

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**TOIVOLA, MICHIGAN**

**FINANCIAL STATEMENTS**  
**WITH SUPPLEMENTAL INFORMATION**

**June 30, 2007**

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**

**JUNE 30, 2007**

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**ADMINISTRATION**

Superintendent ..... Dennis Harbour

**BOARD OF EDUCATION**

President ..... Jeanmarie Hagan

Vice President ..... Lynn Huotari

Treasurer ..... Tonya Waltanen

Secretary ..... Susan Mallow

Trustee ..... Wendy Klemett

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### INDEPENDENT AUDITOR'S REPORT

Board of Education  
Elm River Township School District  
Toivola, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elm River Township School District as of and for the year then ended June 30, 2007, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Elm River Township School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated October 12, 2007 on our consideration of Elm River Township School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion analysis and budgetary comparison information on pages 8 through 12 and 26, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Elm River Township School District's basic financial statements. The additional information on pages 28 to 30 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bruce A. Rukhila, CPA, PC*

Certified Public Accountants

October 12, 2007



Bruce A Rukkila, CPA, PC



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

Board of Education  
Elm River Township School District  
Toivola, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elm River Township School District as of and for the year then ended June 30, 2007, which collectively comprise the Elm River Township School District's basic financial statements and have issued our report thereon dated October 12, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Elm River Township School 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elm River Township School District's internal control over financial reporting 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 Elm River Township School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Elm River Township School District's internal control over financial reporting.

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

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

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

This report is intended solely for the information and use of the school district's board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Bruce A. Rukhila, CPA, PC*

Certified Public Accountants

October 12, 2007

**Elm River Township School District  
Management's Discussion and Analysis  
June 30, 2007**

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This section of Elm River Township School District's annual financial report presents management's discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

**Overview of the Financial Statements**

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

Statement of Net Assets and the Statement of Activities

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

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

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in the School Food Service fund.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund meets this requirement

Non-major Funds: In the basic financial statements, the non-major fund is represented by one column. This is a smaller fund. Detailed information about the non-major fund can be found after the notes to the financial statements.

**Elm River Township School District  
Management's Discussion and Analysis  
June 30, 2007**

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**Overview of the Financial Statements - Continued**

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the general fund.
- Other supplementary information provides detailed information about the General and School Food Service Funds.

**Significant Transactions and Changes in Individual Funds**

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
General Fund:			
Revenues/Transfers	\$ 222,992	\$ 204,722	\$ 18,270
Expenditures/Transfers	\$ 226,050	\$ 210,822	\$ 15,228
Fund Balance	\$ 93,340	\$ 96,398	\$ (3,058)
School Food Service Fund:			
Revenues/Transfers	\$ 25,421	\$ 22,991	\$ 2,430
Expenditures/Transfers	\$ 23,187	\$ 21,720	\$ 1,467
Fund Balance	\$ 5,009	\$ 2,775	\$ 2,234

General Fund - Revenues increased from prior year due to an increase in property taxes and a small increase in grant revenues. Expenditures increased due to the purchase of two buses and classroom furniture. There also was a slight increase in wages and retirement expenses.

School Food Service Fund - During the fiscal year, there were more students eligible for free and reduced lunches, which resulted in an increase in our monthly revenue reimbursements. Expenses increased from prior year due to slight increases in wages, retirement, and cost of food expenses.

**Elm River Township School District  
Management's Discussion and Analysis  
June 30, 2007**

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**Overview of the Financial Statements - Continued**

**Summary of Net Assets**

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current and other assets	\$ 144,745	\$ 145,058
Capital assets - Net of accumulated depreciation	37,159	28,474
Total Assets	<u>\$ 181,904</u>	<u>\$ 173,532</u>
<b>Liabilities</b>		
Current liabilities	\$ 46,396	\$ 45,885
Total Liabilities	<u>46,396</u>	<u>45,885</u>
<b>Net Assets</b>		
Invested in capital assets	37,159	28,474
Unrestricted	98,349	99,173
Total net assets	<u>135,508</u>	<u>127,647</u>
Total Liabilities and Net Assets	<u>\$ 181,904</u>	<u>\$ 173,532</u>

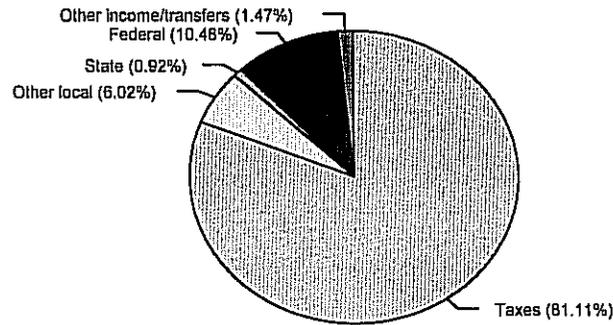
**Results of Operations in Governmental Activities**

	<u>2007</u>	<u>2006</u>
<b>Program Revenue:</b>		
Charges for services	\$ 1,564	\$ 1,838
Grants and contributions	35,446	29,646
<b>General Revenue:</b>		
Property taxes	179,279	170,147
State aid	2,042	0
Interest and investment earnings	3,159	3,106
Transfers	3,282	2,898
Other	7,840	3,850
Total Revenue	<u>232,612</u>	<u>211,485</u>
<b>Functions/Program Expenses</b>		
Instruction	95,718	96,726
Support services	105,846	101,285
School food services	23,187	21,720
Total Expenses	<u>224,751</u>	<u>219,731</u>
Change in Net Assets	7,861	(8,246)
Net Assets - Beginning	127,647	135,893
Net Assets - Ending	<u>\$ 135,508</u>	<u>\$ 127,647</u>

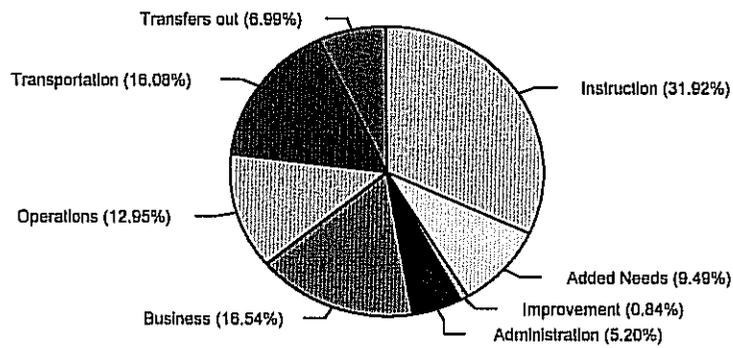
**Elm River Township School District  
 Management's Discussion and Analysis  
 June 30, 2007**

The following charts highlight the District's General Fund activities:

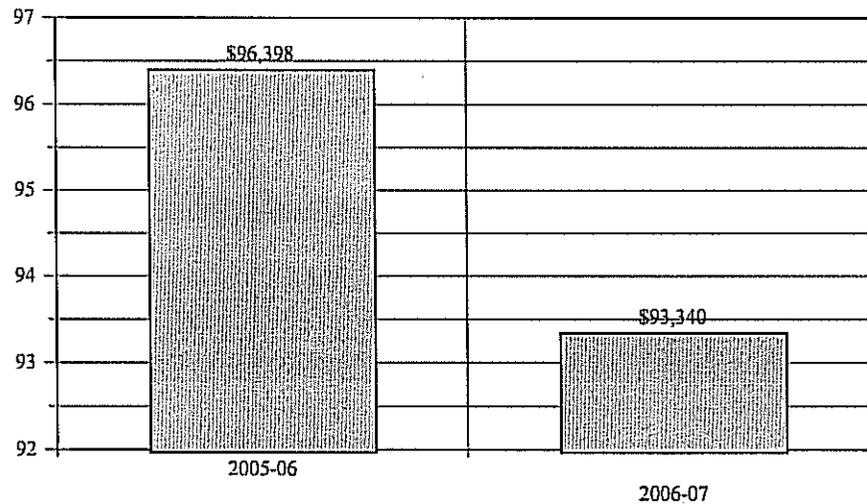
**2006-07 Revenues**



**2006-07 Expenditures**



**Fund Balance Comparison**



**Elm River Township School District  
Management's Discussion and Analysis  
June 30, 2007**

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**Changes to Budget and Comparison to Actual Results**

The original budget is required to be adopted before the beginning of the fiscal year by State law. For this fiscal year, the original budget was adopted on June 21, 2006. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. There were no significant variances for the fiscal year ended June 30, 2007 in the general fund.

**Capital Assets**

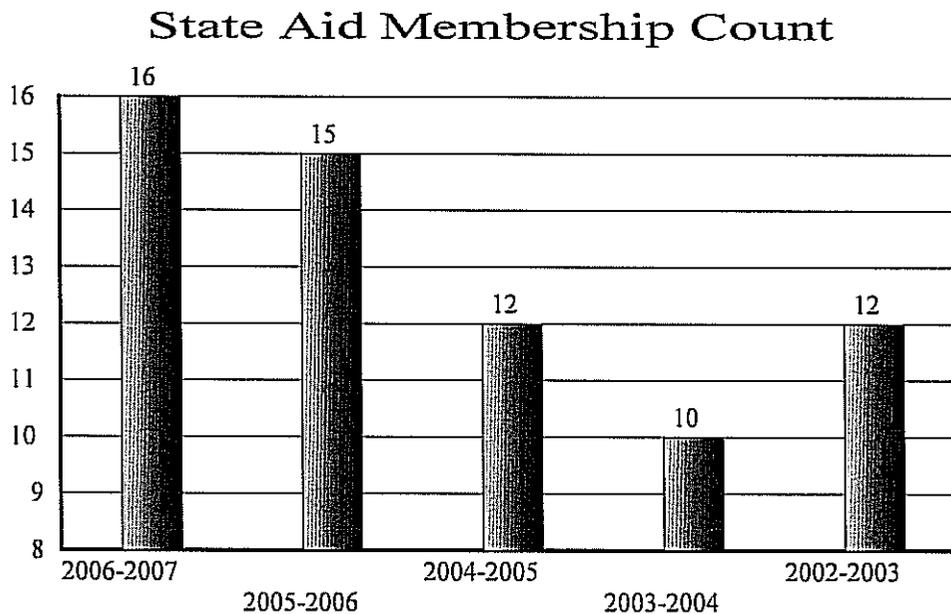
The District's net investment in capital assets increased by \$11,888 during the fiscal year. The addition includes two buses, a swing set, and a riding lawn mower for the General Fund.

Additional information on the District's capital assets can be found on page 21 of this report.

**Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations**

Elm River Township School District operates on millage levy from non-homestead properties, with State Education Tax levy from homestead properties going to Michigan State Aid Fund and remaining there.

The following graph depicts an increase of 1 student enrolled from the previous year, using the State Aid Membership Count.



**Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Elm River Township School.

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**June 30, 2007**

	<u>Governmental Activities</u>
<b>ASSETS:</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 131,922
Taxes receivable	11,987
Prepaid expense	756
Due from other governmental units	19
Due from other funds	<u>61</u>
<b>TOTAL CURRENT ASSETS</b>	<u>144,745</u>
<b>NON-CURRENT ASSETS:</b>	
Capital assets	57,369
Less: Accumulated depreciation	<u>(20,210)</u>
<b>TOTAL NON-CURRENT ASSETS</b>	<u>37,159</u>
<b>TOTAL ASSETS</b>	<u>\$ 181,904</u>
<b>LIABILITIES:</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 2,500
Accrued expenses	4,028
Due to other governmental units	<u>39,807</u>
Due to other funds	<u>61</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>46,396</u>
<b>NET ASSETS</b>	
Invested in capital assets	37,159
Unreserved	<u>98,349</u>
<b>TOTAL NET ASSETS</b>	<u>135,508</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 181,904</u>

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

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2007**

<u>FUNCTIONS/PROGRAMS</u>	Program Revenues			Governmental Activities
Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets	
<b>Government Activities:</b>				
Instruction and instructional support	\$ 95,718	-	\$ 27,494	(68,224)
Support services	105,846	-	-	(105,846)
School food service	23,187	1,564	8,056	(13,567)
<b>Total Governmental Activities</b>	<b>\$ 224,751</b>	<b>\$ 1,564</b>	<b>\$ 35,550</b>	<b>(187,637)</b>
 <b>General Revenues:</b>				
Property taxes, levied for general operations				179,279
State school aid - unrestricted				1,938
Interest and investment earnings				3,159
Other				7,840
Transfers				3,282
<b>Total general revenues and transfers</b>				<b>195,498</b>
Change in Net Assets				7,861
Net Assets - Beginning				127,647
Net Assets - Ending				<b>\$ 135,508</b>

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

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**June 30, 2007**

	<u>General</u>	<u>Other Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 126,758	\$ 5,164	\$ 131,922
Taxes receivable	11,987	-	11,987
Prepaid expenses	756	-	756
Due from other governmental units	19	-	19
Due from other funds	-	61	61
<b>TOTAL ASSETS</b>	<b><u>\$ 139,520</u></b>	<b><u>\$ 5,225</u></b>	<b><u>\$ 144,745</u></b>
<b>LIABILITIES:</b>			
Accounts payable	\$ 2,500	\$ -	\$ 2,500
Accrued expenses	3,812	216	4,028
Due to other funds	61	-	61
Due to other governmental units	39,807	-	39,807
<b>TOTAL LIABILITIES</b>	<b><u>46,180</u></b>	<b><u>216</u></b>	<b><u>46,396</u></b>
<b>FUND BALANCES:</b>			
Unreserved	<u>93,340</u>	<u>5,009</u>	<u>98,349</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 139,520</u></b>	<b><u>\$ 5,225</u></b>	

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.	<u>37,159</u>
Net assets of governmental activities	<b><u>\$ 135,508</u></b>

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

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2007**

	General	Other Non-major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Local sources	\$ 194,307	\$ 1,564	\$ 195,871
State sources	2,042	1,648	3,690
Federal sources	23,361	6,408	29,769
Total revenues	219,710	9,620	229,330
<b>EXPENDITURES</b>			
Instruction	93,602	-	93,602
Supporting services	116,647	-	116,647
School service	-	23,187	23,187
Total expenditures	210,249	23,187	233,436
Excess (deficiency) of revenue over expenditures	9,461	(13,567)	(4,106)
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating transfers in (out)	(15,801)	15,801	-
Incoming transfers - other schools	3,282	-	3,282
Total other financing sources (uses)	(12,519)	15,801	(3,282)
<b>NET CHANGE IN FUND BALANCE</b>	(3,058)	2,234	(824)
<b>FUND BALANCES - BEGINNING OF YEAR</b>	96,398	2,775	
<b>FUND BALANCES - END OF YEAR</b>	\$ 93,340	\$ 5,009	

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

Governmental funds report capital outlays as expenditures in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation	8,685
Change in net assets of Governmental Activities	\$ 7,861

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

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2007**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**REPORTING ENTITY**

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

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund 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. All of the School District's government-wide activities are considered governmental activities.

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

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term assets. The District's net assets are reported in two parts - invested in capital assets and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

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

The District does not allocate indirect costs.

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

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2007**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

The School District reports the following major governmental fund:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Non-major fund:

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service.

Accrual Method

The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

Modified Accrual Method

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

Property taxes, federal aid, and interest associated with the current fiscal period are all considered to 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.

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2007**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Other Accounting Policies*

Cash and cash equivalents

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

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

Michigan law authorizes the District to deposit and invest in:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bill 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.
2. Certificates of deposits issued by the State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States, 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.
5. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
6. 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.

Property Taxes

Property taxes levied by the District are collected by Elm River Township and periodically remitted to the District. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and becomes a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2007, the District levied 16.58 mills of non-homestead assessed value for General Fund.

Receivables and Payables

Activity between funds are reported as "due to/from other funds."

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

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2007**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Inventory - The District utilizes the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Capital Assets

Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the district-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reclassification

Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

**NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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

1. The Business Manager submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
7. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section..

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2007**

**NOTE C - CASH AND INVESTMENTS**

At year-end, the School District's deposits were reported in the basic financial statements as governmental activities as cash equivalents in the amount of \$131,922.

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, \$4,771 of the District's bank balance of \$133,558 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

**NOTE D - FIXED ASSETS**

Fixed Asset activity of the School District's governmental activities was as follows:

	Balance 06/30/06	Additions	Deletions	Balance 06/30/07
Land	\$ 11,740	\$ 0	\$ 0	\$ 11,740
Building and additions	8,141	0	0	8,141
Improvements other than building	5,950	0	0	5,950
Equipment and furniture	19,650	3,084	0	22,734
Buses	0	8,804	0	8,804
	<u>33,741</u>	<u>\$ 11,888</u>	<u>\$ 0</u>	<u>45,629</u>
Accumulated depreciation:				
Building and additions	1,974	\$ 388	\$ 0	2,362
Improvements other than building	2,569	280	0	2,849
Equipment and furniture	12,464	1,526	0	13,990
Buses	0	1,009	0	1,009
	<u>17,007</u>	<u>\$ 3,203</u>	<u>\$ 0</u>	<u>20,210</u>
Net capital assets being depreciate	16,734			25,419
Net capital assets	<u>\$ 28,474</u>			<u>\$ 37,159</u>

Depreciation expense was charged to governmental activities of the School District as follows:

Instruction	\$ 2,116
Transportation	1,009
Operations	78
TOTAL	<u>\$ 3,203</u>

**NOTE E - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2007 are as follows:

Fund	Inter-fund Payable	Fund	Inter-fund Receivable
General	<u>\$ 61</u>	School Service	<u>\$ 61</u>
Fund	Transfer Out	Fund	Transfer In
General	<u>\$ 15,801</u>	School Service	<u>\$ 15,801</u>

**NOTE F - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service; or at age sixty with at least 10 years of credited service; or after attaining age 60 with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

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

The District was required by the state statute to contribute 16.34% of covered compensation through September 30, 2006 and 17.74% of covered compensation to the Plan for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2007 was \$17,111 and equal the required contributions.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees' service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' fund status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among PERS and employers.

The MPERS does not make separate measurements of assets and pension benefit obligations for individual districts.

As of September 30, 2006 for the MPERS as a whole, the actuarial accrued liability was \$48.2 billion. The pension plan net assets were \$43 billion, resulting in a ratio of assets at market value to the actuarial accrued liability of 89%. Employer contributions are based upon level-percent-of-payroll principles so that the contribution rates do not have to increase over decades of time. The District's 2007 contribution represented less than 1% of total contributions required of all participating entities.

Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the MPERS' September 30, 2006 annual report.

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

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2007**

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**NOTE F - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)**

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employees. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages 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 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)

**NOTE G - STATE FOUNDATION REVENUE**

The State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The school district levies 16.58 mills for non-homestead property taxes. Based on the foundation grant approach, the District is out of formula due to local support. Therefore, they receive no state foundation revenue.

2006-07 Foundation		\$ 8,329.00
Less local support:		
Non-Homestead Tax Value	10,745,931	
Multiplied by mills	16.58	
Total local support	178,167.54	
Divided by General Education K-6	15.75	
Calculated Local Support		11,312.22
Out of Formula		\$ (2,983.22)

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2007**

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**NOTE H -RECONCILIATION OF MDE GRANT REPORTS**

The amounts reported as current payments on MDE grant reports prepared by the State of Michigan, reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 16 as follows:

Total current payments per MDE Reports	\$	8,621
Less: School Breakfast Program State Funds		(1,587)
Plus: USDA Commodities received		1,281
Title I transferred from another district		3,399
Small Rural School Achievement		18,055
Total Federal Financial Assistance	\$	<u>29,769</u>

The School District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2007 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

**NOTE I - CONTINGENT LIABILITIES**

Risk Management

Elm River Township School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Elm River Township School District joined together with other school districts currently operating a common risk management and insurance program. Elm River Township School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Elm River Township School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2007, which can be obtained through the School District.

**REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION**

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

**For the Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variance Final to Actual</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Local sources	\$ 187,500	\$ 192,000	\$ 194,307	\$ 2,307
State sources	-	200	2,042	1,842
Federal sources	21,002	23,370	23,361	(9)
<b>TOTAL REVENUE</b>	<u>208,502</u>	<u>215,570</u>	<u>219,710</u>	<u>4,140</u>
<b>EXPENDITURES:</b>				
Instruction	98,113	96,870	93,602	3,268
Supporting services	109,927	118,450	116,647	1,803
<b>TOTAL EXPENDITURES</b>	<u>208,040</u>	<u>215,320</u>	<u>210,249</u>	<u>5,071</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	462	250	9,461	9,211
<b>OTHER FINANCING SOURCES (USES)</b>				
Incoming transfers - other schools	3,000	3,300	3,282	(18)
Operating transfers in (out)	(15,600)	(16,200)	(15,801)	399
<b>Total other financing sources (uses)</b>	<u>(12,600)</u>	<u>(12,900)</u>	<u>(12,519)</u>	<u>381</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (12,138)</u>	<u>\$ (12,650)</u>	<u>(3,058)</u>	<u>\$ 9,592</u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>			<u>96,398</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 93,340</u>	

**OTHER SUPPLEMENTAL FINANCIAL INFORMATION**

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2006</u>
<b>REVENUES:</b>				
Local sources:				
Taxes:				
Current taxes	\$ 192,000	\$ 179,279	\$ (12,721)	\$ 170,147
Penalties & interest on delinquent taxes	-	1,597	1,597	-
Total taxes	192,000	180,876	(11,124)	170,147
Other local sources:				
Investment revenue	-	3,159	3,159	3,106
Contributions	-	4,029	4,029	2,550
Miscellaneous	-	6,243	6,243	5,209
Total other local sources	-	13,431	13,431	10,865
Total local sources	192,000	194,307	2,307	181,012
State sources:				
Restricted State Aid	-	104	104	-
Unrestricted State Aid	200	1,938	1,738	-
Total state sources	200	2,042	1,842	-
Federal sources:				
Title I	23,370	3,399	(19,971)	947
Title V	-	87	87	-
Title II	-	1,820	1,820	1,829
Technology literacy	-	-	-	18
REAP	-	18,055	18,055	18,018
Total federal sources	23,370	23,361	(9)	20,812
<b>TOTAL REVENUES</b>	<b>215,570</b>	<b>219,710</b>	<b>4,140</b>	<b>201,824</b>
<b>EXPENDITURES:</b>				
Instruction:				
Elementary School	73,500	72,148	1,352	76,598
Added needs:				
Compensatory education	23,370	21,454	1,916	18,966
Total instruction	96,870	93,602	3,268	95,564
Supporting Services:				
Instructional staff:				
Improvement of instruction	-	1,907	(1,907)	1,911
General administration	11,800	11,750	50	12,115
Business-fiscal services	37,900	37,384	516	34,496
Operation & maintenance	30,500	29,264	1,236	25,543
Pupil transportation	38,250	36,342	1,908	26,324
Total supporting services	118,450	116,647	1,803	100,389
<b>TOTAL EXPENDITURES</b>	<b>215,320</b>	<b>210,249</b>	<b>5,071</b>	<b>195,953</b>

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES (Continued)**  
**Year Ended June 30, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2006</u>
EXCESS OF REVENUES OVER EXPENDITURES	250	9,461	9,211	5,871
OTHER FINANCING SOURCES (USES):				
Incoming transfers - other schools	3,300	3,282	(18)	2,898
Operating transfer out	<u>(16,200)</u>	<u>(15,801)</u>	<u>399</u>	<u>(14,869)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(12,900)</u>	<u>(12,519)</u>	<u>381</u>	<u>(11,971)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (12,650)</u>	<u>(3,058)</u>	<u>\$ 9,592</u>	<u>(6,100)</u>
FUND BALANCE, BEGINNING OF YEAR		<u>96,398</u>		<u>102,498</u>
FUND BALANCE, END OF YEAR		<u>\$ 93,340</u>		<u>\$ 96,398</u>

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**SCHOOL FOOD SERVICE FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2006</u>
REVENUES:				
Local sources:				
Earnings on investments	1,800	-	(1,800)	-
Food sales	\$ -	\$ 1,564	\$ 1,564	\$ 1,838
State sources	<u>1,350</u>	<u>1,648</u>	<u>298</u>	<u>1,367</u>
Federal sources:				
School lunch program	5,200	5,127	(73)	3,387
USDA entitlements	-	1,254	1,254	1,360
USDA bonus entitlements	-	27	27	170
Total federal sources	<u>5,200</u>	<u>6,408</u>	<u>1,208</u>	<u>4,917</u>
TOTAL REVENUES	<u>8,350</u>	<u>9,620</u>	<u>3,070</u>	<u>8,122</u>
EXPENDITURES:				
Salaries	12,800	12,746	54	12,092
Employee benefits	3,380	3,278	102	2,893
Purchase services	575	492	83	486
Supplies, materials, and other	<u>6,000</u>	<u>6,671</u>	<u>(671)</u>	<u>6,249</u>
TOTAL EXPENDITURES	<u>22,755</u>	<u>23,187</u>	<u>(432)</u>	<u>21,720</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(14,405)</u>	<u>(13,567)</u>	<u>3,502</u>	<u>(13,598)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	<u>16,200</u>	<u>15,801</u>	<u>399</u>	<u>14,869</u>
NET CHANGE IN FUND BALANCE	<u>\$ 1,795</u>	<u>2,234</u>	<u>\$ 3,901</u>	<u>1,271</u>
FUND BALANCE, BEGINNING OF YEAR		<u>2,775</u>		<u>1,504</u>
FUND BALANCE, END OF YEAR		<u>\$ 5,009</u>		<u>\$ 2,775</u>



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**COMMENTS AND RECOMMENDATIONS LETTER**

Board of Education  
Elm River Township School District  
Toivola, Michigan

We have audited the financial statements of Elm River Township School District, for the year ended June 30, 2007, and have issued our report thereon dated October 12, 2007. As part of our audit, we made a study of the internal control structure to the extent we considered necessary and as required by generally accepted auditing standards.

**Board Minutes Documentation**

The following items should be documented in the board minutes as they occur: the hiring of significant new employees; details of contracts entered into; information regarding obtaining and accepting bids; transfers of funds, new or additional revenue including grants; fund balance designations; and the opening and closing of bank accounts, as well as approval of authorized signers and restrictions on accounts. It is also important, when adopting or amending the budget, to state the total revenues and expenditures approved and attach a signed copy of the budget to those minutes.

**Public Act 621 - Budget Over Expenditures**

Public Act 621 of 1978, as amended, prohibits expenditures in excess of budgeted appropriations. Instances of violations of these provisions are readily ascertainable from the financial statements and the accompanying information. There were no material overages in the individual budgeted funds.

We would like to thank the administrative staff for the excellent cooperation we received during our audit.

This report is intended for the information of management, the cognizant audit agency and other federal and state audit agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

October 12, 2007