		29,323		29,323
Undesignated	(2,590)	(2,310)	(4,900)					13,379	8,479
Total fund balances	<u>(2,590)</u>	<u>(2,310)</u>	<u>(4,900)</u>	<u>22,593</u>	<u>6,730</u>		<u>29,323</u>	<u>13,379</u>	<u>37,802</u>
	<u>\$ 11,587</u>	<u>\$ 365</u>	<u>\$ 11,952</u>	<u>\$ 22,593</u>	<u>\$ 6,730</u>	<u>\$</u>	<u>\$ 29,323</u>	<u>\$ 19,247</u>	<u>\$ 60,522</u>

BRIMLEY AREA SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Special Revenue Funds			Debt Service Funds				Capital Projects	Nonmajor Governmental Funds
	Food Service	Athletic Activities	Total	1998 Debt Service	1999 Debt Service	Durant Debt Service	Total		
REVENUES:									
Local sources:									
Property taxes	\$	\$	\$	\$ 163,920	\$ 145,104	\$	\$ 309,024	\$	\$ 309,024
Lunch and milk sales	80,304		80,304						80,304
Admission and other		22,909	22,909				15,000		37,909
Interest				675	493		1,168	247	1,415
State sources	11,610		11,610						11,610
Federal sources	130,363		130,363						130,363
USDA donated commodities	17,188		17,188						17,188
Total revenues	239,465	22,909	262,374	164,595	145,597		310,192	15,247	587,813
EXPENDITURES:									
Food service	257,208		257,208						257,208
Athletic activities		102,056	102,056						102,056
Debt service:									
Principle				123,304	136,515		259,819		259,819
Interest and other				48,839	20,362		69,201	5,868	75,069
Total expenditures	257,208	102,056	359,264	172,143	156,877		329,020	5,868	694,152
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(17,743)	(79,147)	(96,890)	(7,548)	(11,280)		(18,828)	9,379	(106,339)
OTHER FINANCING SOURCES (USES):									
Operating transfers in	17,743	79,147	96,890						96,890
Operating transfers out									
Total other financing sources (uses)	17,743	79,147	96,890						96,890
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	-	-	-	(7,548)	(11,280)		(18,828)	9,379	(9,449)
FUND BALANCES, beginning of year	(2,590)	(2,310)	(4,900)	30,141	18,010		48,151	4,000	47,251
FUND BALANCES, end of year	\$ (2,590)	\$ (2,310)	\$ (4,900)	\$ 22,593	\$ 6,730	\$	\$ 29,323	\$ 13,379	\$ 37,802

**BRIMLEY AREA SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007**

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance - favorable (unfavorable)</u>
REVENUES:			
Local sources:			
Property taxes	\$ 778,600	\$ 777,921	\$ (679)
Interest	42,000	44,762	2,762
Other local revenue	<u>56,846</u>	<u>61,492</u>	<u>4,646</u>
Total revenue from local sources	<u>877,446</u>	<u>884,175</u>	<u>6,729</u>
State sources	<u>2,922,535</u>	<u>2,917,122</u>	<u>(5,413)</u>
Federal sources:			
Impact Aid	672,200	672,162	(38)
ECIA Title I	94,663	94,663	
Indian education	69,891	69,891	
IDEA	69,312	69,312	
National forest	64,870	64,869	(1)
Class size reduction	36,914	36,914	
Freedom to learn		700	700
Other grants	<u>16,969</u>	<u>16,969</u>	
Total revenue from federal sources	<u>1,024,819</u>	<u>1,025,480</u>	<u>661</u>
Incoming transfers and other transactions			
Other	<u>13,000</u>	<u>13,022</u>	<u>22</u>
TOTAL REVENUES	<u><u>\$ 4,837,800</u></u>	<u><u>\$ 4,839,799</u></u>	<u><u>\$ 1,999</u></u>

**BRIMLEY AREA SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007**

	Amended Budget	Actual	Variance - Favorable (unfavorable)
EXPENDITURES:			
Instruction:			
Basis programs:			
Elementary	\$ 1,197,109	\$ 1,195,618	\$ 1,491
Middle school	423,149	422,772	377
High schools	764,237	756,588	7,649
Other	88,086	87,707	379
Added needs:			
Special education	517,137	512,272	4,865
IDEA	69,312	69,312	
Compensatory education:			
Title I	94,663	94,663	
At risk programs	78,808	78,808	
Indian education	69,891	69,891	
Other programs	75,552	73,411	2,141
Total instruction	3,377,944	3,361,042	16,902
Supporting services:			
Pupil:			
Guidance services	62,925	62,295	630
Nurse	17,635	16,580	1,055
Instructional staff:			
Library	52,510	52,138	372
Audio-visual			
Other			
General administration:			
Board of education	89,880	86,227	3,653
Executive administration	126,258	125,910	348
Technical administration	131,780	127,316	4,464
School administration:			
Office of the principal	296,091	292,610	3,481

**BRIMLEY AREA SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007**

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (unfavorable)</u>
EXPENDITURES (Concluded):			
Supporting services (concluded):			
Business:			
Fiscal services	133,673	128,226	5,447
Operation and maintenance of plant	426,831	410,042	16,789
Pupil transportation services	<u>332,426</u>	<u>312,026</u>	<u>20,400</u>
Total supporting services	<u>1,670,009</u>	<u>1,613,370</u>	<u>56,639</u>
TOTAL EXPENDITURES	<u>5,047,953</u>	<u>4,974,412</u>	<u>73,541</u>
OTHER FINANCING USES:			
Transfer to the athletic fund	83,900	79,147	4,753
Transfer to school service fund	<u>35,713</u>	<u>17,743</u>	<u>17,970</u>
Total other financing uses	<u>119,613</u>	<u>96,890</u>	<u>22,723</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 5,167,566</u>	<u>\$ 5,071,302</u>	<u>\$ 96,264</u>

**BRIMLEY AREA SCHOOLS
TRUST AND AGENCY FUND
STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

	Balance 07/01/06	Additions	Deletions	Balance 06/30/07
Elementary student council	\$ 7,362	\$ 4,614	\$ 6,150	\$ 5,826
Heart fund	68	3		71
R.I.F. Account	140	1,156	772	524
Elementary Fundraiser	2,699	17,649	19,079	1,269
Elementary Book Fair	491	4,831	3,118	2,204
Activity-school service	2,137	516	986	1,667
Annual	(4,143)	8,432	6,451	(2,163)
Athletics	310	15		325
Band	683	5,521	4,831	1,373
Baseball Fundraiser	670	8	588	90
Boys Basketball	1,936	4,272	4,490	1,718
Cheerleaders	362	17		379
Quiz Bowl	61	63		124
Softball	1,021	49		1,070
Class of 2005	27		27	
Class of 2006	910	20	398	532
Class of 2007	16,031	24,004	39,295	740
Class of 2008	7,764	12,613	6,379	13,998
Class of 2009	3,294	9,524	9,445	3,373
Class of 2010		10,844	4,002	6,842
Football Fundraiser	2,360	1,292	1,003	2,649
Girls Basketball Fundraiser	120	1,664	836	948
Golf	834	59	225	668
Volleyball	226	2,811	2,995	42
High school student council	575	700	976	299
Key Club	189	443	489	143
Historical	79	8		87
Library fund	3,346	161		3,507
Middle school student council				
National Honor Society	210	184		394
SADD	247	12		259
Changing Lives	1,360	259	300	1,319
Parent Teacher Organization	261	6,989	3,865	3,385
Track Fundraiser	1,090	2,917	4,003	4
Donations	1,964	95		2,059
Brimley High School Memorial Fund	1,054	50		1,104
Gordon Newland Scholarship	11	1,264	500	775
Matthew Brunk Memorial Scholarship	470	20	50	440
Brimley Education Foundation	1,042	306	904	444
Karl Parker Scholarship	4,199	313	500	4,012
Lions Club Scholarship	20	3,924	2,000	1,944
Coca-Cola Scholarship	1,362	65		1,427
D. Wilson Scholarship	6	1,008	500	514
A. Tremblay Scholarship	1,040	539	250	1,329
Robert Parrish Memorial Fund	434	21		455
National Office Products Scholarship		502		502
Total	\$ 64,322	\$ 129,757	\$ 125,407	\$ 68,672

**BRIMLEY AREA SCHOOLS
TRUST & AGENCY
STATEMENT OF CHANGES IN ASSETS & LIABILITIES
YEAR ENDED JUNE 30, 2007**

	<u>Balances, beginning of year</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balances, End of year</u>
ASSETS				
Cash and equivalents	\$ 64,322	\$ 129,757	\$ 125,707	\$ 68,672
LIABILITIES				
Due to organizations and class funds	\$ 64,322	\$ 129,757	\$ 125,707	\$ 68,672

BRIMLEY AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS – DURANT DEBT
JUNE 30, 2007

	Interest rate	Principal amount	Interest amount	Total
Year ending June 30:				
2009		\$ 9,436	\$ 2,471	\$ 11,907
2010		9,885	2,021	11,906
2011		10,356	1,551	11,907
2012		59,076	20,925	80,001
2013		11,365	541	11,906
		\$ 100,118	\$ 27,509	\$ 127,627

Principal payments due on fifteenth day of May

Interest payments due on the fifteenth day of May

Original issue – 1999 \$169,558

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the “State Aid Payments”). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority’s Depository.

BRIMLEY AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS – 1999 DEBT
JUNE 30, 2007

	<u>Interest rate</u>	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total</u>
Year ending June 30:				
2008	5.125%	\$ 105,000	\$ 11,287	\$ 116,287
2009	5.125%	<u>110,000</u>	<u>5,775</u>	<u>115,775</u>
		<u>\$ 215,000</u>	<u>\$ 17,062</u>	<u>\$232,062</u>

Principal payments due on first day of May

Interest payments due on the first day of May and November

Original issue – November 1, 1999 \$6,295,000

Purpose

- Erecting, furnishing and equipping an addition to, and partially remodeling, furnishing and refurbishing, equipping and re-equipping Brimley Area School;
- Acquiring, installing and equipping Brimley Area School for technology; and
- Constructing and equipping a new playground, constructing and improving athletic facilities and developing and improving the site.

Bond partially refunded by the 2006 bond issue.

BRIMLEY AREA SCHOOLS
ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2007

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

October 5, 2007

To the Board of Education
Brimley Area Schools
Brimley, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brimley Area Schools as of and for the year ended June 30, 2007, which collectively comprise the Brimley Area School's basic financial statements and have issued our report thereon dated October 5, 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 Brimley Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Brimley Area Schools, in a separate letter dated October 5, 2007.

Compliance and Other Matters

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

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

Certified Public Accountants



Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

October 5, 2007

To the Board of Education
Brimley Area Schools
Brimley, Michigan

Compliance

We have audited the compliance of Brimley 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 its major federal program for the year ended June 30, 2007. Brimley Area Schools' major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Brimley Area Schools' management. Our responsibility is to express an opinion on Brimley 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; 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 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 Brimley 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 Brimley Area Schools' compliance with those requirements.

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

Internal Control Over Compliance

The management of Brimley Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contract and grants applicable to federal programs. In planning and performing our audit, we considered Brimley 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more on the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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 Brimley Area Schools as of and for the year ended June 30, 2007, which collectively comprise the Brimley Area School's basic financial statements and have issued our report thereon dated October 5, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Brimley Area School's 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 required as 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 the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants

**BRIMLEY AREA SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award Amount	Prior year Expenditures	Accrued (Deferred) Revenue 6/30/06	Adjust- ments	Current Year Receipts	Current year Expenditures	Accrued (Deferred) Revenue 6/30/07
<u>U.S. Department of Agriculture</u>									
Passed through Michigan Department of Education:									
Child Nutrition Cluster:									
National School Lunch Program – Section 4	10.555	61950	\$ 11,729	\$ 10,370	\$	\$	\$ 1,359	\$ 1,359	\$
National School Lunch Program – Section 4		71950	11,765				11,764	11,764	
National School Lunch Program – Section 11		61960	55,154	48,674			6,480	6,480	
National School Lunch Program – Section 11		71960	54,366				54,366	54,366	
			<u>133,014</u>	<u>59,044</u>			<u>73,969</u>	<u>73,969</u>	
National School Lunch Program – Breakfast	10.553	61970	16,167	14,619			1,548	1,548	
National School Lunch Program – Breakfast		71970	16,555				16,555	16,555	
			<u>32,722</u>	<u>14,619</u>			<u>18,103</u>	<u>18,103</u>	
Total Child Nutrition Cluster			<u>165,736</u>	<u>73,663</u>			<u>92,072</u>	<u>92,072</u>	
Food Distribution:									
Entitlement commodities	10.550		16,517				16,517	16,517	
Bonus commodities			671				671	671	
			<u>17,188</u>				<u>17,188</u>	<u>17,188</u>	
Fruit and Vegetable Program	10.582	6095000404	11,235	11,236	11,236		11,236		
		709V000404	10,899				10,899	10,899	
		7095000404	27,392				26,073	27,392	1,319
			<u>49,526</u>	<u>11,236</u>	<u>11,236</u>		<u>48,208</u>	<u>38,291</u>	<u>1,319</u>
Total Passed through Michigan Department of Education			<u>232,450</u>	<u>84,899</u>	<u>11,236</u>		<u>157,468</u>	<u>147,551</u>	<u>1,319</u>
Passed through Department of Natural Resources									
School and Roads Grant	10.665		64,869				64,869	64,869	
Total Department of Agriculture			<u>297,319</u>	<u>84,899</u>	<u>11,236</u>		<u>222,337</u>	<u>212,420</u>	<u>1,319</u>
<u>Department of Education</u>									
Direct programs:									
Impact Aid	84.041	S041B-2004-2416	135,223				135,223	135,223	
		S041B-2007-2416	536,938				536,938	536,938	
			<u>672,162</u>				<u>672,162</u>	<u>672,162</u>	

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award Amount	Prior year Expenditures	Accrued (Deferred) Revenue 6/30/06	Adjust- ments	Current year receipts	Current year Expenditures	Accrued (Deferred) Revenue 6/30/07
Indian Education	84.060	B060A051191 S060A061191	66,911 69,891	66,911	18,911		18,911 59,094	69,891	10,797
			136,802	66,911	18,911		78,005	69,891	10,797
Rural Education Achievement Program	84.358A	S358A062050	13,320				13,320	13,320	
Total Direct			822,284	66,911	18,911		763,487	755,373	10,797
Passed through Michigan Department of Education:									
ECIA Title I	84.010	715300607	94,663				80,259	94,663	14,404
Service provider self review	84.027A	704400607	1,645				1,645	1,645	
ECIA Title V	84.298	702500607	1,032				1,032	1,032	
Technology literature	84.318	742900607	972				972	972	
Improving Teacher Quality	84.367	705200607	36,914				32,040	36,914	4,874
Total passed through Michigan Department of Education			135,226				115,948	135,226	19,278
Passed through Eastern Upper Peninsula Intermediate School District									
Handicapped persons	84.027	704500607	69,312				40,238	69,312	29,074
Freedom to learn	84.318		700					700	700
Total passed through Eastern Upper Peninsula Intermediate School District			70,012				40,238	70,012	29,774
Total U.S. Department of Education			1,027,522	66,911	18,911		919,673	960,611	59,849
TOTAL FEDERAL AWARDS			\$ 1,324,841	\$ 151,810	\$ 30,147	\$	\$ 1,142,010	\$ 1,173,031	\$ 61,168

The accompanying notes are an integral part of this schedule.

**BRIMLEY AREA SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

NOTES:

1. Basis of presentation – The accompanying schedule of expenditures of federal awards includes the grant activity of Brimley Area Schools and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the general purpose financial statements.
2. Impact Aid, CFDA #84.041 was audited as a major program, representing 51.1% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the general purpose financial statements:

General fund	\$ 1,025,480
Special revenue funds	<u>147,551</u>
 Total Federal Awards	 <u><u>\$ 1,173,031</u></u>

6. Brimley Area Schools was determined to be a low-risk auditee.

**BRIMLEY AREA SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

Section I – Summary of Auditors’ Results

Financial statements

Type of auditors’ report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified: Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
84.041	Impact Aid

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

Auditee qualified as low-risk auditee? Yes No

Section II – Financial Statement Findings

None.

**BRIMLEY AREA SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007
(Continued)**

Section III – Federal Award Findings and Questioned Costs

None.

**BRIMLEY AREA SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS**

Financial Statement Audit

None



October 5, 2007

Board of Education
Brimley Area Schools
Brimley, MI

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

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

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

During our audit, we noted the following control deficiencies:

Compensated Absence Benefits

The support staff contracts are silent regarding compensated absence payouts. There is not specific language in the contract that defines the payout calculation. We recommend the district insert language into those contracts to be better able to quantify its liability and to avoid any conflicts while implementing the policy.

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

Certified Public Accountants