

**Oneida Township School District #3
Grand Ledge, Michigan**

FINANCIAL STATEMENTS

June 30, 2007

Oneida Township School District #3

Grand Ledge, Michigan

BOARD OF EDUCATION

June 30, 2007

Diane McNeil

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Oneida Township School District #3

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Oneida Township School District #3
Grand Ledge, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Oneida Township School District #3 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 Oneida Township School District #3' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Oneida Township School District #3 as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2008 on our consideration of Oneida Township School District #3' 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 important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of 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.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 26, 2008

Oneida Township School District #3

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

This section of Oneida Township School District #3's ("Oneida" or the "District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2007.

Financial Highlights

- The District's financial status dropped due to the need to rebuild the furnace/storage area and install a better heating system. We installed two furnaces to provide a system which allows backup should one fail along with heating efficiency by one furnace operating in warmer weather and the second starting in colder weather. This has resulted in savings in both issues with no heat and with less energy use. Labor was donated where possible to minimize the impact of this need.
- Remained approximately the same with the number of students remaining approximately the same and the interest income remaining approximately the same.
- The District worked hard to continue to control expenses despite increasing utility and maintenance costs. Parents and volunteers continued to help where possible. Again, a decrease in volunteers available for some maintenance items meant that purchased services had to be sought.
- The District has a great commitment to financial accountability with all purchases and expenditures brought before the Board for approval by the entire Board. All alternatives are discussed to make sure that the best possible decision is made.

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 statements.
- The governmental funds statements tell how basic services like regular and supporting services were financed in the short-term as well as what remains for future spending.

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.

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.

Oneida Township School District #3

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

- 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 - All of the District's basic services are included here, such as instruction and support services. Property taxes and state formula aid finance most of these activities.

Oneida School District #3's Net Assets

	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 299,721	\$ 294,420
Capital Assets	<u>79,780</u>	<u>72,454</u>
	<u>379,501</u>	<u>366,874</u>
Current liabilities	<u>23,390</u>	<u>11,754</u>
Net assets		
Invested in capital assets	79,780	72,454
Unrestricted	<u>276,331</u>	<u>282,666</u>
Total net assets	<u>\$ 356,111</u>	<u>\$ 355,120</u>

Changes in Oneida School District #3's Net Assets

	<u>2007</u>	<u>2006</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,369	\$ 1,500
General Revenues:		
Property taxes	68,144	69,751
State aid - unrestricted	61,427	80,521
Investment earnings	<u>12,607</u>	<u>9,498</u>
Total revenues	<u>143,547</u>	<u>161,270</u>
Expenses:		
Instruction	\$ 112,446	\$ 116,643
Support services	25,097	30,629
Unallocated depreciation	<u>5,013</u>	<u>3,849</u>
Total expenses	<u>142,556</u>	<u>151,121</u>
Change in net assets	<u>\$ 991</u>	<u>\$ 10,149</u>

Oneida Township School District #3

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

Financial Analysis of the District's Funds

The fund financial statements provide more detailed information about the District's funds, focusing on the General Fund, not the District as a whole. The General Fund is an accounting device the District uses to keep track of specific sources of funding and spending on particular programs. Fund balance in the General Fund stands at \$288,567 (all unreserved/undesignated), down from \$294,420 in the prior year.

General Fund Budgetary Highlights

We continue to try to give salary increases to teaching staff where possible in the form of incentive payments upon completion of goals and objectives. The teacher and the Board of Directors agree upon goals for the year and incentive payments are made upon the Board's review at the end of the year and evaluations of accomplishments. This has been a successful program and we feel that the costs are worth the benefits.

A teacher's meeting is held at the beginning of the year with the School Board during which teaching staff and the Board brainstorm to come up with a year long plan of programs, field trips, etc. which tie in with the subjects that are being taught. At that time, the staff presents a "wish list" to the School Board for material and resources to implement those programs. We are very proud of the results of this effort.

CAPITAL ASSET AND DEBT ADMINISTRATION

	2007			2006
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land	\$ 20	\$ -	\$ 20	\$ 20
Land improvements	6,471	1,486	4,985	5,416
Buildings and improvements	54,315	5,179	49,136	38,079
Equipment and furniture	34,381	8,742	25,639	28,939
Total	<u>\$ 95,187</u>	<u>\$ 15,407</u>	<u>\$ 79,780</u>	<u>\$ 72,454</u>

The District's only long-term liability is for compensated absences, which amounted to \$12,236 at June 30, 2007.

Financial Issues

- The Oneida District School Board and the surrounding community as well as parents have worked hard to insure that the focus has been on the education of the children and their success. Our scores continue to be high on all MEAP testing.

Our School District consists of a single one room school with a small building known as our resource center where items are stored necessary to education such as extra books and supplies, as well as a small office and records from previous years. The resource center also serves as the computer center where the children receive their computer education.

Our School has not only students from within the District but from other districts. We serve as a unique niche to provide students whose parents would home school if that were the only other option as well as students who larger school districts have not been able to provide the individual attention to make their school experience a success. We have many elementary students arrive who have been disciplinary problems in other districts, but with the attention and standards available at our school, become high achievers and score well in testing usually by the end of the year.

All this increases the passion that parents and the community feel for the School.

Oneida Township School District #3

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

- Unfortunately, the same situation that makes the School such a great place for the students creates an increasing stress on the District itself. Resources and funds simply are not there to provide the administrative support that other school districts have.

Our School District administrative responsibilities have been held by the three School Board members and the assistance of a contractual bookkeeper. This meant School Board members not only did the State of Michigan Reporting, but took care of repairs, and any other need of the School outside of teaching. This system worked well, until recent years when the financial reporting and the State of Michigan Report became increasingly complicated.

Actions Taken To Resolve Issues

- Recognizing the inability of our Board to handle these responsibilities any longer, as all Board members have full time jobs outside of the educational realm, this year we began a desperate plea for help. Auditors agreed that the vary nature of school financial reporting made it difficult for those not daily involved with education to handle this type of responsibility.
- The Board of Education started by questioning our current auditors to recommend bookkeepers who were trained specifically in the needs of a school. (Our past and current bookkeepers had no knowledge in this area and the need for constant research on the internet to stay abreast of reporting and requirements was not possible for them as well as beyond their skills sets). They were unable to make such a recommendation and our efforts to find such a person were without success.
- The Board of Education also began contacting other school districts of our size to find out how they handled the situation. We were informed that many of them clustered the financial responsibilities and had a full time staff member to handle those responsibilities. Unfortunately, the proximity of those school districts to us made that impossible. Other schools reported that their Intermediate School District handled those responsibilities.
- At that time, the Board of Education began talking in earnest to our Intermediate School District and in Spring 2007 received a proposal for taking over the financial and State Reporting Responsibilities for our District. At this time, our District has purchased the appropriate computer software and internet access to do so. All State Reporting authorizations were processed in early 2008 so that the Intermediate School District now files all of our State of Michigan Reports.
- Financial Information for 2006-2007 forward has been provided to the Eaton Intermediate School District and we have been notified that they are planning on providing all recordkeeping from this point forward.

Factors Bearing on the District's Future

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

- A change in the state laws impacting the Schools of Choice.
- Increasing reporting responsibilities both financial and State of Michigan.
- Student enrollment is uncertain.
- Increasing responsibilities for Board members make it difficult to replace a Board member should one resign.

Oneida Township School District #3

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

Summary

It is with great sadness that the Board of Education recognized that the cost of financial accountability and State of Michigan reporting may compromise our ability to operate the School. Not only does it put a great deal of responsibility and stress on individuals who serve on the Board whose reason for serving is their commitment to the School, but the focus becomes the finances rather than the education of the students. The responsibility weighs heavily on current School Board members, whose relationship with the school spans 30 years or more, but it makes it extremely difficult to find new School Board members who are willing to take on the responsibility.

A large majority of our students go on to higher education, based on the solid start they receive from our School. Students have become journalists, dentists, high achievers in the military (including 3 who have served in Operation Iraq Freedom) and a surprising number of teachers. The most surprising thing of all is the large number of students who visit the school as adults, often when coming home for the holidays because their appreciation for the education they received there.

It is our great hope, that the new relationship with the Eaton Intermediate School District will resolve these issues and return the focus to providing a wonderful educational experience for the children from Kindergarten to Fifth Grade who found their passion for learning at our school.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, 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 Treasurer's office at 3523 E. Strange Highway, Grand Ledge, Michigan 48837 or by phone at (517) 627-8611.

BASIC FINANCIAL STATEMENTS

Oneida Township School District #3

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 50,888
Investments	232,071
Accrued interest receivable	5,719
Due from other governmental units	<u>11,043</u>
Total current assets	<u>299,721</u>
Noncurrent assets	
Capital assets not being depreciated	20
Capital assets, net of accumulated depreciation	<u>79,760</u>
Total noncurrent assets	<u>79,780</u>
TOTAL ASSETS	379,501
LIABILITIES	
Current liabilities	
Accounts payable	760
Accrued payroll and withholding taxes	<u>10,394</u>
Total current liabilities	11,154
Noncurrent liabilities	
Compensated absences	<u>12,236</u>
TOTAL LIABILITIES	<u>23,390</u>
NET ASSETS	
Invested in capital assets	79,780
Unrestricted	<u>276,331</u>
TOTAL NET ASSETS	<u>\$ 356,111</u>

See accompanying notes to financial statements.

Oneida Township School District #3

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Governmental Activities	Expenses	Program Revenues Charges for Services	Net (Expense) Revenues and Changes in Net Assets
Functions/Programs			
Instruction	\$ 112,446	\$ 1,369	\$ (111,077)
Supporting services	25,097	-	(25,097)
Unallocated depreciation	5,013	-	(5,013)
TOTAL	\$ 142,556	\$ 1,369	(141,187)
General revenues			
Property taxes			68,144
Investment earnings			12,607
State school aid - unrestricted			61,427
TOTAL GENERAL REVENUE			142,178
CHANGE IN NET ASSETS			991
Net assets, beginning of the year			355,120
Net assets, end of the year			\$ 356,111

See accompanying notes to financial statements.

Oneida Township School District #3
GOVERNMENTAL FUND BALANCE SHEET

June 30, 2007

	<u>General</u>
ASSETS	
Cash	\$ 50,888
Investments	232,071
Accrued interest receivable	5,719
Due from other governmental units	<u>11,043</u>
TOTAL ASSETS	<u>\$ 299,721</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 760
Accrued payroll and withholding taxes	<u>10,394</u>
TOTAL LIABILITIES	11,154
FUND BALANCE	
Unreserved, undesignated	<u>288,567</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 299,721</u>

See accompanying notes to financial statements.

Oneida Township School District #3

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2007

Total fund balance - governmental fund \$ 288,567

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

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

The cost of capital assets is	\$ 95,187	
Accumulated depreciation is	<u>(15,407)</u>	
		79,780

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

Compensated absences	<u>(12,236)</u>
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Net assets of governmental activities \$ 356,111

See accompanying notes to financial statements.

Oneida Township School District #3

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended June 30, 2007

	<u>General</u>
REVENUES	
Local sources	\$ 82,120
State sources	<u>61,427</u>
TOTAL REVENUES	143,547
EXPENDITURES	
Current	
Instruction	111,964
Supporting services	25,097
Capital outlay	<u>12,339</u>
TOTAL EXPENDITURES	<u>149,400</u>
NET CHANGE IN FUND BALANCE	(5,853)
Fund balance, beginning of year	<u>294,420</u>
Fund balance, end of year	<u><u>\$ 288,567</u></u>

See accompanying notes to financial statements.

Oneida Township School District #3

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

Year Ended June 30, 2007

Net change in fund balance - total governmental fund \$ (5,853)

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

Capital outlays are reported as expenditures in governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$	12,339	
Depreciation expense		<u>(5,013)</u>	
Excess of capital outlay over depreciation expense			7,326

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund. These activities consist of:

(Increase) in accrued compensated absences			<u>(482)</u>
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Change in net assets of governmental activities \$ 991

See accompanying notes to financial statements.

Oneida Township School District #3

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Oneida Township School District #3 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Oneida Township School District #3 (primary government). The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All activities of the District are included.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The fund financial statements present the District's only fund. The General Fund is the general operating fund of the District and is considered a major fund. It is used to account for all financial resources provided to the District to support the educational programs and general operations of the District.

3. Measurement Focus

The district-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the district-wide statements are provided that explain the differences in detail.

The governmental fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide financial statements are prepared using the accrual basis of accounting.

Oneida Township School District #3

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

5. Budgets and Budgetary Accounting

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 fund.

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

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

- a. The School Board considers a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. Formal budgetary integration is employed as a management control device during the year for the general fund.
- f. The budget, as presented, has not been amended. No supplemental appropriations were made during the year.

6. Cash and Investments

Cash consists of checking and savings accounts.

Investments consist of certificates of deposit with an original maturity of greater than 90 days. Investments are recorded at market value.

Oneida Township School District #3

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Capital Assets

Capital assets include land, buildings and additions, equipment, and furniture and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$1,000 and an estimated useful life of more than one year. Capital assets are not recorded in the governmental fund. Instead, capital acquisition and construction are reflected as expenditures in governmental fund, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	50 years
Furniture and fixtures	20 years
Land improvements	15 years
Computer and outdoor equipment	5 years

8. Due From Other Governmental Units

Due from other governmental units consists of amounts owed to the District for State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2007 to be paid in July and August 2007. The total amount of \$11,043 due from other governmental units consists of State Aid.

9. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated sick leave amounts expected to be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a liability in the district-wide financial statements.

10. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer. 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. District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year-end).

The District levies taxes of \$18.00 and \$6.1474 per \$1,000 of taxable valuation on non-homestead property and homestead property respectively for general governmental services.

11. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on the average of pupil membership counts taken in September of 2006 and February of 2006. The average calculation was weighted 75% for the September 2006 count and 25% for the February 2006 count.

Oneida Township School District #3

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. State Foundation Revenue - continued

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 nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through five (5) payments made during the year and two (2) payments made in July and August subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

12. Fund Balance

In the fund financial statements, reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designations of fund balance represent tentative management plans that are subject to change. The District currently shows no reserves or designations of fund balance.

13. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND INVESTMENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a state or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this state.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks in the State of Michigan in the name of the School District.

Oneida Township School District #3

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH AND INVESTMENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is custodial credit risk as it relates to 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, the carrying amount of the District's deposits was \$282,959 and the bank balance was \$267,755 of which \$135,684 was covered by Federal depository insurance. The balance of \$132,071 was uninsured and uncollateralized.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The District has not adopted a policy that indicates how the District will minimize credit risk if/when the District has investments that are subject to this type of risk.

Interest rate risk

The District has not adopted a policy that indicates how 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 limiting the weighted average maturity of its investment portfolio to less than a given period of time if/when the District has investments that are subject to this type of risk.

Concentration of credit risk

The District has not adopted a policy that indicates how 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 if/when the District has investments that are subject to this type of risk.

As of June 30, 2007, the deposits referred to above have been reported in the cash caption in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash	\$ 50,888
Investments	<u>232,071</u>
	<u>\$ 282,959</u>

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash and investments were substantially higher at these peak periods than at year-end.

Oneida Township School District #3

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE C: CAPITAL ASSETS

The following is a summary of changes in capital assets during the fiscal year:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 20	\$ -	\$ -	\$ 20
Capital assets being depreciated				
Computer equipment	10,536	-	-	10,536
Furniture and fixtures	2,072	-	-	2,072
Land improvements	6,471	-	-	6,471
Outdoor equipment	21,773	-	-	21,773
Buildings	<u>41,976</u>	<u>12,339</u>	<u>-</u>	<u>54,315</u>
Subtotal	82,828	12,339	-0-	95,167
Less accumulated depreciation for:				
Computer equipment	(3,968)	(2,107)	-	(6,075)
Furniture and fixtures	(331)	(104)	-	(435)
Land improvements	(1,055)	(431)	-	(1,486)
Outdoor equipment	(1,143)	(1,089)	-	(2,232)
Buildings	<u>(3,897)</u>	<u>(1,282)</u>	<u>-</u>	<u>(5,179)</u>
Subtotal	<u>(10,394)</u>	<u>(5,013)</u>	<u>-0-</u>	<u>(15,407)</u>
Net capital assets being depreciated	<u>72,434</u>	<u>7,326</u>	<u>-0-</u>	<u>79,760</u>
Capital assets, net	<u>\$ 72,454</u>	<u>\$ 7,326</u>	<u>\$ -0-</u>	<u>\$ 79,780</u>

Depreciation expense of \$5,013 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE D: COMPENSATED ABSENCES

The following is a summary of changes in compensated absences (including current portion) of the District for the year ended June 30, 2007:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Amounts</u> <u>due within</u> <u>one year</u>
Accumulated compensated absences	<u>\$ 11,754</u>	<u>\$ 482</u>	<u>\$ -</u>	<u>\$ 12,236</u>	<u>\$ -</u>

In recognition of services to the District, accumulated sick leave payments will be paid up to a maximum of forty (40) days upon retirement or voluntary termination of employment to eligible employees according to their respective employment contracts.

Oneida Township School District #3

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE E: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2006, the last year available, may be obtained by contacting the State of Michigan Department of Management and Budget.

MPERS covered payroll (including MIP option) for the year ended June 30, 2007 was \$54,732; the District's total payroll was \$67,787.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten (10) or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death and disability benefits and health and medical, dental, vision and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the year ended June 30, 2007, the District was required by State statute to contribute 16.34% of covered compensation for all wages through September 30, 2006 to the Plan. For the period of October 1, 2006 to June 30, 2007 the District was required by State statute to contribute 17.74% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2007 and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>	<u>Total</u> <u>Contributions</u>
2007	\$ 2,135	\$ 8,139	\$ 10,274
2006	2,226	10,081	12,307
2005	2,108	7,802	9,910

Oneida Township School District #3

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE E: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>
2007	3.9 %	14.9 %
2006	4.2	19.1
2005	3.8	14.2

NOTE F: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the budgetary comparison schedule, the District's budgeted expenditures have been shown (and were adopted) at the functional classification level. During the year ended June 30, 2007, the District incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund Instruction Added needs	\$ -	\$ 5,980	\$ 5,980

NOTE G: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, fleet, liability, in-land marine, equipment breakdown, builder's risk, employee dishonesty, crime, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's 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 District has not been informed of any special assessments being required.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's 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 District has not been informed of any special assessments being required.

REQUIRED SUPPLEMENTARY INFORMATION

Oneida Township School District #3

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 76,001	\$ 76,001	\$ 82,120	\$ 6,119
State sources	80,513	80,513	61,427	(19,086)
TOTAL REVENUES	156,514	156,514	143,547	(12,967)
EXPENDITURES				
Current				
Instruction				
Basic programs				
Salaries	72,900	72,900	75,618	(2,718)
Employee benefits	31,000	31,000	23,606	7,394
Supplies and other	10,200	10,200	6,760	3,440
Added needs	-	-	5,980	(5,980)
Total instruction	114,100	114,100	111,964	2,136
Supporting services				
General administration	12,377	12,377	11,372	1,005
Business	2,400	2,400	2,400	-0-
Operation and maintenance	11,637	11,637	11,325	312
Total supporting services	26,414	26,414	25,097	1,317
Capital outlay	16,000	16,000	12,339	3,661
TOTAL EXPENDITURES	156,514	156,514	149,400	7,114
NET CHANGE IN FUND BALANCE	-0-	-0-	(5,853)	(5,853)
Fund balance, beginning of year	294,420	294,420	294,420	-0-
Fund balance, end of year	\$ 294,420	\$ 294,420	\$ 288,567	\$ (5,853)

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

**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
Oneida Township School District #3
Grand Ledge, Michigan

We have audited the financial statements of the governmental activities and the major fund of Oneida Township School District #3 as of and for the year ended June 30, 2007, which collectively comprise Oneida Township School District #3's basic financial statements and have issued our report thereon dated September 26, 2008. 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 Oneida Township School District #3'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 Oneida Township School District #3's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Oneida Township School District #3's internal control over financial reporting.

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

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

2007-1 TIMELINESS OF FINANCIAL REPORTING

The financial reporting process should be designed to effectively accumulate, process, summarize, and present fairly a complete set of financial statements and supporting information on a timely basis. This should include the timely submission of the District's audited financial statements to the Michigan Departments of Treasury and Education.

The audit fieldwork for Oneida Township School District #3 for the year ended June 30, 2007 did not commence until August 2008. After several significant adjustments, post-closing journal entries, and revisions performed by the Eaton Intermediate School District, the auditors were provided with a final working trial balance in August 2008.

2007-1 TIMELINESS OF FINANCIAL REPORTING

Michigan Public Act 2 of 1968 requires annual financial reports of local units of government to be filed with the Local Audit and Finance Division of the State Department of Treasury within six (6) months after the end of the fiscal year. The Michigan Department of Education requires audits to be submitted to them by November 15th subsequent to the applicable June 30th year end. We recommend that Oneida Township School District #3 assure that future audits of the District are timelier.

2007-2 SEGREGATION OF DUTIES

During our consideration and assessment of fraud risk, we noted that the District may not have sufficient segregation of duties in its accounting structure. Specifically, we noted that one employee has access to all aspects of the accounts receivable and accounts payable cycles, is responsible for maintenance of the general ledger and performs bank reconciliations.

The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, payroll, reconciling bank accounts, access to general ledger, etc.). While this is a common occurrence in many Districts due to the limited number of employees, the District should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We recommend that the District review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we recommend the District management provide a greater review and supervision of employee functions and procedures.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above as 2007-1 and 2007-2 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oneida Township School District #3'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below.

2007-3 INVESTMENT POLICY REQUIRED BY MICHIGAN COMPILED LAW

During the course of our audit, we noted that the District has not adopted an investment policy as required by State law.

Michigan Compiled Law (MCL 129.95) requires the governing body of all public corporations to formally adopt an investment policy that includes, at a minimum, all of the following:

- A statement of the purpose, scope, and objectives, of the policy, including safety, diversification, liquidity, and return on investment.
- A delegation of authority to make investments.
- A list of authorized investment instruments. If the policy authorizes an investment in mutual funds, it shall indicate whether the authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share or also includes securities whose net asset value per share may fluctuate on a periodic basis.
- A statement concerning safekeeping, custody, and prudence.

2007-3 INVESTMENT POLICY REQUIRED BY MICHIGAN COMPILED LAW - CONTINUED

In addition to the requirements of State law, Governmental Accounting Standards Board Statement #40 (GASB 40) requires the disclosure of the District's investment policies related to custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk (if applicable).

We recommend the Board adopt a formal investment policy that complies with Public Act 20 of 1943 and GASB 40. Such formal adoption should be documented in the minutes to the Board meeting.

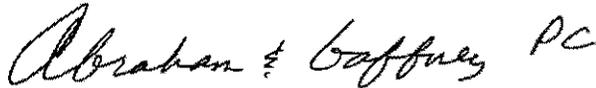
2007-4 UNFAVORABLE BUDGET VARIANCES

During our review of the District's compliance with the budgeting act, we noted that the expenditure had exceeded the amount appropriated in the General Fund.

Michigan Public Act 621 of 1978, as amended, provides that the Board shall adopt formal budgets for the General and shall not incur expenditures in excess of the amounts appropriated. The budget must include all anticipated expenditures and the related revenue and fund equity to fund these expenditures.

We recommend the District continue to monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

This report is intended solely for the information and use of management, the Board of Education of Oneida Township School District #3, others within the District and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 26, 2008