

OLIVET COMMUNITY SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2007

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INDEPENDENT AUDITORS' REPORT

Board of Education
Olivet Community Schools
Olivet, Michigan

September 14, 2007

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Olivet Community 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 financial statements are the responsibility of Olivet Community Schools' management. Our responsibility is to express an opinion 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 opinion.

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

In accordance with *Government Auditing Standards*, we have issued our report dated September 14, 2007 on our consideration of Olivet Community 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 vi through xiii and 26, 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Olivet Community Schools' basic financial statements. The additional information on pages 28 to 44 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has 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.

Mayer, Costensen & Ellis, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Olivet Community Schools' (OCS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2007. The District's financial statements are immediately following this section.

FINANCIAL HIGHLIGHTS

The District's general fund financial situation increased from the 2006 fiscal year to 2007, ending with a fund balance of \$1,602,196 or 14.4% of general fund expenditures. Increasing enrollments and an insurance cap with the teaching staff provided a positive impact against increasing health insurance, retirement rates, and utility costs.

As anticipated, our athletic fund expenditures continued to exceed the revenue received this year, with this amount budgeted in the general fund to cover the shortfall of the athletic fund. Athletic revenues are not able to keep pace with the rising costs of athletic salaries, official's fees, and athletic supplies. This occurred despite successful athletic teams in several high revenue sports.

Our food service program received significant improvements in capital assets and equipment this year. One of these necessary improvements was a new ventilation system installed in our elementary school kitchen. The food service program continues to pay a portion of the utilities and custodial expenses to the District's general fund.

Our 2002 School Building and Site Bond issue was completed in the first quarter of this fiscal year with building and site improvements at our bus garage. In addition to this improvement, the City of Olivet received federal funding for the building of a new road that joins College Street, from our bus garage, to First Street, at our Middle School/High School complex. This new road provides traffic relief at the beginning and end of each school day, and every major school event such as sporting practices, games and arts programs.

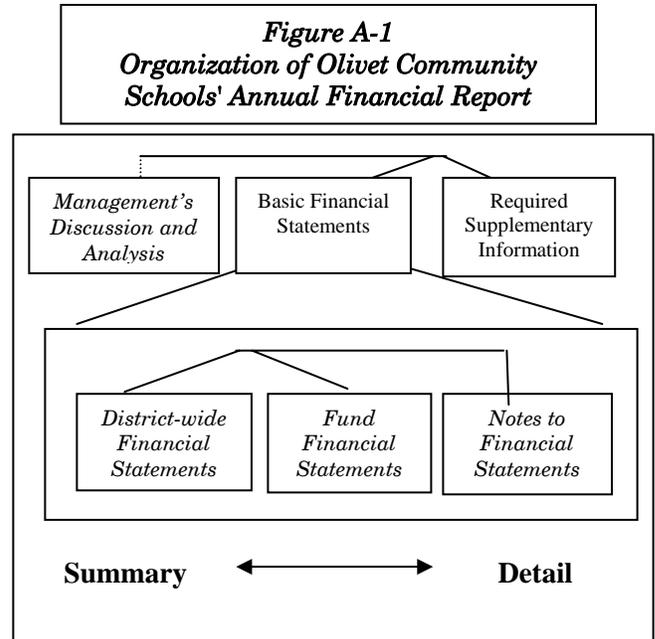
With total general fund revenues exceeding \$11 million dollars and expenditures at \$10.9 million dollars; total general fund revenues reflected a surplus against expenditures and transfers by nearly \$29,000. Even with the current fund balance of nearly 14.5% of expenditures and transfers, the District will fall short of having the necessary funds available to meet expenses. Again this year, 2007-08, the District will be participating in a short-term cash flow loan.

Student membership growth of nearly 40 students, and a slight increase (3%) in state aid funding of \$210 per student brought the District to an end of the year gain in the general fund balance of nearly \$29,000.

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:

- The first two statements are district-wide financial statements that provide both short-term and long-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 district-wide notes to financial 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 funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



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

Figure A-2			
Major Features of District-Wide and Fund Financial Statements			
	District-wide Statements	Fund Financial 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 administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* 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, 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 or long-term liabilities included	All assets and liabilities, both short-term and long-term, Olivet's 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 additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized 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 highlights the structure and contents of each of the statements.

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 statements of net assets include 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 - are one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- 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 formula 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 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 (like repaying its building and site fund) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how 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 district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities 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-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - The District's combined net deficit was slightly more on June 30, 2007 than the prior year, increasing by \$268,430 to \$1,442,347. The other impact is District depreciation, which was \$699,286, compared to District total capital purchases in 2007 of \$276,422.

Table A-3		
Olivet Community Schools		
	2007	2006
Current assets	\$ 3,815,341	\$ 3,565,687
Capital assets	18,706,172	19,139,990
Total assets	22,521,513	22,705,677
Long-term debt outstanding	21,309,937	21,655,482
Other liabilities	2,633,923	2,204,112
Total liabilities	23,943,860	23,859,594
Net assets (deficit)		
Invested in capital assets, net of related debt	(585,714)	(2,698,810)
Restricted for debt service		197,046
Unrestricted	(836,633)	1,347,847
Total net assets (deficit)	\$ (1,422,347)	\$ (1,153,917)

Table A-4		
Changes in Olivet Community Schools' Net Assets		
	2007	2006
Revenues:		
Program revenues:		
Charges for services	\$ 389,207	\$ 370,583
Federal and state operating grants	981,893	1,022,807
General revenues:		
Property taxes	1,969,123	1,826,786
Investment	45,584	42,597
State aid - unrestricted	9,153,395	8,631,896
ISD - special education	429,553	458,601
Other	54,925	74,044
Total revenues	13,023,680	12,427,314
Expenses:		
Instruction	7,164,878	6,853,217
Support services	3,669,576	3,574,841
Community services	30,192	26,640
Food services	503,805	424,459
Athletics	306,617	305,767
Interest on long-term debt	917,756	908,407
Unallocated depreciation	699,286	695,675
Total expenses	13,292,110	12,789,006
Change in net assets	\$ (268,430)	\$ (361,692)

District Governmental Activities

The District's good financial shape has come about through a number of areas.

- Proposal, A which established the student foundation, grant concept, and has increased that amount from \$4,352 per student in 1995 to \$7,085 per student in 2007.
- Student count in the District has seen a continued increase. In fiscal year 2000 state aid membership was 1,309; and since, has increased to 1,409. This 100 student increase is a 7.6% increase over the past seven years; averaging to 1% per year. We anticipate the increase in student growth to continue in the upcoming years.
- The most recent contract ended in June 2007. Negotiations for the following year's contract are currently in progress. A reasonable conservative approach continues to be taken in negotiations.
- Through the community support of our recent bond issue, we have significantly improved our educational facilities.
- Through budget cuts, the District has saved money by lowering non-instructional costs.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds, with a combined fund balances of \$2.094 million compared to \$2.280 million in 2006. The general fund, fund balance increased by \$28,895 for the year. The major capital projects fund, fund balance decreased by \$68,157, which was the remainder of the fund balance, as the District completed the construction project during the 2007 school year.

Total fund balances decreased and the athletic fund had revenues greater than expenditures. The general fund contribution to the athletic fund brought this fund to its expected balance of matching revenues to expenditures. The food service fund balance also decreased by \$37,990 this year.

General Fund and Budget Highlights

During the 2007 fiscal year the original District budget was amended three times to reflect changes which affected the District.

The initial amendment took place in late fall, following the student count and staff changes that had taken place. Winter amendments took place to account for the unfavorable information received from the state government regarding school financing. All programs and staff were maintained, with only necessary expenditures being made due to the uncertainty of funding from the state.

The final amended budget included funding from the state in whole, at \$7,085 per student. Final amended results indicated that expenditures were to exceed revenues by nearly \$115,000. This provided the District's revenue to exceed expenditures and transfers by nearly \$29,000. Actual results indicate that revenues came in slightly higher (\$10,426) than were anticipated, and expenses including transfers came in less than budget by nearly \$133,000. The net result provided a positive change in fund balance of \$28,895, increasing the fund balance to \$1,602,196 (14.4%) of general fund expenditures.

The difference between the original District budget and the final amended budget for 2006-07 is a difference of approximately .05% in revenue and 1.2% in expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Table A-5				
Olivet Community Schools' Capital Assets				
	2007			2006
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 281,800	\$	\$ 281,800	\$ 281,800
Construction in progress				1,950
Buildings and improvements	23,442,019	6,029,565	17,412,454	17,761,680
Technology	490,431	372,615	117,816	118,566
Furniture and fixtures	772,198	578,868	193,330	212,779
Machinery and equipment	818,558	544,127	274,431	252,037
Transportation equipment	687,058	388,366	298,692	377,450
Total	<u>\$ 26,492,064</u>	<u>\$ 7,913,541</u>	<u>\$ 18,578,523</u>	<u>\$ 19,006,262</u>

Capital asset purchases throughout fiscal 2007 included building improvements, machinery and equipment, and technology equipment. The total was nearly \$276,000. For more information see Note 4.

LONG-TERM DEBT

At year-end the District had \$22,106,719 long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 6 to the financial statements.

The District paid down its debt by \$713,784 while there were increases during the year of \$356,156.

Table A-6		
Olivet Community Schools		
Outstanding Long-term Debt		
	2007	2006
General obligation bonds	\$ 15,354,161	\$ 16,057,692
Durant - limited obligation bonds	80,807	80,807
School bond loan fund	5,874,060	5,570,701
Land contract	119,347	129,600
Severance benefits	678,344	625,547
	<u>\$ 22,106,719</u>	<u>\$ 22,464,347</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of four existing circumstances that could significantly affect its financial health in the future:

- While the 2007-2008 foundation allowance has been finalized by the State of Michigan, the foundation allowance represents 86 percent of total general fund revenue. The weak state economy could require pro-rations in state aid.
- Negotiations between the Board of Education and teachers union are not settled for this upcoming year, and continued careful attention needs to be given to the rising costs of health insurance and retirement system costs.
- The District is plaintiff with other school districts in a lawsuit against the State, seeking to rectify inequities in the formula the State uses to apportion special education aid to the districts.
- Student count is projected to slightly increase over the next five years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our 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 information, contact the Business Office, Olivet Community Schools, 255 First Street, Olivet, Michigan 49076.

**OLIVET COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	<u>Governmental activities</u>
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 579,240
Investments	1,173,105
Receivables:	
Other governmental units	1,864,494
Taxes receivable	120,040
Other	3,465
Prepaid expenses	27,353
Inventories	47,644
	<hr/>
TOTAL CURRENT ASSETS	3,815,341
NONCURRENT ASSETS:	
Deferred charges, net of amortization	127,649
Capital assets	26,492,064
Less accumulated depreciation	(7,913,541)
	<hr/>
TOTAL NONCURRENT ASSETS	18,706,172
	<hr/>
TOTAL ASSETS	\$ 22,521,513
	<hr/> <hr/>
LIABILITIES AND NET ASSETS (DEFICIT)	
CURRENT LIABILITIES:	
Accounts payable	\$ 157,822
State aid note payable	600,000
Accrued interest	115,872
Accrued salaries and related items	870,528
Deferred revenue	92,919
Current portion of long-term obligations	740,253
Current portion of severance benefits	56,529
	<hr/>
TOTAL CURRENT LIABILITIES	2,633,923
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	20,688,122
Noncurrent severance benefits	621,815
	<hr/>
TOTAL NONCURRENT LIABILITIES	21,309,937
	<hr/>
TOTAL LIABILITIES	23,943,860
NET ASSETS (DEFICIT):	
Invested in capital assets, net of related debt	(585,714)
Unrestricted	(836,633)
	<hr/>
TOTAL NET ASSETS (DEFICIT)	(1,422,347)
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 22,521,513
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See notes to financial statements.

**OLIVET COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net assets</u>
Governmental activities:				
Instruction	\$ 7,164,878	\$ 21,475	\$ 613,607	\$ (6,529,796)
Support services	3,669,576		153,402	(3,516,174)
Community services	30,192	31,572		1,380
Food services	503,805	250,883	214,884	(38,038)
Athletics	306,617	85,277		(221,340)
Interest on long-term debt	917,756			(917,756)
Unallocated depreciation	699,286			(699,286)
Total governmental activities	<u>\$ 13,292,110</u>	<u>\$ 389,207</u>	<u>\$ 981,893</u>	<u>(11,921,010)</u>
General revenues:				
Property taxes, levied for general purposes				572,355
Property taxes, levied for debt service				1,396,768
Investment earnings				45,584
State sources				9,153,395
ISD special education allocation				429,553
Other				54,925
Total general revenues				<u>11,652,580</u>
CHANGE IN NET ASSETS				(268,430)
NET ASSETS (DEFICIT), beginning of year				<u>(1,153,917)</u>
NET ASSETS (DEFICIT), end of year				<u>\$ (1,422,347)</u>

**OLIVET COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	General fund	2002 Capital projects fund	Other nonmajor governmental funds	Total governmental funds
ASSETS				
ASSETS:				
Cash and equivalents	\$ 264,903	\$	\$ 314,337	\$ 579,240
Investments	1,072,063		101,042	1,173,105
Receivables:				
Other governmental units	1,861,600		2,894	1,864,494
Due from other funds	10,963		1,663	12,626
Due from fiduciary funds	3,796		1,662	5,458
Taxes receivable	38,957		81,083	120,040
Other	1,895		735	2,630
Prepaid expenses	26,115		1,238	27,353
Inventories	42,781		4,863	47,644
	\$ 3,323,073	\$	\$ 509,517	\$ 3,832,590
TOTAL ASSETS				
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 156,941	\$	\$ 881	\$ 157,822
State aid note payable	600,000			600,000
Accrued salaries and related items	869,168		1,360	870,528
Deferred revenue	88,482		4,437	92,919
Due to other funds	1,663		10,963	12,626
Due to fiduciary funds	4,623			4,623
	1,720,877		17,641	1,738,518
TOTAL LIABILITIES				
FUND BALANCES:				
Reserved for inventories	\$ 42,781	\$	\$ 4,863	\$ 47,644
Reserved for debt service			382,998	382,998
Designated for severance benefits	678,344			678,344
Designated for subsequent year's expenditures	96,783			96,783
Undesignated	784,288		104,015	888,303
	1,602,196		491,876	2,094,072
TOTAL FUND BALANCES				
TOTAL LIABILITIES AND FUND BALANCES				
	\$ 3,323,073	\$	\$ 509,517	\$ 3,832,590
Total governmental fund balance				\$ 2,094,072
Amounts reported for governmental activities in the statement of net assets are different because:				
Value of deferred charges for bond issuance costs			\$ 139,807	
Accumulated amortization			(12,158)	127,649
Capital assets used in governmental activities are not financial resources and are not reported in the funds:				
The cost of the capital assets is			26,492,064	
Accumulated depreciation is			(7,913,541)	18,578,523
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Bonds payable and related debt				(21,654,867)
Land contract payable				(119,347)
Bonds premium				(93,721)
Deferred amount of bond refunding				439,560
Severance benefits				(678,344)
Accrued interest on long-term debt is not included as a liability in government funds, it is recorded when paid				(115,872)
Net assets (deficit) of governmental activities				\$ (1,422,347)

OLIVET COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	<u>General fund</u>	<u>2002 Capital projects fund</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
REVENUES:				
Local sources:				
Property taxes	\$ 572,355	\$	\$ 1,396,768	\$ 1,969,123
Investment income	43,650	240	1,694	45,584
Other	107,972		336,160	444,132
Total local sources	<u>723,977</u>	<u>240</u>	<u>1,734,622</u>	<u>2,458,839</u>
State sources	9,683,965		21,901	9,705,866
Federal sources	236,439		192,983	429,422
Incoming transfers and other transactions	429,553			429,553
Total revenues	<u>11,073,934</u>	<u>240</u>	<u>1,949,506</u>	<u>13,023,680</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	6,058,599			6,058,599
Added needs	1,078,009			1,078,009
Adult and continuing education	28,270			28,270
Total instruction	<u>7,164,878</u>			<u>7,164,878</u>
Support services:				
Pupil	272,438			272,438
Instructional staff	213,497			213,497
General administration	323,098			323,098
School administration	672,113			672,113
Business	182,946			182,946
Operations and maintenance	1,066,260			1,066,260
Transportation	694,243			694,243
Central	297,363			297,363
Other	1,165			1,165
Total support services	<u>3,723,123</u>			<u>3,723,123</u>
EXPENDITURES (Concluded):				
Current (Concluded):				
Community services	\$ 30,192	\$	\$	\$ 30,192
Food service			503,805	503,805
Athletics			306,617	306,617
Capital outlay		68,397	82,818	151,215
Debt service:				
Principal repayment	10,253		720,000	730,253
Interest and other fiscal charges			639,267	639,267
Total expenditures	<u>10,928,446</u>	<u>68,397</u>	<u>2,252,507</u>	<u>13,249,350</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>145,488</u>	<u>(68,157)</u>	<u>(303,001)</u>	<u>(225,670)</u>
OTHER FINANCING SOURCES (USES):				
Sale of school assets	2,481			2,481
Proceeds from school bond loan fund			37,387	37,387
Operating transfers in	102,926		222,000	324,926
Operating transfers out	(222,000)		(102,926)	(324,926)
Total other financing sources (uses)	<u>(116,593)</u>		<u>156,461</u>	<u>39,868</u>
NET CHANGE IN FUND BALANCES	<u>28,895</u>	<u>(68,157)</u>	<u>(146,540)</u>	<u>(185,802)</u>
FUND BALANCES:				
Beginning of year	1,573,301	68,157	638,416	2,279,874
End of year	<u>\$ 1,602,196</u>	<u>\$</u>	<u>\$ 491,876</u>	<u>\$ 2,094,072</u>

**OLIVET COMMUNITY SCHOOLS
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	\$ (185,802)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	(699,286)
Capital outlay	274,472
Proceeds from capital assets sold	(2,481)
Loss on sale of capital assets	(444)
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 the year	109,434
Accrued interest payable, end of the year	(115,872)
Proceeds of long-term debt are other financing sources and principal payments are expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities):	
Payment on debt	730,253
Amortization bond issuance costs	(6,079)
Amortization bond premium	4,462
Amortization of deferred amount on bond refunding	(20,931)
Proceeds from school bond loan fund	(37,387)
Long-term interest on school bond loan fund (accrued)	(265,972)
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:	
Accrued severance benefits, beginning of the year	625,547
Accrued severance benefits, end of the year	(678,344)
Change in net assets of governmental activities	\$ (268,430)

**OLIVET COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007**

	Private purpose trust fund	Agency fund
ASSETS		
Cash and equivalents	\$ 56,467	\$ 98,627
Due to Olivet Community Schools		4,623
	<u>\$ 56,467</u>	<u>\$ 103,250</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$	\$ 545
Due to student groups		97,247
Due to Olivet Community Schools		5,458
		<u>103,250</u>
Net assets:		
Reserved for trust activities	<u>56,467</u>	
	<u>\$ 56,467</u>	<u>\$ 103,250</u>

**OLIVET COMMUNITY SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2007**

	<u>Private purpose trust fund</u>
ADDITIONS:	
Interest earnings	\$ 2,132
Donations	<u>9,933</u>
	12,065
 DEDUCTIONS:	
Other	<u>10,275</u>
 CHANGE IN NET ASSETS	 1,790
 NET ASSETS:	
Beginning of year	<u>54,677</u>
End of year	<u><u>\$ 56,467</u></u>

**OLIVET COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Olivet Community 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 Olivet Community Schools (the "District") is governed by the Olivet Community Schools' Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined by Governmental Accounting Standards Board Nos. 14 and 39.

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 are 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 (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, when applicable.

**OLIVET COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Continued)

The District first utilizes restricted resources to finance qualifying activities.

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, investment income and other revenue) 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 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 *2002 capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

**OLIVET COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Concluded)

The capital projects fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

Beginning in the year of bond issuance, the District has reported the annual construction activity in the 2002 capital projects fund. The project for which the 2002 school building and site bonds were issued was considered complete on August 24, 2006 and the cumulative expenditures recognized for the construction period were \$12,486,426.

The following is a summary of the revenue and expenditures for the capital projects bond activity since inception:

Revenue and bond proceeds	<u>\$ 12,486,426</u>
Expenditures	<u>\$ 12,486,426</u>

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 District accounts for its food service and athletic activities in the special revenue funds.

The *debt service funds* account for the servicing of general long-term debt.

The *capital projects fund* accounts for the receipt of debt proceeds, transfers from the general fund, other revenue and the acquisition of fixed assets or construction of major capital projects.

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. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where both the principal and interest may be spent. These funds are not reported in the District's government-wide financial statements.

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 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).

**OLIVET COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 Government Accounting Standards Board.

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 foundation allowance was based on pupil membership counts taken in February and September of 2006.

**OLIVET COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

State Revenue (Concluded)

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 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. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

For the year ended June 30, 2007, approximately \$187,000 of non cash transactions from the Michigan Department of Education (MDE) has been recorded as state aid revenue and pension expenditures as a result of a change in funding by the MDE.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

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

**OLIVET COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and 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 dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

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

Fund	Mills
General fund - non-homestead	18.0000
Debt service fund - 2005	2.0110
Debt service fund - 2003	4.3730
Debt service fund - 2002	2.6660

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and Payables

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

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

**OLIVET COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

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 additions	30 - 50 years
Furniture and other equipment	5 - 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method over the term of the related debt.

**OLIVET COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

7. Long-term Obligations (Concluded)

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

8. Use of Estimates

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

9. Net Asset Reporting

In the computation of invested in capital assets, net of related debt, school bond loan fund and school bond revolving fund principal proceeds of \$3,862,571 are considered capital-related debt. Accrued interest on the school bond loan fund and school bond revolving fund of \$2,136,489 has been included in the calculation of unrestricted net assets.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

**OLIVET COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The District does not consider these amendments to be significant.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2006, the District had the following investments:

<u>Investment Type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's Rating</u>	<u>%</u>
MILAF - MICMS	\$ 756	0.0027	AAAm	0.10%
MILAF - MIMAX	<u>1,172,349</u>	0.0027	AAAm	<u>99.90%</u>
Total fair value	<u>\$ 1,173,105</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

One day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is 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 as of June 30, 2007, the fair value of the District's investments is the same as the value of the pool shares.

**OLIVET COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Interest rate risk. In accordance with its investment policy, 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 investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2007, the District did not have investments in commercial paper and corporate bonds.

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 District's deposits may not be returned to it. As of June 30, 2007, \$534,272 of the District's bank balance of \$634,272 was exposed to custodial credit risk because it was uninsured and uncollateralized. The above amounts include interest bearing deposits. The carrying amount is \$579,240.

Fiduciary fund balances are not included in the above balances. As of June 30, 2007, \$13,311 of the Fiduciary fund's bank balance of \$113,751 was exposed to custodial credit risk because is was uninsured and uncollateralized. The carrying amount is \$155,094.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The 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 allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

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

**OLIVET COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)

The above amounts as previously reported in Note 3:

Deposits	\$ 734,334
Investments	<u>1,173,105</u>
	<u><u>\$ 1,907,439</u></u>

The above amounts are reported in the financial statements as follows:

Cash - private purpose fund	\$ 56,467
Cash - fiduciary funds - agency fund	98,627
Cash - district-wide	579,240
Investments - district-wide	<u>1,173,105</u>
	<u><u>\$ 1,907,439</u></u>

**OLIVET COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets at June 30, 2007 is as follows:

	Balance July 1, 2006	Additions	Reclassifications/ Deletions	Balance June 30, 2007
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 281,800	\$	\$	\$ 281,800
Construction in progress	1,950		1,950	
Total capital assets not being depreciated	<u>283,750</u>		<u>1,950</u>	<u>281,800</u>
Capital assets, being depreciated:				
Buildings and improvements	23,277,988	164,031		23,442,019
Furniture and fixtures	765,694	6,504		772,198
Machinery and equipment	775,362	57,788	14,592	818,558
Technology	502,653	48,099	60,321	490,431
Transportation equipment	788,351		101,293	687,058
Total capital assets, being depreciated	<u>26,110,048</u>	<u>276,422</u>	<u>176,206</u>	<u>26,210,264</u>
Accumulated depreciation:				
Buildings and improvements	5,516,308	513,257		6,029,565
Furniture and fixtures	552,915	25,953		578,868
Machinery and equipment	523,325	35,394	14,592	544,127
Technology	384,087	48,849	60,321	372,615
Transportation equipment	410,901	75,833	98,368	388,366
Total accumulated depreciation	<u>7,387,536</u>	<u>699,286</u>	<u>173,281</u>	<u>7,913,541</u>
Net capital assets being depreciated	<u>18,722,512</u>	<u>(422,864)</u>	<u>2,925</u>	<u>18,296,723</u>
Net governmental capital assets	<u>\$ 19,006,262</u>	<u>\$ (422,864)</u>	<u>\$ 4,875</u>	<u>\$ 18,578,523</u>

Depreciation for the fiscal year ended June 30, 2007 amounted to \$699,286. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**OLIVET COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - RECEIVABLES

Receivables at June 30, 2007 consist of the following:

Other governmental units:	
State aid	\$ 1,645,366
ISD special education final payment	161,617
Other	<u>57,511</u>
	<u><u>\$ 1,864,494</u></u>

NOTE 6 - NOTE PAYABLE

At June 30, 2007, the District has a note payable outstanding of \$600,000. The note has an interest rate of 3.68% and matures August 20, 2007. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance <u>June 30, 2006</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2007</u>
<u>\$</u>	<u>\$ 600,000</u>	<u>\$</u>	<u>\$ 600,000</u>

NOTE 7 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

	General obligation and serial bonds	School bond loan fund	Severance benefits	Land contract	Limited obligation Durant bonds	Total
Balance, July 1, 2006	\$ 16,057,692	\$ 5,570,701	\$ 625,547	\$ 129,600	\$ 80,807	\$22,464,347
Additions		303,359	52,797			356,156
Deletions	<u>703,531</u>			<u>10,253</u>		<u>713,784</u>
Balance, June 30, 2007	15,354,161	5,874,060	678,344	119,347	80,807	22,106,719
Less current portion	<u>730,000</u>		<u>56,529</u>	<u>10,253</u>		<u>796,782</u>
Total due after one year	<u><u>\$ 14,624,161</u></u>	<u><u>\$ 5,874,060</u></u>	<u><u>\$ 621,815</u></u>	<u><u>\$ 109,094</u></u>	<u><u>\$ 80,807</u></u>	<u><u>\$21,309,937</u></u>

**OLIVET COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Continued)

Long-term obligation debt at June 30, 2007 is comprised of the following:

2002 general obligation bonds due in annual installments of \$305,000 to \$380,000 through May 1, 2012 with interest from 3.50% to 4.05%	\$ 1,705,000
2003 refunding serial bonds due in annual installments of \$295,000 to \$400,000 through May 1, 2020 with interest from 2.45% to 4.10%	4,490,000
2005 refunding bonds due in annual instalments of \$25,000 to \$700,000 through May 1, 2028 with interest from 3.5% to 5.0%	9,505,000
Less: deferred amount on bond refunding	(439,560)
Plus: premium on bond refunding	93,721
	15,354,161
Limited obligation (Durant) bonds due in annual installments of \$7,979 to \$46,541 through May 2013 with an interest rate of 4.76%. Certain state aid payments have been pledged as security.	80,807
	15,434,968
Borrowings from the State of Michigan under the School Bond Loan Fund Program, including interest	5,874,060
Land contract due in annual principal installments of \$10,253 with balloon payment due April 30, 2009, interest at 3.99%	119,347
Obligation under contract for severance benefits	678,344
	\$ 22,106,719

Interest expense (all funds) for the year ended June 30, 2007 was approximately \$660,000.

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2007, \$13,575,000 of bonds outstanding are considered defeased.

**OLIVET COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term debt outstanding as of June 30, 2007, including interest of \$6,883,936 are as follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 740,253	\$ 619,826	\$ 1,360,079
2009	895,635	630,790	1,526,425
2010	752,979	575,336	1,328,315
2011	763,359	549,056	1,312,415
2012	773,756	521,078	1,294,834
2013 - 2017	4,114,172	2,113,265	6,227,437
2018 - 2022	3,805,000	1,269,123	5,074,123
2023 - 2027	3,360,000	575,923	3,935,923
2028	695,000	29,539	724,539
Total	15,900,154	6,883,936	22,784,090
Deferred amount on bond refunding	(439,560)		(439,560)
Premium on bond refunding	93,721		93,721
Accumulated severance benefits	678,344		678,344
School bond loan fund	5,874,060		5,874,060
	<u>\$ 22,106,719</u>	<u>\$ 6,883,936</u>	<u>\$ 28,990,655</u>

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2007 are as follows:

Receivable fund		Payable fund	
General	\$ 10,963	General	\$ 1,663
Debt service	141	Special revenue	10,963
Special revenue	1,522		
	<u>\$ 12,626</u>		<u>\$ 12,626</u>

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 systems, and (3) payments between funds are made.

**OLIVET COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

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.

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. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves 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 year ended June 30, 2007 was 16.34% through September 30, 2006 and 17.74% for October 1, 2006 through June 30, 2007. 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 approximately \$1,157,000, \$1,018,000 and \$906,000, respectively, and were equal to the required contribution for those years.

Other Post-employment Benefits - Also within the MPERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the MPERS with the balance deducted from the monthly pension.

The District is not responsible for the payment of retirement benefits or other post-employment benefits which is the responsibility of the State of Michigan.

**OLIVET COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

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

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 11 - TRANSFERS

The general fund transferred \$222,000 to the athletic fund during the current fiscal year to subsidize operations of the athletic fund. The Olivet Community Schools capital projects fund transferred \$102,926 to the general fund. These funds originated from the general fund and were transferred back to during the current year as permitted by the Michigan Department of Education.

NOTE 12 - SUBSEQUENT EVENTS

The District has approved borrowing \$1,000,000 for fiscal year 2008. The note has an interest rate of 3.68%. The note is secured by the full faith and credit of the District as well as pledged state aid.

REQUIRED SUPPLEMENTARY INFORMATION

**OLIVET COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2007**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES:				
Local	\$ 621,537	\$ 721,270	\$ 723,977	\$ 2,707
State sources	9,533,694	9,704,305	9,683,965	(20,340)
Federal sources	253,745	236,029	236,439	410
Incoming transfers and other transactions	386,000	401,904	429,553	27,649
Total revenues	<u>10,794,976</u>	<u>11,063,508</u>	<u>11,073,934</u>	<u>10,426</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	5,857,185	6,114,607	6,058,599	56,008
Added needs	1,142,002	1,089,065	1,078,009	11,056
Adult and continuing education	28,863	33,472	28,270	5,202
Total instruction	<u>7,028,050</u>	<u>7,237,144</u>	<u>7,164,878</u>	<u>72,266</u>
Support services:				
Pupil	285,145	274,342	272,438	1,904
Instructional staff	203,153	217,516	213,497	4,019
General administration	353,210	335,988	323,098	12,890
School administration	656,510	672,204	672,113	91
Business	181,985	182,742	182,946	(204)
Operations and maintenance	1,032,004	1,070,090	1,066,260	3,830
Transportation	746,884	738,641	694,243	44,398
Central	291,575	291,244	297,363	(6,119)
Other		1,160	1,165	(5)
Total support services	<u>3,750,466</u>	<u>3,783,927</u>	<u>3,723,123</u>	<u>60,804</u>
Community services	29,005	27,966	30,192	(2,226)
Principal repayment		10,253	10,253	
Total expenditures	<u>10,807,521</u>	<u>11,059,290</u>	<u>10,928,446</u>	<u>130,844</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(12,545)</u>	<u>4,218</u>	<u>145,488</u>	<u>141,270</u>
OTHER FINANCING SOURCES (USES):				
Sale of school assets	2,000	2,481	2,481	
Operating transfers in		102,926	102,926	
Operating transfers out	(212,000)	(224,000)	(222,000)	2,000
Total other financing sources (uses)	<u>(210,000)</u>	<u>(118,593)</u>	<u>(116,593)</u>	<u>2,000</u>
NET CHANGE IN FUND BALANCE	<u>\$ (222,545)</u>	<u>\$ (114,375)</u>	<u>28,895</u>	<u>\$ 143,270</u>
FUND BALANCE:				
Beginning of year			<u>1,573,301</u>	
End of year			<u>\$ 1,602,196</u>	
End of year fund balance as a percentage of expenditures and operating transfers out			<u>14.4%</u>	

ADDITIONAL INFORMATION

**OLIVET COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2007**

	<u>Special revenue fund</u>	<u>Debt service fund</u>	<u>Capital projects fund</u>	<u>Total nonmajor governmental funds</u>
ASSETS				
ASSETS:				
Cash and equivalents	\$ 12,563	\$ 301,774	\$	\$ 314,337
Investments	101,042			101,042
Accounts receivable	735			735
Taxes receivable		81,083		81,083
Prepays	1,238			1,238
Due from other governmental units	2,894			2,894
Due from other funds	1,522	141		1,663
Due from fiduciary funds	1,662			1,662
Inventory - food service	4,863			4,863
TOTAL ASSETS	<u>\$ 126,519</u>	<u>\$ 382,998</u>	<u>\$</u>	<u>\$ 509,517</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 881	\$	\$	\$ 881
Accrued salaries and related items	1,360			1,360
Deferred revenue	4,437			4,437
Due to other funds	10,963			10,963
TOTAL LIABILITIES	<u>17,641</u>			<u>17,641</u>
FUND BALANCES:				
Reserved for inventory	4,863			4,863
Reserved for debt service		382,998		382,998
Undesignated	104,015			104,015
TOTAL FUND BALANCES	<u>108,878</u>	<u>382,998</u>		<u>491,876</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 126,519</u>	<u>\$ 382,998</u>	<u>\$</u>	<u>\$ 509,517</u>

**OLIVET COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2007**

	<u>Special revenue fund</u>	<u>Debt service fund</u>	<u>Capital projects fund</u>	<u>Total nonmajor governmental funds</u>
REVENUES:				
Local sources:				
Property taxes	\$	\$ 1,396,768	\$	\$ 1,396,768
Investment income	64	1,630		1,694
Other	336,160			336,160
Total local sources	336,224	1,398,398		1,734,622
State sources	21,901			21,901
Federal sources	192,983			192,983
Total revenues	551,108	1,398,398		1,949,506
EXPENDITURES:				
Current :				
Athletics	306,617			306,617
School lunch	503,805			503,805
Capital outlay			82,818	82,818
Debt service:				
Principal repayment		720,000		720,000
Interest and other fiscal charges		639,267		639,267
Total expenditures	810,422	1,359,267	82,818	2,252,507
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(259,314)	39,131	(82,818)	(303,001)
OTHER FINANCING SOURCES (USES):				
Proceeds from school bond loan fund		37,387		37,387
Operating transfers in	222,000			222,000
Operating transfers out			(102,926)	(102,926)
Total other financing sources (uses)	222,000	37,387	(102,926)	156,461
NET CHANGE IN FUND BALANCES	(37,314)	76,518	(185,744)	(146,540)
FUND BALANCES:				
Beginning of year	146,192	306,480	185,744	638,416
End of year	\$ 108,878	\$ 382,998	\$	\$ 491,876

**OLIVET COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007
(with comparative totals for June 30, 2006)**

	School lunch fund	Athletics fund	Totals	
			2007	2006
ASSETS				
Cash and equivalents	\$ 12,224	\$ 339	\$ 12,563	\$ 8,177
Investments	101,042		101,042	132,522
Accounts receivable	735		735	377
Prepays	763	475	1,238	
Due from other funds		1,522	1,522	3,520
Due from fiduciary funds	1,662		1,662	
Due from other governmental units	2,894		2,894	2,562
Inventory - food service	4,863		4,863	4,784
TOTAL ASSETS	\$ 124,183	\$ 2,336	\$ 126,519	\$ 151,942
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 881	\$	\$ 881	\$
Accrued salaries and related items	357	1,003	1,360	1,950
Deferred revenue	4,437		4,437	3,719
Due to other funds	10,963		10,963	81
TOTAL LIABILITIES	16,638	1,003	17,641	5,750
FUND BALANCES:				
Reserved for inventory	4,863		4,863	4,784
Undesignated	102,682	1,333	104,015	141,408
TOTAL FUND BALANCES	107,545	1,333	108,878	146,192
TOTAL LIABILITIES AND FUND BALANCES	\$ 124,183	\$ 2,336	\$ 126,519	\$ 151,942

**OLIVET COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2007
(with comparative totals for the year ended June 30, 2006)**

	School lunch fund	Athletics Fund	Totals	
			2007	2006
REVENUES:				
Food sales	\$ 250,883	\$	\$ 250,883	\$ 228,889
Federal sources	192,983		192,983	180,914
State sources	21,901		21,901	23,241
Investment income	48	16	64	50
Athletic events		85,277	85,277	89,308
	<u>465,815</u>	<u>85,293</u>	<u>551,108</u>	<u>522,402</u>
EXPENDITURES:				
Salaries and wages	149,082	169,228	318,310	307,992
Employee benefits	51,594	48,986	100,580	97,692
Supplies and other expenses	95,905		95,905	48,477
Food costs	207,224		207,224	188,982
Athletic expenses		88,403	88,403	87,083
	<u>503,805</u>	<u>306,617</u>	<u>810,422</u>	<u>730,226</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(37,990)	(221,324)	(259,314)	(207,824)
OTHER FINANCING SOURCES:				
Operating transfer in from general fund		222,000	222,000	215,484
NET CHANGE IN FUND BALANCES	(37,990)	676	(37,314)	7,660
FUND BALANCES, beginning of year	<u>145,535</u>	<u>657</u>	<u>146,192</u>	<u>138,532</u>
FUND BALANCES, end of year	<u>\$ 107,545</u>	<u>\$ 1,333</u>	<u>\$ 108,878</u>	<u>\$ 146,192</u>

**OLIVET COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
NONMAJOR COMBINING BALANCE SHEET
JUNE 30, 2007
(with comparative totals for June 30, 2006)**

	<u>2002</u> <u>debt</u>	<u>2003</u> <u>debt</u>	<u>2005</u> <u>debt</u>	<u>Totals</u>	
				<u>2007</u>	<u>2006</u>
ASSETS					
Cash and equivalents	\$ 89,813	\$ 145,267	\$ 66,694	\$ 301,774	\$ 93,779
Taxes receivable	23,919	39,163	18,001	81,083	48,879
Due from other funds	141			141	
TOTAL ASSETS	<u>\$ 113,873</u>	<u>\$ 184,430</u>	<u>\$ 84,695</u>	<u>\$ 382,998</u>	<u>\$ 142,658</u>
 FUND BALANCES					
Fund balances:					
Reserved for debt service	<u>\$ 113,873</u>	<u>\$ 184,430</u>	<u>\$ 84,695</u>	<u>\$ 382,998</u>	<u>\$ 142,658</u>

**OLIVET COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
NONMAJOR COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2007**

	<u>2002</u> <u>debt</u>	<u>2003</u> <u>debt</u>	<u>2005</u> <u>debt</u>	<u>Total</u> <u>2007</u>
REVENUES:				
Local sources:				
Current taxes	\$ 412,097	\$ 674,541	\$ 310,130	\$ 1,396,768
Investment income	1,098	308	224	1,630
Total revenues	<u>413,195</u>	<u>674,849</u>	<u>310,354</u>	<u>1,398,398</u>
EXPENDITURES:				
Principal repayment	285,000	410,000	25,000	720,000
Interest and other fiscal charges	76,977	160,422	401,868	639,267
Total expenditures	<u>361,977</u>	<u>570,422</u>	<u>426,868</u>	<u>1,359,267</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	51,218	104,427	(116,514)	39,131
OTHER FINANCING SOURCES:				
Proceeds from school bond loan fund			37,387	37,387
NET CHANGE IN FUND BALANCES	51,218	104,427	(79,127)	76,518
FUND BALANCES:				
Beginning of year	62,655	80,003	163,822	306,480
End of year	<u>\$ 113,873</u>	<u>\$ 184,430</u>	<u>\$ 84,695</u>	<u>\$ 382,998</u>

**OLIVET COMMUNITY SCHOOLS
FIDUCIARY FUNDS
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY ACTIVITY - AGENCY FUND
YEAR ENDED JUNE 30, 2007**

	<u>Balance</u> <u>6/30/2006</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u> <u>6/30/2007</u>
High School:				
Business	\$ 455	\$	\$	\$ 455
1993	1			1
1997	(48)			(48)
1998	372			372
2000	1,114			1,114
2002	375			375
2003	1,533			1,533
2004	(89)			(89)
2005	2,721			2,721
2006	2,600			2,600
2007	3,511	1,168	4,181	498
2008	2,171	3,304	3,718	1,757
2009	412	2,940	2,244	1,108
2010		3,522	2,503	1,019
FFA	234	13,606	13,651	189
Academic awards		1,390	1,390	
Art club	44			44
Choir patron	1,773	6,034	7,102	705
Choir trip	3,097	20,391	21,266	2,222
Drama	1,067	6,702	7,046	723
In house	613	14,006	13,346	1,273
Interest	713	52		765
Library	(582)			(582)
Newspaper	18			18
Student government	2,833	3,778	3,801	2,810
Volleyball	1,208	440	50	1,598
Arts festival	244		11	233
National Honor Society	2,763	45,949	44,949	3,763
Plan PSA tests	85	288	288	85
Quiz bowl	4			4
Unknown	5	75	75	5
Year book previous	(1,468)			(1,468)

**OLIVET COMMUNITY SCHOOLS
FIDUCIARY FUNDS
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY ACTIVITY - AGENCY FUND
YEAR ENDED JUNE 30, 2007**

	<u>Balance 6/30/2006</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 6/30/2007</u>
High School (Concluded):				
Year book 2005-06	\$ 4,065	\$ 1,279	\$ 5,344	\$
Year book 2006-07		8,141	3,581	4,560
Physical Ed	414			414
Alumni Contribution		3,270	2,090	1,180
Teacher of the Year	1,000		1,000	
Timothy Holton Fund	130	45	36	139
OHS Donations	45		45	
Environmental Club	14			14
Wrestling	1	540	541	
Cheerleading	444			444
SADD	239			239
Boys basketball	(651)	1,970	1,824	(505)
Senior send off	678	9,231	10,196	(287)
Soccer	1,458			1,458
Band boosters	978			978
Softball	644			644
	<u>37,238</u>	<u>148,121</u>	<u>150,278</u>	<u>35,081</u>
Total high school				
Middle School:				
4th Grade trip	4,447	24,357	27,020	1,784
4th Grade Chavez	(3)			(3)
4th Gehrig	33	423	167	289
4th Wilbourn	350	637	409	578
4th Miller	428	292	880	(160)
4th Toburen	(38)	279	90	151
5th Vistemaker	60	430	689	(199)
5th Wheeler	(31)	507	509	(33)
5th Worden	259	538	599	198
5th Turner	(13)	334	702	(381)

**OLIVET COMMUNITY SCHOOLS
FIDUCIARY FUNDS
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY ACTIVITY - AGENCY FUND
YEAR ENDED JUNE 30, 2007**

	<u>Balance</u> <u>6/30/2006</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u> <u>6/30/2007</u>
Middle School (Continued):				
5th Olmstead	\$ 676	\$	\$ 21	\$ 655
6th Grade account	30	16		46
6th Ethiopian	135	2,678	2,313	500
7th Grade account	300	10		310
8th Grade account	(791)	1,579	2,324	(1,536)
8th Grade CHICAGO	910			910
"Adults Who Care"	334			334
Band account	119			119
Baseball account	1,060	656	1,008	708
Grasp	383	1,188	1,226	345
Awards banquet	60			60
Board of Education flower fund	(74)	850	542	234
Book fair	3,205	6,806	10,264	(253)
Choir	10			10
Coffee	320	2,029	1,124	1,225
Fundraiser	5,240	24,200	25,774	3,666
Interest	2,374	55	1,126	1,303
Office	1,400	1,351	1,914	837
Vending - Savings	505	275	439	341
Vending Snacks	360	3,087	449	2,998
Vending Beverages	246	7,826	3,325	4,747
4-5 Student Council	186		216	(30)
WKK Fitness Grant	(150)	150		
5th Flood	284	713	807	190
Science Activity	482		355	127
Mathematics Activity	929	388	149	1,168
Student services		330	203	127
Staff scholar	105			105
Student Council	1,490	4,185	3,618	2,057
Summer school	3,172			3,172
Spencer Room		242		242

**OLIVET COMMUNITY SCHOOLS
FIDUCIARY FUNDS
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY ACTIVITY - AGENCY FUND
YEAR ENDED JUNE 30, 2007**

	<u>Balance 6/30/2006</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 6/30/2007</u>
Middle School (Concluded):				
Marchett Environmental	\$ 1,473	\$ 45	\$	\$ 1,518
Math/Science Sly	93	240		333
Musical		3,596	3,807	(211)
St Jude's Math-A-Thon	60			60
Sweatshirt Taylor	108			108
Ms. Daly physical education	685	440	908	217
5th Grade camp	3,767	10,663	11,629	2,801
4-5 Teachers pop fund	369	1,772	1,083	1,058
Ski club	(420)	1,652	2,046	(814)
Kolar SPED room fund	516	222		738
Social studies	1,196	835	50	1,981
ELA activity	1,276	2,058	9	3,325
Movie Night SPED Ed	121	68		189
SAP Club	903			903
Art club	500		157	343
	<u>39,439</u>	<u>108,002</u>	<u>107,951</u>	<u>39,490</u>
Total middle school				
Elementary School:				
KDG Wine	508	1,007	851	664
KDG Sheldon	751	1,103	1,106	748
KDG Gessner	306	874	1,085	95
KDG Hubbard-Cool	330	868	765	433
KDG Andrews	275	1,508	1,330	453
1st Porter	470	511	840	141
1st London	1,483	1,047	545	1,985
1st Johnson	348	848	850	346
1/2 Shrontz - Tatrow	582	962	1,322	222
1/2 Wixson	342	618	951	9
1/2 Longden		581	169	412
2nd Krauss	140	98	245	(7)
2nd Fisk	1,143	282	376	1,049
3rd Amey	101	485	262	324
3rd Crawford	174	406	399	181
3rd Johnson	15	570	557	28

**OLIVET COMMUNITY SCHOOLS
FIDUCIARY FUNDS
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY ACTIVITY - AGENCY FUND
YEAR ENDED JUNE 30, 2007**

	<u>Balance 6/30/2006</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 6/30/2007</u>
Elementary School (Concluded):				
3rd Wank	\$ 590	\$ 385	\$ 862	\$ 113
3rd Walker	(86)	320	332	(98)
Book Fair	985	15,573	13,026	3,532
Spartan Labels	1,145	1,891	1,865	1,171
Fund raiser	57	28,620	28,796	(119)
Interest	75		64	11
Office	2,147	2,624	4,104	667
Pop fund	913	3,134	3,197	850
Lori Post Fund	547	1,690	2,259	(22)
3rd Peters		529	216	313
Science Bucienski	8			8
Sum + Fun	903			903
Special education	69	323	187	205
Unknown	78		3	75
Johncock Music	14			14
Reg Grant/Davis	(3)	253	250	
Project fund	7,592	11,026	10,648	7,970
	<u>22,002</u>	<u>78,136</u>	<u>77,462</u>	<u>22,676</u>
Total elementary school	<u>\$ 98,679</u>	<u>\$ 334,259</u>	<u>\$ 335,691</u>	<u>\$ 97,247</u>

**OLIVET COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2007**

Bond issue dated November 19, 2002 for erecting, furnishing and equipping an addition or additions to the Fern Persons Elementary School and Middle School/High School including an auditorium, classrooms and office space; partially remodeling, furnishing and refurnishing, equipping and re-equipping and acquiring, installing and equipping technology for the Fern Persons Elementary School and Middle School/High School buildings; improving athletic facilities; partially remodeling, furnishing and re-furnishing, equipping and re-equipping the existing gymnasium and cafeteria; developing and improving the site; and to pay the costs of issuing the bonds.

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 305,000	\$ 33,433	\$ 33,433	2008	\$ 371,866
320,000	28,095	28,095	2009	376,190
340,000	21,695	21,695	2010	383,390
360,000	14,895	14,895	2011	389,790
380,000	7,695	7,695	2012	395,390
<u>\$ 1,705,000</u>	<u>\$ 105,813</u>	<u>\$ 105,813</u>		<u>\$ 1,916,626</u>

The above bonds have interest rates from 3.50% to 4.05%.

**OLIVET COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2007**

Bond issue dated March 26, 2003 for the purpose of refunding the School District's outstanding 1993 refunding bonds which are due and payable in the years 2005 through 2020.

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 400,000	\$ 76,358	\$ 76,358	2008	\$ 552,716
390,000	71,458	71,458	2009	532,916
375,000	65,998	65,998	2010	506,996
365,000	60,373	60,373	2011	485,746
355,000	54,533	54,533	2012	464,066
340,000	48,675	48,675	2013	437,350
355,000	42,895	42,895	2014	440,790
345,000	36,683	36,683	2015	418,366
330,000	30,473	30,473	2016	390,946
325,000	24,368	24,368	2017	373,736
310,000	18,193	18,193	2018	346,386
305,000	12,148	12,148	2019	329,296
295,000	6,048	6,048	2020	307,096
<u>\$ 4,490,000</u>	<u>\$ 548,203</u>	<u>\$ 548,203</u>		<u>\$ 5,586,406</u>

The above bonds have interest rates from 2.45% to 4.10%.

**OLIVET COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2007**

Bond issue dated December 15, 2005 for the purpose of refunding the School District's outstanding 2002 general obligation bonds which are due and payable in the years 2007 through 2028.

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 25,000	\$ 200,122	\$ 200,122	2008	\$ 425,244
30,000	199,684	199,684	2009	429,368
30,000	199,159	199,159	2010	428,318
30,000	198,634	198,634	2011	427,268
30,000	197,884	197,884	2012	425,768
435,000	197,134	197,134	2013	829,268
460,000	186,259	186,259	2014	832,518
485,000	174,759	174,759	2015	834,518
505,000	162,634	162,634	2016	830,268
525,000	152,534	152,534	2017	830,068
540,000	142,034	142,034	2018	824,068
560,000	131,234	131,234	2019	822,468
580,000	120,034	120,034	2020	820,068
600,000	108,434	108,434	2021	816,868
615,000	96,434	96,434	2022	807,868
635,000	84,134	84,134	2023	803,268
655,000	71,434	71,434	2024	797,868
675,000	58,334	58,334	2025	791,668
695,000	44,413	44,413	2026	783,826
700,000	29,644	29,644	2027	759,288
695,000	14,769	14,769	2028	724,538
<u>\$ 9,505,000</u>	<u>\$ 2,769,701</u>	<u>\$ 2,769,701</u>		<u>\$ 15,044,402</u>

The above bonds have interest rates from 3.5% to 5.0%.

**OLIVET COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2007**

\$229,022 Durant Bond issued November 24, 1998:

<u>Principal due</u> <u>May 1,</u>	<u>Interest due</u> <u>May 1,</u>	<u>Debt service requirement for fiscal</u> <u>year</u>	
		<u>June 30,</u>	<u>Amount</u>
\$	\$	2008	\$
46,541	18,030	2009	64,571
7,979	1,631	2010	9,610
8,359	1,251	2011	9,610
8,756	854	2012	9,610
9,172	438	2013	9,610
<u>\$ 80,807</u>	<u>\$ 22,204</u>		<u>\$ 103,011</u>

The above bond issue bears interest at 4.76%. The bond proceeds were used for erecting, furnishing and equipping additions to the existing high school building and developing and improving the site.

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.

**OLIVET COMMUNITY SCHOOLS
MICHIGAN SCHOOL BOND LOAN FUND
JUNE 30, 2007**

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Program. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State under this program have been summarized as follows:

<u>Year ended June 30,</u>	<u>Loan proceeds</u>	<u>Interest payments</u>	<u>Interest expense</u>	<u>Loan balance</u>
1996	\$ 2,019,158	\$	\$ 233,407	\$ 2,252,565
1997	287,804		131,316	2,671,685
1998	244,237		151,526	3,067,448
1999	275,007		163,703	3,506,158
2000	134,109		183,707	3,823,974
2001	111,537		191,936	4,127,447
2002	55,165	(125,000)	175,225	4,232,837
2003	102,170		144,788	4,479,795
2004	216,397		130,821	4,827,013
2005	198,600		147,255	5,172,868
2006	181,000		216,833	5,570,701
2006	37,387		265,972	5,874,060
Total June 30, 2007	<u>\$ 3,862,571</u>	<u>\$ (125,000)</u>	<u>\$ 2,136,489</u>	<u>\$ 5,874,060</u>

**OLIVET COMMUNITY SCHOOLS
LAND CONTRACT
JUNE 30, 2007**

Land contract due in annual installments of \$10,253 with balloon payment due April 30, 2009, interest at 3.99%

Principal due April 30,	Interest due April 30,	Debt service requirement for fiscal year	
		June 30,	Amount
\$ 10,253	\$	2008	\$ 10,253
109,094	14,286	2009	123,380
\$ 119,347	\$ 14,286		\$ 133,633



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**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
Olivet Community Schools
Olivet, Michigan

September 14, 2007

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Olivet Community Schools as of and for the year ended June 30, 2007, which collectively comprise Olivet Community School's basic financial statements and have issued our report thereon dated September 14, 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 Olivet Community School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Olivet Community 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*.

To Board of Education
Olivet Community Schools
Olivet, Michigan

September 14, 2007

We noted certain matters that we reported to management of Olivet Community Schools in a separate letter dated September 14, 2007.

Olivet Community School's response to the findings identified in our audit are described in the accompanying schedule of findings and response. We did not audit Olivet Community School's response and, accordingly, we express no opinion on it.

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

Mayer, Costenizer & Ellis, P.C.

Certified Public Accountants

Schedule of Findings and Responses

Finding 2007-1

Finding considered a significant deficiency

Criteria:

Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition

Currently, the District's staff prepares the interim financial reports and assists the external auditor in the preparation of the annual audit report.

Cause

The staff of the district does understand all information included in the annual financial statements; however, assistance of the external auditor was utilized in preparing the footnotes to the financial statements and certain reconciliations required by Governmental Accounting Standards Board Statement #34..

Effect

Utilization of the external auditor in preparing the footnotes and certain reconciliations to the financial statements assists management with the external financial reporting responsibility, to ensure their financial statements are accurate.

Recommendation

At this time, we recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.



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September 14, 2007

To the Board of Education
Olivet Community Schools
Olivet, Michigan

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 14, 2007 on the financial statements of Olivet Community Schools. Our comments are summarized as follows:

New Notification Requirements for Related Not-for-Profit Organizations with Gross Receipts of \$25,000 or less Such as Booster Groups and PTO's

The Pension Protection Act of 2006 requires these organizations to file an annual electronic notice for tax periods beginning after December 31, 2006, if these organizations are not required to file Form 990 (or 990-EZ), Return of Organization Exempt From Income Tax because their gross receipts are normally \$25,000 or less.

If they are a section 509(a)(3) supporting organization, generally, they must file a paper or electronic Form 990 (or Form 990-EZ) even if their gross receipts are normally \$25,000 or less. However, if they are a supporting organization of a religious organization and their gross receipts are normally \$5,000 or less they may file an annual electronic notice instead of Form 990 (or Form 990-EZ).

The annual electronic notice is due by the 15th day of the fifth month after the close of their tax period. For example, if their tax period ends on December 31, 2007, the annual electronic notice is due May 15, 2008.

The notice will require these organizations to provide the following information:

- Organization's legal name,
- Any other names your organization uses,
- Organization's mailing address,
- Organization's website address (if applicable),
- Organization's employer identification number (EIN),
- Name and address of a principal officer of your organization.
- Organization's annual tax period,
- Verify that your organization's annual gross receipts are still normally \$25,000 or less, and;
- Indicate if your organization has terminated (is no longer in business).

IRS 403(b) Final Regulations

Intent

The intent of the regulations is to consolidate guidance on §403(b) plans issued since 1964.

Effective Date

These regulations are generally effective for taxable years beginning after December 31, 2008.

Plan documents should be in place December 31, 2008 to be implemented as of January 1, 2009.

Written Plan Document

The IRS is working on a model plan document and guidance for school districts. This should contain the provisions necessary for compliance with the new rules.

A plan may consist of several documents, or make reference to other documents, such as annuity contracts and custodial agreements. The employer must ensure that there are no conflicts or inconsistencies between the documents.

The document must contain eligibility rules, benefits available, limitations, allowable vendors, and time and form distributions.

The document must allocate administrative and compliance responsibilities to the employer and/or designated third parties. The plan may not allocate compliance responsibilities to the participants.

Other Provisions

- Exchange of investment products
- Universal availability
- Distributions
- Terminations

Suggestions

Set up a committee of benefit officials and participants to review the current plan and design the future plan.

Determine if you need a third party administrator (TPA) to administer the plan and create a request for proposal (RFP) for services.

Offer employee education. The IRS is developing this type of information as well as a model plan for school districts.

New Auditing Standards

Recently, 10 new auditing standards have been released and are effective, or will become effective for your June 30, 2008 year end. In reviewing the new standards, they will have an impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach. One area which will continue to be emphasized is your internal controls.

New Interpretation Of Deferred Compensation Rules Applicable To Teachers And Similar Employees

In August of 2007, the IRS issued new questions and answers related to deferred compensation which can effect teachers an similar employees.

When employees can elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation under the Internal Revenue Code. These payments could be subject to an additional 20% tax if the specified procedures are not followed. For example, school employees who work 10 months but are paid over 12 months would be deferring compensation into a future year.

These rules are not applicable unless an election must be made. If a school district provides that all employees must spread their pay over 12 months, these rules do not apply.

In order to avoid imposition of extra taxes, the employees must give a written or electronic election to notify the employer that they want to spread out the compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid (for example, ratably over the 12 months starting with the beginning of the school year). This election does not need to be made for future years if the arrangement provides that the election will remain in place until the employee elects a change. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 - 2009 school year.

Conclusion

We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

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

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Mamae Costenison & Ellis, P.C.



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September 14, 2007

To the Board of Education
Olivet Community Schools
Olivet, Michigan

We have audited the financial statements of Olivet Community Schools for the year ended June 30, 2007, and have issued our report thereon dated September 14, 2007. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

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

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

As part of obtaining reasonable assurance about whether Olivet Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Olivet Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by Olivet Community Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

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

Management's estimate of the liability of the payout of employee compensated absences upon their retirement is based on expected payout. In addition, certain fixed assets were originally recorded using external appraisers estimates. Certain allocations on the statement of activities are based on estimates. We evaluated the key factors and assumptions used to develop the balance of compensated absences and value of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

4. Audit Adjustments

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

5. Disagreements with Management

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

6. Consultations with Other Independent Accountants

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

7. Issues Discussed Prior to Retention of Independent Auditors

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

We have discussed SAS #112 and the ability of the District's personnel to independently prepare the external audit report including all required financial statement disclosures.

Management has informed us they will utilize our technical expertise to assist in preparing the audited financial statements.

8. Difficulties Encountered in Performing the Audit

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

This information is intended solely for the use of the finance committee, board of directors, and management of Olivet Community Schools, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mamae Costenison & Ellis, P.C.