

# Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name PELLSTON PUBLIC SCHOOLS	County EMMET
Fiscal Year End JUNE 30, 2007	Opinion Date SEPTEMBER 10, 2007	Date Audit Report Submitted to State SEPTEMBER 26, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

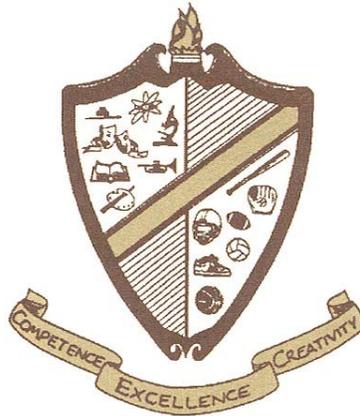
- YES NO Check each applicable box below.** (See instructions for further detail )
- All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - There are no accumulated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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 231-627-3143	
Street Address 902 S. HURON STREET, PO BOX 250		City CHEBOYGAN	State Zip MI 49721
Authorizing CPA Signature <i>Annette Eustice, CPA, CGFM</i>	Printed Name ANNETTE EUSTICE, CPA, CGFM		License Number 1101019667

# **PELLSTON PUBLIC SCHOOLS**



## **FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2007**

# PELLSTON PUBLIC SCHOOLS

## TABLE OF CONTENTS

FOR THE YEAR ENDED JUNE 30, 2007

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	<b><u>PAGE</u></b>
<b>Independent Auditors' Report</b>	1-2
<b>Management's Discussion and Analysis</b>	I-VI
<b>Basic Financial Statements</b>	
District-wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements	
Balance Sheet – Governmental Funds	5-6
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	7-8
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	9
Statement of Fiduciary Net Assets	10
Notes to the Financial Statements	11-25
<b>Supplementary Information</b>	
Combining Balance Sheet – Nonmajor Governmental Funds	26
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	27
Balance Sheet – General Fund	28
Schedule of Revenues and Other Financing Sources – General Fund	29
Schedule of Expenditures and Other Financing Uses – General Fund	30-33
Statement of Changes in Assets and Liabilities – Agency Fund	34-35
Schedule of Indebtedness	36-42
<b>Internal Control and Compliance</b>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	43-45



## INDEPENDENT AUDITORS' REPORT

September 10, 2007

Board of Education  
Pellston Public Schools  
Pellston, Michigan

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

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

In our opinion, the 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 ***Pellston Public Schools*** as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2007, on our consideration of ***Pellston Public Schools***' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financing 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.

Management's Discussion and Analysis on pages I–VI is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ***Pellston Public Schools*** basic financial statements. The supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management of Pellston Public Schools (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007.

### Financial Highlights

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year by \$4,664,843 *net assets (deficit)*. Of this amount debt exceeded net capital assets by \$5,389,133. Unrestricted net assets of \$230,945 may be used to meet the District's ongoing obligations. Net assets of \$493,348 are restricted for debt service.
- The government's total net deficit decreased by \$96,888.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$762,713, a decrease of \$22,422 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$261,545 or 4.2% percent of total General Fund expenditures (excluding transfers).
- The District incurred additional notes payable of \$81,886 and made principal payments of \$507,832 during the year.
- The District repaid the remaining balance on the 2005 state aid anticipation note of \$1,500,000 and borrowed \$1,500,000 on a 2006 state aid anticipation note.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) District-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**District-wide financial statements.** The *District-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (*e.g., earned but unused sick or vacation leave*).

Both of the District-wide financial statements present activities of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, supporting services, food services and athletics. The District had no business-type activities as of and for the year ended June 30, 2007.

The District-wide financial statements can be found on pages 3-4 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the District-wide financial statements. However, unlike the District-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains eight individual governmental funds. Information is presented separately in the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered a major fund. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its General Fund and each special revenue fund. A budgetary comparison statement has been provided for the General Fund herein to demonstrate compliance with that budget.

The basic governmental funds financial statements can be found on pages 5-9 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The only fiduciary fund of the District is an agency fund, which does not have a measurement focus.

The basic fiduciary fund financial statement can be found on page 10 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found on pages 11-25 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining fund and other statements and schedules can be found on pages 26-43 of this report.

### **District-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, its liabilities exceeded assets by \$4,664,843 at the close of the most recent fiscal year. It is expected that a deficit will continue until such time as debt incurred by the District for facility improvements between 1993 and 2004 is substantially repaid and the value of the improved facilities is greater than the sum of outstanding bonds for the improvements.

By far the largest portion of the District's net assets (deficit) reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, equipment, and vehicles); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the District's net assets (deficit) represents resources that are subject to external restrictions on how they may be used. The District has \$493,348 of net assets restricted for debt service. The remaining balance of \$230,945 is *unrestricted net assets*.

### District's Net Assets (Deficit)

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current and other assets	\$ 3,119,240	\$ 2,949,235
Capital assets, net	<u>5,961,754</u>	<u>6,027,797</u>
<b>Total assets</b>	<b><u>9,080,994</u></b>	<b><u>8,977,032</u></b>
<b>Liabilities</b>		
Current liabilities	3,246,494	2,747,165
Long-term liabilities outstanding	<u>10,499,343</u>	<u>10,991,598</u>
<b>Total liabilities</b>	<b><u>13,745,837</u></b>	<b><u>13,738,763</u></b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	(5,389,136)	(5,423,518)
Restricted	493,348	490,621
Unrestricted	<u>230,945</u>	<u>171,166</u>
<b>Total net assets (deficit)</b>	<b><u>\$ (4,664,843)</u></b>	<b><u>\$ (4,761,731)</u></b>

The District's deficit decreased by \$96,888 during the current fiscal year. This decrease is mainly due to decrease in debt and repayment of bond obligations. The District's blended enrollment is approximately 740 students.

### District's Changes in Net Assets (Deficit)

	<u>2007</u>	<u>2006</u>
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 143,694	\$ 148,520
Operating grants and contributions	1,204,505	1,083,732
General revenues		
Property taxes	3,586,594	3,350,540
Grants and contributions not restricted to specific programs	2,945,639	2,669,957
Other	<u>73,820</u>	<u>49,131</u>
<b>Total revenues</b>	<b><u>7,954,252</u></b>	<b><u>7,301,880</u></b>
<b>Expenses</b>		
Instruction	3,996,229	3,868,186
Supporting services	1,990,768	1,856,144
Food services	271,138	256,902
Athletics	169,489	166,680
Interest on long-term debt	823,621	870,290
Depreciation – unallocated	<u>606,119</u>	<u>603,250</u>
<b>Total expenses</b>	<b><u>7,857,364</u></b>	<b><u>7,621,452</u></b>
<b>Change in net assets</b>	<b>96,888</b>	<b>(319,572)</b>
Net assets (deficit), beginning of year	<u>(4,761,731)</u>	<u>(4,442,159)</u>
<b>Net assets (deficit), end of year</b>	<b><u>\$ (4,664,843)</u></b>	<b><u>\$ (4,761,731)</u></b>

## Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$762,713, a decrease of \$22,422 in comparison with the prior year. Approximately 34% of the ending fund balances or \$263,506 constitutes *unreserved fund balance*, which is available for spending at the District's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for current expenditures.

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$261,545. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Fund balance represents approximately 4.2% of total General Fund expenditures (excluding transfers).

The fund balance of the District's General Fund increased by \$7,086 during the current fiscal year. This increase is primarily attributable to increases in revenue and spending adjustments during the year to balance revenue and expenditures.

### General Fund Budgetary Highlights

Differences between the original and final amended budgets were relatively minor. As additional information became known during the fiscal year, budget amendments were made to recognize the additional revenue and/or planned expenditures related to various District programs.

### Capital Asset and Debt Administration

**Capital assets.** The District's investment in capital assets for its governmental activities as of June 30, 2007, amounted to \$5,961,754 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, vehicles and equipment.

#### District's Capital Assets (net of depreciation, when applicable)

Land and improvements	\$ 469,750
Buildings and improvements	4,962,460
Vehicles	219,173
Equipment	<u>310,371</u>
<b>Total</b>	<b><u>\$ 5,961,754</u></b>

Additional information on the District's capital assets can be found in Note III C on page 18 of this report.

**Long-term debt.** At the end of the current fiscal year, the District had total bonded debt, installment contracts, accreted interest on capital appreciation bonds, accrued compensation and retirement payable outstanding of \$11,366,941. Of this amount, \$25,768 is a Durant resolution bond which are not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations, and is payable solely from state appropriations.

The District incurred additional notes payables of \$81,886 and made principal payments of \$507,832 during the year.

Additional information on the District's long-term debt can be found in Note III F on pages 20-22 of this report.

### **Factors Bearing on the District's Fiscal 2008 Budget**

The following factors were considered in preparing the District's budget for the 2007-2008 fiscal year:

- The Board anticipates a decrease in pupil membership in fiscal 2008. This will impact the overall revenue as state aid will proportionally decrease. No significant increases in state aid foundation allowance are anticipated.
- The Board has planned for a decrease in staff positions, primarily through retirement and lay off. The anticipated reductions include four professional staff; two high school, one special education and one elementary. These staff reductions will also impact the fringe benefit cost.
- The Board approved the closed campus rule for the 2007-2008 school year, which will require students to remain on the school grounds during the lunch hour.
- The District anticipates using state grants to fund teaching positions to reduce class size in kindergarten.

### **Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Pellston Public Schools, Superintendent of Schools, 172 N. Park Street, Pellston, Michigan 49769-0016.

## **BASIC FINANCIAL STATEMENTS**

# **DISTRICT-WIDE FINANCIAL STATEMENTS**

# PELLSTON PUBLIC SCHOOLS

## STATEMENT OF NET ASSETS

JUNE 30, 2007

	<b>Governmental Activities</b>
<b>Assets</b>	
<b>Current assets</b>	
Cash and cash equivalents	\$ 1,507,275
Investments	1,083,327
Receivables	522,779
Inventory	5,859
<b>Total current assets</b>	<b>3,119,240</b>
Capital assets not being depreciated	435,000
Capital assets being depreciated, net	5,526,754
<b>Total assets</b>	<b>9,080,994</b>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts payable and accrued expenses	822,627
Unearned revenue	8,479
State aid anticipation note and interest payable	1,547,790
Current portion of long-term debt	867,598
<b>Total current liabilities</b>	<b>3,246,494</b>
<b>Noncurrent portion of long-term debt</b>	<b>10,499,343</b>
<b>Total liabilities</b>	<b>13,745,837</b>
<b>Net assets</b>	
Invested in capital assets, net of related debt	(5,389,136)
Restricted for	
Debt service	493,348
Unrestricted	230,945
<b>Total net assets (deficit)</b>	<b>\$ (4,664,843)</b>

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

**PELLSTON PUBLIC SCHOOLS**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2007**

<b>Functions / Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net (Expense) Revenue</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	
<b>Governmental activities</b>				
Instruction	\$ 3,996,229	\$ 6,593	\$ 969,672	\$ (3,019,964)
Supporting services	1,990,768	17,535	61,586	(1,911,647)
Food services	271,138	80,189	173,247	(17,702)
Athletics	169,489	39,377	-	(130,112)
Interest on long-term debt	823,621	-	-	(823,621)
Depreciation - unallocated	606,119	-	-	(606,119)
<b>Total governmental activities</b>	<b><u>\$ 7,857,364</u></b>	<b><u>\$ 143,694</u></b>	<b><u>\$ 1,204,505</u></b>	<b><u>(6,509,165)</u></b>
<b>General revenues</b>				
Property taxes - operations				2,657,743
Property taxes - debt service				928,851
Grants and contributions not restricted to specific programs				2,945,639
Unrestricted investment earnings				73,820
<b>Total general revenues</b>				<b><u>6,606,053</u></b>
<b>Change in net assets</b>				<b>96,888</b>
Net assets (deficit), beginning of year				(4,761,731)
<b>Net assets (deficit), end of year</b>				<b><u>\$ (4,664,843)</u></b>

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

# **FUND FINANCIAL STATEMENTS**

**PELLSTON PUBLIC SCHOOLS**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**JUNE 30, 2007**

	<b>General</b>	<b>Non- Major Funds</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 994,337	\$ 512,938	\$ 1,507,275
Investments	1,083,327	-	1,083,327
Inventory	-	5,859	5,859
Accounts receivable	-	2,379	2,379
Due from other funds	11,447	12,847	24,294
Due from other governmental units	492,919	27,481	520,400
<b>Total assets</b>	<b>\$ 2,582,030</b>	<b>\$ 561,504</b>	<b>\$ 3,143,534</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 135,773	\$ -	\$ 135,773
Salaries payable	457,416	6,385	463,801
Accrued expenses	173,833	1,083	174,916
Due to other funds	2,085	22,209	24,294
Unearned revenue	3,588	30,659	34,247
State aid anticipation note	1,547,790	-	1,547,790
<b>Total liabilities</b>	<b>2,320,485</b>	<b>60,336</b>	<b>2,380,821</b>
<b>Fund balances</b>			
Reserved			
Debt service	-	493,348	493,348
Inventory	-	5,859	5,859
Unreserved			
Undesignated in special revenue funds	-	1,961	1,961
Undesignated in general fund	261,545	-	261,545
<b>Total fund balances</b>	<b>261,545</b>	<b>501,168</b>	<b>762,713</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,582,030</b>	<b>\$ 561,504</b>	<b>\$ 3,143,534</b>

Continued...

**PELLSTON PUBLIC SCHOOLS**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**JUNE 30, 2007**

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

**Fund balances - total governmental funds** **\$ 762,713**

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

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

Add	- capital assets	13,678,829
Deduct	- accumulated depreciation	(7,717,075)

The focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by unearned revenues in the governmental funds, and thus are not included in fund balance.

Add	- unearned revenues related to Durant settlement	25,768
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct	- bonds and notes payable	(8,470,271)
	- interest accretion on capital appreciation bonds	(2,880,619)
	- accrued interest on bonds payable	(48,137)
	- compensated absences	(16,051)

**Net assets (deficit) of governmental activities** **\$ (4,664,843)**

Concluded

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

**PELLSTON PUBLIC SCHOOLS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>General</u>	<u>Non-Major Funds</u>	<u>Total</u>
<b>Revenues</b>			
Local sources			
Property taxes	\$ 2,657,743	\$ 928,851	\$ 3,586,594
Charges for services	24,128	119,566	143,694
Interest	58,944	14,876	73,820
Other	61,222	-	61,222
State sources	2,930,399	10,927	2,941,326
Federal sources	207,943	162,320	370,263
Interdistrict sources	377,333	-	377,333
<b>Total revenues</b>	<b><u>6,317,712</u></b>	<b><u>1,236,540</u></b>	<b><u>7,554,252</u></b>
<b>Expenditures</b>			
Instruction	4,053,861	-	4,053,861
Supporting services	2,065,534	-	2,065,534
Food services	-	271,338	271,338
Athletics	-	153,802	153,802
Capital outlay	-	1,250	1,250
Debt service			
Principal	43,387	436,445	479,832
Interest	56,192	576,751	632,943
<b>Total expenditures</b>	<b><u>6,218,974</u></b>	<b><u>1,439,586</u></b>	<b><u>7,658,560</u></b>
<b>Revenues over (under) expenditures</b>	<b><u>98,738</u></b>	<b><u>(203,046)</u></b>	<b><u>(104,308)</u></b>
<b>Other financing sources (uses)</b>			
Loan proceeds	81,886	-	81,886
Transfers in	5,000	178,538	183,538
Transfers out	(178,538)	(5,000)	(183,538)
<b>Total other financing sources (uses)</b>	<b><u>(91,652)</u></b>	<b><u>173,538</u></b>	<b><u>81,886</u></b>
<b>Changes in fund balances</b>	<b><u>7,086</u></b>	<b><u>(29,508)</u></b>	<b><u>(22,422)</u></b>
Fund balances, beginning of year	254,459	530,676	785,135
<b>Fund balances, end of year</b>	<b><u>\$ 261,545</u></b>	<b><u>\$ 501,168</u></b>	<b><u>\$ 762,713</u></b>

Continued...

**PELLSTON PUBLIC SCHOOLS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2007**

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

**Net change in fund balances - total governmental funds** **\$ (22,422)**

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

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

	Add	- capital outlay	154,513
		- land transfer	400,000
	Deduct	- depreciation expense	(620,556)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

	Add	- principal payments on long-term liabilities	479,832
	Deduct	- increase in long-term debt	(81,886)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

	Add	- decrease in accrued interest payable on bonds	50,651
	Deduct	- increase in interest accretion on capital appreciation bonds	(297,521)
	Add	- decrease in the accrual for compensated absences	6,277
	Add	-decrease in early retirement incentives	28,000

**Change in net assets of governmental activities** **\$ 96,888**

Concluded

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

**PELLSTON PUBLIC SCHOOLS**

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

**FOR THE YEAR ENDED JUNE 30, 2007**

	Budget		Actual	Variance - Positive (Negative)
	Original	Amended		Amended to Actual
<b>Revenues</b>				
Local sources	\$ 2,698,450	\$ 2,791,082	\$ 2,802,037	\$ 10,955
State sources	2,901,416	2,930,227	2,930,399	172
Federal sources	195,919	207,635	207,943	308
Interdistrict sources	361,762	376,950	377,333	383
<b>Total revenues</b>	<b>6,157,547</b>	<b>6,305,894</b>	<b>6,317,712</b>	<b>11,818</b>
<b>Expenditures</b>				
Education				
Instruction	3,992,505	4,058,640	4,053,861	4,779
Support services	2,007,107	2,069,114	2,065,534	3,580
Debt service				
Principal payments	-	43,387	43,387	-
Interest and paying agent fees	48,500	63,353	56,192	7,161
<b>Total expenditures</b>	<b>6,048,112</b>	<b>6,234,494</b>	<b>6,218,974</b>	<b>15,520</b>
<b>Revenues over (under) expenditures</b>	<b>109,435</b>	<b>71,400</b>	<b>98,738</b>	<b>27,338</b>
<b>Other financing sources (uses)</b>				
Loan proceeds	60,886	81,886	81,886	-
Transfers in	-	-	5,000	5,000
Transfers out	(176,313)	(178,313)	(178,538)	(225)
<b>Total other financing sources (uses)</b>	<b>(115,427)</b>	<b>(96,427)</b>	<b>(91,652)</b>	<b>4,775</b>
<b>Changes in fund balance</b>	<b>(5,992)</b>	<b>(25,027)</b>	<b>7,086</b>	<b>32,113</b>
Fund balance, beginning of year	254,459	254,459	254,459	-
<b>Fund balance, end of year</b>	<b>\$ 248,467</b>	<b>\$ 229,432</b>	<b>\$ 261,545</b>	<b>\$ 32,113</b>

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

**PELLSTON PUBLIC SCHOOLS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**AGENCY FUND**

**JUNE 30, 2007**

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<b>Assets</b>	
Cash and cash equivalents	\$ 11,058
Investments	<u>74,806</u>
<b>Total assets</b>	<b><u><u>\$ 85,864</u></u></b>
<b>Liabilities</b>	
Scholarships payable	\$ 29,758
Due to others	22,037
Due to student groups	<u>34,069</u>
<b>Total liabilities</b>	<b><u><u>\$ 85,864</u></u></b>

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

## **NOTES TO THE FINANCIAL STATEMENTS**

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting entity**

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

**B. District-wide and fund financial statements**

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the 2007 fiscal year.

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

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

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

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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. Agency funds also use the accrual basis of accounting, but do not have a measurement focus.

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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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 or within one year for reimbursement type grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

Additionally, the District reports the following fund types:

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

The *Debt Service Funds* account for the principal and interest payments on the bonds used to finance various construction projects in the District.

The *Capital Project Funds* account for various construction projects within the District.

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

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

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

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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

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

**D. Assets, liabilities and equity**

**1. Deposits and investments**

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

Investments are reported at fair value.

**2. Receivables and payables**

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

**3. Inventory**

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

**4. Capital assets**

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Land improvements	20
Equipment	5-20
Vehicles	7-10

**5. *Compensated absences***

District policy permits certain employees to accumulate earned but unused sick pay benefits which are paid when the employee separates from service with the District. A liability is recorded in the statement of net assets for such amounts. No liability is recorded for accumulated vacation since hours earned do not vest.

**6. *Long-term obligations***

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

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

**7. *Fund equity***

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

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary information**

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

**B. Excess of expenditures over appropriations**

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

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and investments**

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

Statement of Net Assets	
Cash and cash equivalents	\$ 1,507,275
Investments	<u>1,083,327</u>
Total Statement of Net Assets	2,590,602
Statement of Fiduciary Net Assets	
Agency Funds	
Cash and cash equivalents	\$ 11,058
Investments	<u>74,806</u>
<b>Total cash and cash equivalents and investments</b>	<b><u>\$ 2,676,466</u></b>

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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

Bank deposits	\$ 1,517,533
Investments	1,158,133
Cash on hand	<u>800</u>
<b>Total deposits and investments</b>	<b><u>\$ 2,676,466</u></b>

The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a state or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

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

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Bank deposits including certificates of deposit	n/a	\$ 1,517,533	n/a
Michigan Liquid Asset Fund	n/a	1,158,133	S&P – AAAm
Cash on hand	n/a	<u>800</u>	n/a
		<b><u>\$ 2,676,466</u></b>	

**Investment and deposit risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District’s investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$1,509,280 of the District’s bank balance of \$1,609,280 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

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

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**B. Receivables**

Receivables in the governmental activities totaling \$522,779 are made up of \$520,400 due from other governmental units recorded in the General Fund, and \$2,379 due in accounts receivable in the hot lunch fund. All receivables, except for the amount due from the Durant bonds of \$25,768, are expected to be collected within the next fiscal year.

**C. Capital assets**

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

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2007</u>
<b>Capital assets not being depreciated</b>				
Land	\$ 35,000	\$ 400,000	\$ -	\$ 435,000
<b>Capital assets being depreciated</b>				
Buildings and improvements	11,407,652	70,187	-	11,477,839
Land improvements	75,000	-	-	75,000
Equipment	1,005,935	23,440	-	1,029,375
Vehicles	600,729	60,886	-	661,615
<b>Subtotal</b>	<u><b>13,089,316</b></u>	<u><b>154,513</b></u>	<u><b>-</b></u>	<u><b>13,243,829</b></u>
<b>Accumulated depreciation</b>				
Buildings and improvements	(6,001,535)	(513,844)	-	(6,515,379)
Land improvements	(36,500)	(3,750)	-	(40,250)
Equipment	(662,744)	(56,260)	-	(719,004)
Vehicles	(395,740)	(46,702)	-	(442,442)
<b>Total accumulated depreciation</b>	<u><b>(7,096,519)</b></u>	<u><b>(620,556)</b></u>	<u><b>-</b></u>	<u><b>(7,717,075)</b></u>
<b>Total capital assets being depreciated, net</b>	<u><b>5,992,797</b></u>	<u><b>(466,043)</b></u>	<u><b>-</b></u>	<u><b>5,526,754</b></u>
<b>Capital assets, net</b>	<u><b>\$ 6,027,797</b></u>	<u><b>\$ (61,574)</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 5,961,754</b></u>

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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Depreciation expense was charged to functions/programs of the District as follows:

**Governmental activities**

Athletics	\$	14,437
Unallocated		<u>606,119</u>
<b>Total depreciation expense – governmental activities</b>	<b>\$</b>	<b><u>620,556</u></b>

**D. Accounts payable and accrued expenses**

Accounts payable and accrued expenses are comprised of the following:

Accounts payable	\$	135,773
Salaries payable		463,801
Accrued expenses		<u>223,053</u>
<b>Total accounts payable and accrued expenses</b>	<b>\$</b>	<b><u>822,627</u></b>

**E. Interfund receivables, payables and transfers**

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

	<b><u>Interfund Receivables</u></b>	<b><u>Interfund Payables</u></b>
General Fund	\$ 11,447	\$ 2,085
Nonmajor Funds	<u>12,847</u>	<u>22,209</u>
<b>Total</b>	<b><u>\$ 24,294</u></b>	<b><u>\$ 24,294</u></b>

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

For the year ended June 30, 2007, interfund transfers consisted of subsidy transfers from the General Fund to the nonmajor Athletic Fund and Energy Bonds Debt Service Fund of \$106,000 and \$72,538, respectively. The Food Service Fund and Capital Projects Fund made transfers to the General Fund for \$5,000.

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**F. Long-term debt**

A summary of long-term debt and transactions related thereto is as follows for the year ended June 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
2002 School Building and Site Construction Bonds, due through May 2016 in semi-annual installments of interest and annual principal payments varying from \$165,000 - \$240,000 bearing interest rates ranging from 4.25% to 4.375%.	\$ 2,140,000	\$ -	\$ 165,000	\$ 1,975,000	\$ 180,000
1998 General Obligation Refunding Bonds, due through May 2012 in semi-annual installments of interest and annual principal payments varying from \$35,000 - \$800,000 with interest rates ranging from 4.40% to 4.75%.	3,440,000	-	35,000	3,405,000	565,000
1993 General Obligation Refunding Bonds, due from May 2013 through May 2022 in annual installments of interest and annual principal payments varying from \$189,900 - \$284,638 with interest rates ranging from 5.70% to 5.90%.	2,437,230	-	-	2,437,230	-

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
1992 General Obligation Capital Appreciation Bonds, due through May 2007 in semi-annual installments of interest and an annual principal payment of \$186,444 with an interest rate of 6.80%.	\$ 186,444	\$ -	\$ 186,444	\$ -	\$ -
2004 Energy Conservation Improvement Bonds due through May 2015 in semi-annual installments of interest and principal payments varying from \$50,000 - \$70,000 with an interest rate of 4.21%	530,000	-	50,000	480,000	50,000
Durant Settlement Bonds, due through May 2013 in annual installments of principal payments varying from \$2,212 to \$10,310, including interest charged at 4.76%.	25,768	-	-	25,768	-
Various bus notes payable, due from July 15, 2006 through September 22, 2009 in annual installments of interest and principal installments aggregating from \$10,822 through \$43,388 with interest rates ranging from 2.87% to 3.88%.	108,775	60,886	43,388	126,273	62,318

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Bleacher note payable due from July 27, 2007 through July 27, 2008 in annual installments of interest and principal of \$11,180 with an interest rate of 4.29%.	\$ -	\$ 21,000	\$ -	\$ 21,000	\$ 10,280
Early retirement payable.	28,000	-	28,000	-	-
Interest accretion on the 1993 capital appreciation bonds.	2,583,098	297,521	-	2,880,619	-
Compensated absences.	<u>22,328</u>	<u>-</u>	<u>6,277</u>	<u>16,051</u>	<u>-</u>
<b>Total long-term debt</b>	<b><u>\$ 11,501,643</u></b>	<b><u>\$ 379,407</u></b>	<b><u>\$ 514,109</u></b>	<b><u>\$ 11,366,941</u></b>	<b><u>\$ 867,598</u></b>

The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

**Debt service requirements**

Annual debt service requirements to maturity for the above obligations except for the compensated absences are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 867,598	\$ 266,391	\$ 1,133,989
2009	943,694	234,465	1,178,159
2010	948,368	188,499	1,136,867
2011	1,017,665	146,293	1,163,958
2012	1,097,792	100,094	1,197,886
2013-2017	2,519,670	3,432,613	5,952,283
2018-2022	<u>1,075,485</u>	<u>3,934,584</u>	<u>5,010,069</u>
<b>Total</b>	<b><u>\$ 8,470,272</u></b>	<b><u>\$ 8,302,939</u></b>	<b><u>\$ 16,773,211</u></b>

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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During fiscal 2007 the District repaid the 2005 state aid anticipation note of \$1,500,000, which had a balance of \$1,543,678 including accrued interest on June 30, 2006. On August 19, 2006, the District borrowed \$1,500,000 on a 2006 state aid anticipation note. At June 30, 2007, the balance outstanding on this note was \$1,547,790, including accrued interest.

**IV. OTHER INFORMATION**

**A. Risk management**

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

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

**B. Property taxes**

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 of the following year. Taxes are levied on July 1 by the municipalities within the District, and are due on February 14. Delinquent real taxes are advanced to the District by the revolving tax fund of the applicable county.

**C. Defined benefit pension plan**

**Plan Description**

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

**Funding Policy**

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 17.74% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2007, 2006 and 2005 were approximately \$583,000, \$550,000, and \$496,000, respectively, equal to the required contributions for each year.

**Other Post-employment Benefits**

Retirees have the option of health coverage which is funded on a cash disbursement basis by the District. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid master health plan coverage and 90% paid dental plan, vision plan and hearing plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**D. Commitments and contingencies**

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

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

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## **SUPPLEMENTARY INFORMATION**

**PELLSTON PUBLIC SCHOOLS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2007

	Special Revenue Funds		Debt Service Funds		
	Food Service	Athletics	1992 Debt	1998 Debt	2002 Debt
<b>ASSETS</b>					
Cash and cash equivalents	\$ 18,277	\$ 1,313	\$ 179,785	\$ 123,174	\$ 190,389
Account receivable	2,379	-	-	-	-
Inventory	5,859	-	-	-	-
Due from other funds	-	2,085	717	10,045	-
Due from other governmental units	1,713	-	-	-	-
<b>Total assets</b>	<b>\$ 28,228</b>	<b>\$ 3,398</b>	<b>\$ 180,502</b>	<b>\$ 133,219</b>	<b>\$ 190,389</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Salaries payable	\$ 4,565	\$ 1,820	\$ -	\$ -	\$ -
Accrued expenses	944	139	-	-	-
Due to other funds	11,447	-	-	-	10,762
Unearned revenue	4,891	-	-	-	-
<b>Total liabilities</b>	<b>21,847</b>	<b>1,959</b>	<b>-</b>	<b>-</b>	<b>10,762</b>
<b>Fund balances</b>					
Reserved for debt service	-	-	180,502	133,219	179,627
Reserved for inventory	5,859	-	-	-	-
Unreserved, undesignated	522	1,439	-	-	-
<b>Total fund balances</b>	<b>6,381</b>	<b>1,439</b>	<b>180,502</b>	<b>133,219</b>	<b>179,627</b>
<b>Total liabilities and fund balances</b>	<b>\$ 28,228</b>	<b>\$ 3,398</b>	<b>\$ 180,502</b>	<b>\$ 133,219</b>	<b>\$ 190,389</b>

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<b>Debt Service Funds</b>		
<b>Energy Bonds</b>	<b>Durant Settlement</b>	<b>Total</b>
\$ -	\$ -	\$ 512,938
-	-	2,379
-	-	5,859
-	-	12,847
-	25,768	27,481
<b>\$ -</b>	<b>\$ 25,768</b>	<b>\$ 561,504</b>

\$ -	\$ -	\$ 6,385
-	-	1,083
-	-	22,209
-	25,768	30,659
<b>-</b>	<b>25,768</b>	<b>60,336</b>

-	-	493,348
-	-	5,859
-	-	1,961
<b>-</b>	<b>-</b>	<b>501,168</b>
<b>\$ -</b>	<b>\$ 25,768</b>	<b>\$ 561,504</b>

**PELLSTON PUBLIC SCHOOLS**

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

**FOR THE YEAR ENDED JUNE 30, 2007**

	Special Revenue Funds		Debt Service Funds		
	Food Service	Athletics	1992 Debt	1998 Debt	2002 Debt
<b>Revenues</b>					
Local sources					
Property taxes	\$ -	\$ -	\$ 477,637	\$ 185,703	\$ 265,511
Charges for services	80,189	39,377	-	-	-
Interest	236	106	7,773	2,276	4,485
State sources	10,927	-	-	-	-
Federal sources	162,320	-	-	-	-
<b>Total revenues</b>	<b>253,672</b>	<b>39,483</b>	<b>485,410</b>	<b>187,979</b>	<b>269,996</b>
<b>Expenditures</b>					
Food services					
Salaries	110,324	-	-	-	-
Employee benefits	36,418	-	-	-	-
Purchased services	8,825	-	-	-	-
Supplies, material and other expenses	115,771	-	-	-	-
Total food service	271,338	-	-	-	-
Athletics					
Salaries	-	83,592	-	-	-
Employee benefits	-	19,687	-	-	-
Purchased services	-	23,274	-	-	-
Supplies, material and other expenses	-	27,249	-	-	-
Total athletics	-	153,802	-	-	-
Capital outlay	-	1,250	-	-	-
Debt service					
Principal	-	-	186,445	35,000	165,000
Interest and fees	-	-	304,005	158,708	91,500
<b>Total expenditures</b>	<b>271,338</b>	<b>155,052</b>	<b>490,450</b>	<b>193,708</b>	<b>256,500</b>
<b>Revenues over (under) expenditures</b>	<b>(17,666)</b>	<b>(115,569)</b>	<b>(5,040)</b>	<b>(5,729)</b>	<b>13,496</b>
<b>Other financing sources (uses)</b>					
Transfers in	-	106,000	-	-	-
Transfers out	(5,000)	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>(5,000)</b>	<b>106,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Changes in fund balances</b>	<b>(22,666)</b>	<b>(9,569)</b>	<b>(5,040)</b>	<b>(5,729)</b>	<b>13,496</b>
Fund balances, beginning of year	29,047	11,008	185,542	138,948	166,131
<b>Fund balances, end of year</b>	<b>\$ 6,381</b>	<b>\$ 1,439</b>	<b>\$ 180,502</b>	<b>\$ 133,219</b>	<b>\$ 179,627</b>

<b>Debt Service Funds</b>			
<b>Energy Bonds</b>	<b>Durant Settlement</b>		<b>Total</b>
\$ -	\$ -	\$	928,851
-	-		119,566
-	-		14,876
-	-		10,927
-	-		162,320
-	-		<b>1,236,540</b>
-	-		110,324
-	-		36,418
-	-		8,825
-	-		115,771
-	-		271,338
-	-		83,592
-	-		19,687
-	-		23,274
-	-		27,249
-	-		153,802
-	-		1,250
50,000	-		436,445
22,538	-		576,751
<b>72,538</b>	-		<b>1,439,586</b>
<b>(72,538)</b>	-		<b>(203,046)</b>
72,538	-		178,538
-	-		(5,000)
<b>72,538</b>	-		<b>173,538</b>
-	-		<b>(29,508)</b>
-	-		530,676
<b>\$ -</b>	<b>\$ -</b>	<b>\$</b>	<b>501,168</b>

**PELLSTON PUBLIC SCHOOLS**

**BALANCE SHEET  
GENERAL FUND**

**JUNE 30, 2007  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2006)**

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 994,337	\$ 600,727
Investments	1,083,327	1,275,747
Accounts receivable	-	1,801
Due from other funds	11,447	-
Due from other governmental units	492,919	526,189
<b>Total assets</b>	<b><u>\$ 2,582,030</u></b>	<b><u>\$ 2,404,464</u></b>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 135,773	\$ 38,835
Salaries payable	457,416	393,016
Accrued expenses	173,833	153,231
Due to other funds	2,085	21,245
Unearned revenue	3,588	-
State aid anticipation note	1,547,790	1,543,678
<b>Total liabilities</b>	<b><u>2,320,485</u></b>	<b><u>2,150,005</u></b>
<b>Fund balance</b>		
Unreserved		
Undesignated	261,545	254,459
<b>Total liabilities and fund balance</b>	<b><u>\$ 2,582,030</u></b>	<b><u>\$ 2,404,464</u></b>

**PELLSTON PUBLIC SCHOOLS**

**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2007  
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED, JUNE 30, 2006)**

	<u>2007</u>	<u>2006</u>
<b>Revenues</b>		
<b>Local sources</b>		
Property taxes	\$ 2,657,743	\$ 2,427,322
Charge for services	24,128	23,521
Interest	58,944	36,888
Other local revenue	61,222	37,903
<b>Total local sources</b>	<u><b>2,802,037</b></u>	<u><b>2,525,634</b></u>
<b>State sources</b>		
State aid	2,866,603	2,965,638
Other state revenue	63,796	11,712
<b>Total state sources</b>	<u><b>2,930,399</b></u>	<u><b>2,977,350</b></u>
<b>Federal sources</b>		
Title I	132,595	150,952
Title II	45,916	53,768
Title V	2,080	3,200
Title IX	-	20,957
Other	27,352	1,401
<b>Total federal sources</b>	<u><b>207,943</b></u>	<u><b>230,278</b></u>
<b>Interdistrict sources</b>	<u><b>377,333</b></u>	<u><b>328,001</b></u>
<b>Other financing sources</b>		
Loan proceeds	81,886	-
Transfers In	5,000	8,031
<b>Total other financing sources</b>	<u><b>86,886</b></u>	<u><b>8,031</b></u>
<b>Total revenues and other financing sources</b>	<u><u><b>\$ 6,404,598</b></u></u>	<u><u><b>\$ 6,069,294</b></u></u>

**PELLSTON PUBLIC SCHOOLS**

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2007  
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED, JUNE 30, 2006)**

	<u>2007</u>	<u>2006</u>
<b>Expenditures</b>		
<b>Instruction</b>		
<b>Basic programs</b>		
<b>Elementary</b>		
Salaries	\$ 916,106	\$ 964,019
Employee benefits	483,307	437,037
Purchased services	44,842	4,352
Supplies, materials and other expense	<u>28,231</u>	<u>18,468</u>
<b>Total elementary</b>	<u><b>1,472,486</b></u>	<u><b>1,423,876</b></u>
<b>Middle school</b>		
Salaries	469,385	496,210
Employee benefits	237,563	226,416
Purchased services	488	753
Supplies, materials and other expense	<u>24,631</u>	<u>13,478</u>
<b>Total middle school</b>	<u><b>732,067</b></u>	<u><b>736,857</b></u>
<b>High school</b>		
Salaries	514,379	556,515
Employee benefits	293,338	284,546
Purchased services	4,435	15,035
Supplies, materials and other expense	<u>19,482</u>	<u>34,189</u>
<b>Total high school</b>	<u><b>831,634</b></u>	<u><b>890,285</b></u>
<b>Total basic programs</b>	<u><b>3,036,187</b></u>	<u><b>3,051,018</b></u>
<b>Added needs</b>		
<b>Special education</b>		
Salaries	358,169	346,707
Employee benefits	194,256	184,258
Purchased services	947	-
Supplies, materials and other expense	<u>2,771</u>	<u>4,031</u>
<b>Total special education</b>	<u><b>556,143</b></u>	<u><b>534,996</b></u>
<b>Compensatory education</b>		
Salaries	133,857	117,010
Employee benefits	66,095	54,933
Purchased services	80,589	65,134
Supplies, materials and other expense	<u>8,149</u>	<u>3,065</u>
<b>Total compensatory education</b>	<u><b>288,690</b></u>	<u><b>240,142</b></u>

Continued...

**PELLSTON PUBLIC SCHOOLS**

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2007  
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED, JUNE 30, 2006)**

	<u>2007</u>	<u>2006</u>
<b>Vocational education</b>		
Salaries	\$ 84,764	\$ 49,186
Employee benefits	47,451	26,841
Purchased services	2,214	162
Supplies, materials and other expense	8,941	2,561
Capital outlay	29,471	20,027
<b>Total vocational education</b>	<u>172,841</u>	<u>98,777</u>
<b>Total added needs</b>	<u>1,017,674</u>	<u>873,915</u>
<b>Total instruction</b>	<u>4,053,861</u>	<u>3,924,933</u>
<b>Supporting services</b>		
<b>Pupil services</b>		
<b>Guidance services</b>		
Salaries	73,625	112,196
Employee benefits	35,601	51,519
Purchased services	4,937	724
Supplies, materials and other expense	236	-
<b>Total pupil services</b>	<u>114,399</u>	<u>164,439</u>
<b>Instructional staff services</b>		
<b>Improvement of instruction</b>		
Salaries	3,000	-
Employee benefits	754	12,699
Purchased services	23,268	7,926
<b>Total improvement of instruction</b>	<u>27,022</u>	<u>20,625</u>
<b>Library</b>		
Salaries	21,659	19,973
Employee benefits	11,210	9,713
Purchased services	174	-
Supplies, materials and other expense	948	752
<b>Total library</b>	<u>33,991</u>	<u>30,438</u>
<b>Supervision of instructional staff</b>		
Salaries	12,825	23,573
Employee benefits	3,479	5,859
<b>Total supervision of instructional staff</b>	<u>16,304</u>	<u>29,432</u>
<b>Total instructional staff services</b>	<u>77,317</u>	<u>80,495</u>

Continued...

**PELLSTON PUBLIC SCHOOLS**

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2007  
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED, JUNE 30, 2006)**

	<b>2007</b>	<b>2006</b>
<b>Board of education</b>		
Salaries	\$ 6,276	\$ 6,962
Benefits	29	94
Purchased services	28,155	17,148
Supplies, materials and other expense	10,059	10,984
<b>Total board of education</b>	<b>44,519</b>	<b>35,188</b>
<b>Executive administration</b>		
Salaries	129,212	124,094
Employee benefits	59,060	51,331
Purchased services	19,734	20,293
Supplies, materials and other expense	11,217	7,556
<b>Total executive administration</b>	<b>219,223</b>	<b>203,274</b>
<b>Total general administration</b>	<b>263,742</b>	<b>238,462</b>
<b>School administration</b>		
<b>Office of the principal</b>		
Salaries	312,834	304,844
Employee benefits	142,387	126,365
Purchased services	34,435	32,558
Supplies, materials and other expense	8,454	4,660
<b>Total school administration</b>	<b>498,110</b>	<b>468,427</b>
<b>Business services</b>		
<b>Fiscal services</b>		
Purchased services	116,891	86,950
Supplies, materials and other expense	7,725	626
Capital outlay	-	5,130
<b>Total business services</b>	<b>124,616</b>	<b>92,706</b>

Continued...

**PELLSTON PUBLIC SCHOOLS**

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2007  
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED, JUNE 30, 2006)**

	<b>2007</b>	<b>2006</b>
<b>Transportation</b>		
Salaries	\$ 158,946	\$ 157,366
Employee benefits	60,066	49,383
Purchased services	14,502	14,997
Supplies, materials and other expense	51,907	61,108
Capital outlay	60,886	-
<b>Total transportation</b>	<b>346,307</b>	<b>282,854</b>
<b>Operation and maintenance</b>		
Salaries	121,887	121,351
Employee benefits	62,865	60,369
Purchased services	158,977	145,552
Supplies, materials and other expense	217,024	209,134
Capital outlay	80,290	31,014
<b>Total operation and maintenance</b>	<b>641,043</b>	<b>567,420</b>
<b>Total support services</b>	<b>2,065,534</b>	<b>1,894,803</b>
<b>Total operating expenditures</b>	<b>6,119,395</b>	<b>5,819,736</b>
<b>Debt service</b>		
Principal	43,387	62,833
Interest and fiscal charges	56,192	56,013
<b>Total debt service</b>	<b>99,579</b>	<b>118,846</b>
<b>Total expenditures</b>	<b>6,218,974</b>	<b>5,938,582</b>
<b>Other financing uses</b>		
Transfers out	178,538	185,041
<b>Total expenditures and other financing uses</b>	<b>\$ 6,397,512</b>	<b>\$ 6,123,623</b>

Concluded

**PELLSTON PUBLIC SCHOOLS**

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

**FOR THE YEAR ENDED JUNE 30, 2007**

	<b>Balances July 1, 2006</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Balances June 30, 2007</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 32,003	\$ 183,218	\$ 204,163	\$ 11,058
Investments	71,204	3,602	-	74,806
<b>Total assets</b>	<b>\$ 103,207</b>	<b>\$ 186,820</b>	<b>\$ 204,163</b>	<b>\$ 85,864</b>
<b>LIABILITIES</b>				
Scholarships payable	\$ 27,171	\$ 8,987	\$ 6,400	\$ 29,758
Due to others	37,890	80,840	96,693	22,037
Due to student groups	38,146	96,993	101,070	34,069
<b>Total liabilities</b>	<b>\$ 103,207</b>	<b>186,820</b>	<b>\$ 204,163</b>	<b>\$ 85,864</b>
The balances consist of the following:				
Cadwell Scholarship	\$ 20,606	\$ 887	\$ 1,000	\$ 20,493
Hayes Scholarship	1,441	3,400	3,400	1,441
Johnson Scholarship	2,500	3,000	500	5,000
PEA Scholarship	76	-	-	76
Sports Boost Scholarship	1,300	1,700	1,500	1,500
Walsh Scholarship	1,248	-	-	1,248
<b>Total scholarships payable</b>	<b>27,171</b>	<b>8,987</b>	<b>6,400</b>	<b>29,758</b>
Athletic - general	597	627	1,007	217
Band boosters	2,347	12,216	11,427	3,136
Beverage concessions	10,236	6,979	8,653	8,562
Casual wear	858	132	450	540
Christmas/needdy	312	2,449	2,700	61
Elementary social fund	66	498	286	278
Elementary teacher's pop	541	2,957	3,132	366
Field trip transportation	325	-	325	-
Interest	1,349	4,445	4,844	950
McClutchey field improvement	12,000	5,429	17,382	47
MS/HS Social Fund	-	576	70	506
Office concessions	1,006	2,315	3,099	222
Popcorn Poppers - ELE	-	1,196	763	433
Principal - elementary	1,174	1,200	753	1,621
Principal - high school	2,028	1,859	3,453	434
Principal - middle school	282	1,200	1,697	(215)
Reading is fundamental/book fair	1,488	12,668	14,030	126
Sports boosters	767	22,237	22,475	529
Safety Sam	1,604	1	-	1,605
Weitzel - track	355	-	-	355
Woodshop	555	1,856	147	2,264
<b>Total due to others</b>	<b>37,890</b>	<b>80,840</b>	<b>96,693</b>	<b>22,037</b>

**PELLSTON PUBLIC SCHOOLS**

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

**FOR THE YEAR ENDED JUNE 30, 2007**

	<b>Balances July 1, 2006</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Balances June 30, 2007</b>
Annual (yearbook)	\$ 1,110	\$ 13,139	\$ 12,910	\$ 1,339
Art department	1,222	660	854	1,028
Boys baseball	1,755	12,432	12,904	1,283
Cheerleaders - high school	627	358	228	757
Close up	-	9,080	9,072	8
Earthen Vessels	-	27	22	5
Elementary school cash	1,384	527	1,139	772
Girls varsity basketball	341	1,927	1,554	714
Girls varsity softball	51	1,791	1,725	117
High school drama club	1,130	1,842	2,438	534
Middle school drama	100	-	100	-
Middle school girls basketball	158	739	816	81
Multicultural - sixth	378	-	-	378
National Honor Society	427	550	735	242
Renaissance	1,167	1	-	1,168
SADD	624	296	498	422
Ski club	148	890	980	58
Spanish club	230	-	-	230
STAND	78	-	-	78
START	688	2,715	2,443	960
Student council - high school	1,189	3,208	3,660	737
Student council - middle school	(95)	2,239	2,203	(59)
Student flow	284	4,027	4,231	80
Varsity boys basketball	1,186	745	300	1,631
Varsity football	2,047	4,933	5,038	1,942
Volleyball	2,411	6,576	7,703	1,284
Youth enrichment - ski club	453	460	234	679
Kindergarten	793	1,693	1,723	763
First grade	938	2,229	2,541	626
Second grade	758	1,243	1,029	972
Third grade	1,007	1,012	1,268	751
Fourth grade	523	1,689	1,712	500
Fifth grade	810	3,434	3,639	605
Class of 2013	-	210	25	185
Class of 2012	2,487	4,991	3,327	4,151
Class of 2011	1,310	-	-	1,310
Class of 2010	1,183	462	453	1,192
Class of 2009	2,419	1,824	1,545	2,698
Class of 2008	3,765	3,177	5,135	1,807
Class of 2007	960	2,917	3,625	252
Class of 2006	490	-	-	490
Class of 2005	38	-	1	37
Class of 2004	129	-	1	128
Elementary building drama	965	435	516	884
Math department MS/HS	478	2,515	2,743	250
<b>Total due to student groups</b>	<b>38,146</b>	<b>96,993</b>	<b>101,070</b>	<b>34,069</b>
<b>Total liabilities</b>	<b>\$ 103,207</b>	<b>\$ 186,820</b>	<b>\$ 204,163</b>	<b>\$ 85,864</b>

**PELLSTON PUBLIC SCHOOLS**

**SCHEDULE OF INDEBTEDNESS**

**JUNE 30, 2007**

	<u>Date of Note</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Total Outstanding at June 30, 2007</u>	<u>Total Interest Payable</u>
2002 School Building and Site Construction Bonds	2/1/2002	\$ 2,600,000	4.250%	11/1/2007	\$ -	\$ 42,119
			4.250%	5/1/2008	180,000	42,119
			4.250%	11/1/2008	-	38,294
			4.250%	5/1/2009	190,000	38,294
			4.250%	11/1/2009	-	34,256
			4.250%	5/1/2010	200,000	34,256
			4.250%	11/1/2010	-	30,006
			4.250%	5/1/2011	215,000	30,006
			4.250%	11/1/2011	-	25,438
			4.250%	5/1/2012	235,000	25,438
			4.250%	11/1/2012	-	20,444
			4.250%	5/1/2013	235,000	20,444
			4.250%	11/1/2013	-	15,450
			4.250%	5/1/2014	240,000	15,450
			4.250%	11/1/2014	-	10,350
			4.250%	5/1/2015	240,000	10,350
			4.250%	11/1/2015	-	5,250
		4.375%	5/1/2016	240,000	5,250	
				<u>\$ 1,975,000</u>	<u>\$ 443,214</u>	

Note: Bonds of this issue maturing in the fiscal years 2007 through 2011, inclusive, shall not be subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 of this issue maturing in the year 2012 and thereafter, shall be subject to redemption prior to maturity, at the option of the issuer, in such order as the issuer may determine and by lot within any maturity, on any interest payment date on or after May 1, 2011, at par and accrued interest to the date fixed for redemption.

**PELLSTON PUBLIC SCHOOLS**

**SCHEDULE OF INDEBTEDNESS**

**JUNE 30, 2007**

	<u>Date of Note</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Total Outstanding at June 30, 2007</u>	<u>Total Interest Payable</u>
1998 General Obligation Refunding Bonds	6/30/1998	\$ 3,720,000	4.450%	5/1/2008	\$ 565,000	\$ 156,392
			4.500%	5/1/2009	620,000	131,250
			4.550%	5/1/2010	680,000	103,350
			4.650%	5/1/2011	740,000	72,410
			4.750%	5/1/2012	800,000	38,000
				<u>\$ 3,405,000</u>	<u>\$ 501,402</u>	

Note: The Bonds or portions of the bonds in multiples of \$5,000 maturing on or after May 1, 2009 are subject to redemption at the option of the District in such order as the District may determine by lot within any maturity, on any interest payment date occurring on or after May 1, 2008, at par plus accrued interest to the date fixed for redemption.

**PELLSTON PUBLIC SCHOOLS**

**SCHEDULE OF INDEBTEDNESS**

**JUNE 30, 2007**

	<u>Date of Note</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Total Outstanding at June 30, 2007</u>	<u>Total Interest Payable</u>
1993 General Obligation Refunding Bonds	10/6/93	\$ 2,437,230	5.70%	5/1/2013	\$ 284,638	\$ 570,362
			5.70%	5/1/2014	281,674	613,326
			5.85%	5/1/2015	269,186	664,493
			5.85%	5/1/2016	265,548	710,184
			5.85%	5/1/2017	260,699	754,069
			5.85%	5/1/2018	243,723	761,277
			5.90%	5/1/2019	227,880	780,029
			5.90%	5/1/2020	212,688	784,349
			5.90%	5/1/2021	201,294	798,829
			5.90%	5/1/2022	189,900	810,100
				<u>\$ 2,437,230</u>	<u>\$ 7,247,018</u>	

Note: Bonds of this issue maturing on or after May 1, 2009 are subject to redemption prior to maturity at the option of the issuer in multiples of \$5,000 in such order as the issuer may determine, by lot within any maturity, on any May 1, and November 1 occurring on or after May 1, 2008, at the redemption prices (expressed as percentages of the Appreciated Amount on the date of redemption) set forth in the following table:

<u>Redemption Period</u>	<u>Redemption Price</u>
May 1, 2008 through April 30, 2009	103.0%
May 1, 2009 through April 30, 2010	102.0%
May 1, 2010 through April 30, 2011	101.0%
May 1, 2011 and thereafter	100.0%

**Mandatory Redemption**

The Bonds maturing on May 1, 2018 are term bonds subject to mandatory redemption, in part by lot on the redemption dates and at a redemption price equal to the appreciated amount thereof, without premium, as set forth below:

<u>Redemption Date</u>	<u>Appreciated Amount</u>
May 1, 2015	\$ 933,679
May 1, 2016	975,733
May 1, 2017	1,014,768
May 1, 2018 (maturity)	1,005,000

The Bonds maturing on May 1, 2022 are term bonds subject to mandatory redemption, in part by lot on the redemption dates and at a redemption price equal to the appreciated amount thereof, without premium, as set forth below:

<u>Redemption Date</u>	<u>Appreciated Amount</u>
May 1, 2019	\$ 1,007,909
May 1, 2020	977,037
May 1, 2021	1,000,123
May 1, 2022 (maturity)	1,000,000

**PELLSTON PUBLIC SCHOOLS**

**SCHEDULE OF INDEBTEDNESS**

**JUNE 30, 2007**

	<u>Date of Note</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Total Outstanding at June 30, 2007</u>	<u>Total Interest Payable</u>
2004 Energy Conservation Improvement Bonds	7/9/2004	\$ 575,000	4.21%	11/1/2007	\$ -	\$ 10,104
			4.21%	5/1/2008	50,000	10,104
			4.21%	11/1/2008	-	9,052
			4.21%	5/1/2009	55,000	9,052
			4.21%	11/1/2009	-	7,894
			4.21%	5/1/2010	55,000	7,894
			4.21%	11/1/2010	-	6,736
			4.21%	5/1/2011	60,000	6,736
			4.21%	11/1/2011	-	5,473
			4.21%	5/1/2012	60,000	5,473
			4.21%	11/1/2012	-	4,210
			4.21%	5/1/2013	65,000	4,210
			4.21%	11/1/2013	-	2,842
			4.21%	5/1/2014	65,000	2,842
			4.21%	11/1/2014	-	1,474
			4.21%	5/1/2015	70,000	1,474
				<u>\$ 480,000</u>	<u>\$ 95,570</u>	

Note: This Bond is not subject to redemption prior to maturity by the District.

**PELLSTON PUBLIC SCHOOLS**

**SCHEDULE OF INDEBTEDNESS**

**JUNE 30, 2007**

	<u>Date of Note</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Total Outstanding at June 30, 2007</u>	<u>Total Interest Payable</u>
Durant Settlement Bonds	11/24/1998	\$ 43,640	4.76%	5/1/2008	\$ -	\$ -
			4.76%	5/1/2009	14,840	5,750
			4.76%	5/1/2010	2,546	520
			4.76%	5/1/2011	2,665	399
			4.76%	5/1/2012	2,792	272
			4.76%	5/1/2013	2,925	139
					<u>\$ 25,768</u>	<u>\$ 7,080</u>

Note: This Bond is not subject to redemption prior to maturity by the District.

**PELLSTON PUBLIC SCHOOLS**

**SCHEDULE OF INDEBTEDNESS**

**JUNE 30, 2007**

	<u>Date of Note</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Total Outstanding at June 30, 2007</u>	<u>Total Interest Payable</u>
<b>Bus notes payable</b>						
2006 bus note payable	7/27/2006	\$ 60,886	4.29%	7/27/2007	\$ 29,804	\$ 2,612
			4.29%	7/27/2008	31,082	1,333
					<b>60,886</b>	<b>3,945</b>
2004 bus note payable	10/8/2004	\$ 54,110	3.04%	9/22/2007	10,822	987
			3.04%	9/22/2008	10,822	658
			3.04%	9/22/2009	10,822	329
					<b>32,466</b>	<b>1,974</b>
2003 bus note payable	8/19/2003	53,102	2.87%	8/19/2007	10,916	636
			2.87%	8/19/2008	11,230	322
					<b>22,146</b>	<b>958</b>
2002 bus note payable	7/16/2002	50,000	3.88%	7/16/2007	10,775	418
					<b>10,775</b>	<b>418</b>
<b>Total bus notes payable</b>					<b>\$ 126,273</b>	<b>\$ 7,295</b>

**PELLSTON PUBLIC SCHOOLS**

**SCHEDULE OF INDEBTEDNESS**

**JUNE 30, 2007**

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	<u>Date of Note</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Total Outstanding at June 30, 2007</u>	<u>Total Interest Payable</u>
<b>Bleacher Note Payable</b>						
Bleacher note payable	6/27/2006	\$ 21,000	4.29%	7/27/2007	\$ 10,280	\$ 901
			4.29%	7/27/2008	10,720	460
					<u>\$ 21,000</u>	<u>\$ 1,361</u>

# **INTERNAL CONTROL AND COMPLIANCE**



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

September 10, 2007

Board of Education  
Pellston Public Schools  
Pellston, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Pellston Public Schools* (the "District") as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinions 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 the financial reporting that might be significant deficiencies or material weakness. 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 misstatement 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 entity's internal control over the financial reporting. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting. This deficiency is referenced as 2007-1.

Finding 2007-1: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

Response: Due to the decreasing enrollments and budgetary constraints, including negative net assets of the District, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the District's assets. To the extent possible, duties are allocated between the contracted accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Superintendent assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

The District's response to the findings identified in our audit is described above. We did not audit the District's response and, accordingly, we express no opinion on it.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be a material weakness. However, we did not discover any control deficiencies that we believe to be a material weakness.

### **Compliance and other matters**

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

We noted certain other matters that we reported to the Audit Committee of the Board of Education in a separate letter dated September 10, 2007.

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

*Rehmann Johnson*



September 10, 2007

Superintendent and Members of  
the Board of Education  
Pellston Public Schools  
Pellston, MI

In planning and performing our audit of the governmental activities, major fund and the aggregate remaining fund information of **Pellston Public Schools** (the “District”) as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the District’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions 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.

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 misstatement 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.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result 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 was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified a deficiency in internal control that we consider to be a significant deficiency. This deficiency has been documented in the *Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards*. Certain other matters related to operational or administrative efficiencies and improvements to internal controls are included on the following pages.

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

This letter does not affect our report dated September 10, 2007 on the financial statements of the District.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive style with a large, prominent 'L' and 'J'.

**PELLSTON PUBLIC SCHOOLS**  
**COMMENTS AND RECOMMENDATIONS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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**ATHLETIC EVENTS AND OTHER FUNDRAISING ACTIVITIES**

*Prior Year and Current Year Comment and Recommendation*

**Verifying cash**

At athletic events, concession stands and other functions where larger volumes of cash are handled, two people should witness and verify the final counting and reconciliation of cash and sign a form indicating such. During fiscal 2007, the District has indicated that they have implemented this procedure. However to further strengthen the control, employees and volunteers should be reminded that cash is not to be taken home and should be deposited in the night drop box of the designated financial institution of the District.

**COMPUTER SECURITY**

*Prior Year and Current Year Comment and Recommendation*

Recognizing that computers are an integral part of the curriculum and financial reporting process of the District, it is important to maintain the security of the systems and information. In our discussions with management, we noted that passwords are not changed on regular intervals. Because password security is an important control, we recommend that the District review the password controls on all computers and consider implementing a periodic requirement for changing of passwords, with appropriate monitoring.

**BANK RECONCILIATIONS**

*Current Year Comment and Recommendation*

Review of bank reconciliations by an individual independent of the custodial and recording functions is an important internal control to prevent the misappropriation of cash. Bank reconciliations are not currently reviewed by an individual not involved in reconciling the bank statements. The District should consider implementing procedures for review of reconciliations.

## **FIXED ASSETS**

### *Current Year Comment and Recommendation*

Fixed assets are not inventoried, tagged or recorded in a subsidiary ledger maintained by the District. This process helps the District maintain accountability for the assets and potentially reduce the risk of theft or misappropriation. The District should consider inventorying and tagging individual items which exceed the capitalization policy of the District, which is \$5,000.

## **GASB 34 FUND**

### *Prior Year and Current Year Comment and Recommendation*

Governmental Accounting Standards Board (GASB) Statement 34 required governmental entities, such as cities, to present certain information in government-wide financial statements. The District successfully implemented GASB 34 for its year ended June 30, 2004. A separate fund is to be set-up in order to account for the GASB 34 transactions. The District was able to provide the adjustments for the government-wide financial statements; however they do not yet maintain a GASB 34 fund. While the State of Michigan does not yet require this fund to be included in the District's accounting records, we recommend that the District create this fund and adjust it annually at year end in anticipation of the future requirement that the fund be maintained.

## **MICHIGAN FINANCE QUALIFYING STATEMENT**

### *Prior Year and Current Year Comment and Recommendation*

All governmental units subject to the Revised Municipal Finance Act (PA 34 of 2001) must submit a Michigan Finance Qualifying Statement that allows governmental units to be eligible to apply for financing during the fiscal year. The District must submit their qualifying statement electronically using the Michigan Department of Treasury's website. The District must establish a password to submit the qualifying statement on-line. If necessary, the Business Manager or Superintendent must call the Local Audit and Finance Division of the Department of Treasury (517) 373-0660 and request one. The qualifying statement is due to the Michigan Department of Treasury six months following the fiscal year end, or December 31, 2007.

## **ELECTRONICALLY FILING THE FINANCIAL STATEMENTS**

### *Prior Year and Current Year Comment and Recommendation*

The Michigan Department of Treasury has issued Number Letter 2005-2 which requires (under the authority of Michigan Compiled Law 141.427(1) that all audits required in accordance with Public Act 2 of 1968 and Public Act 71 of 1919 be submitted electronically to the Treasury in a Portable Document Format (pdf) compatible with Adobe Acrobat. This file may be forwarded to bond counsel for preparation of the SEC continuing disclosures.

## CONCLUSION

It has been a pleasure to provide audit services to *Pellston Public Schools*. Management was well prepared for the audit, providing us with all requested information.

We appreciate your business! Thank you.