Rapson School
Bloomfield Township School District 7F
Bad Axe, MI

FINANCIAL REPORT
June 30, 2007

Rapson School

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Independent Auditor's Report

Board of Education
Rapson School
Bad Axe, MI 48413

I have audited the accompanying general purpose financial statements of the governmental activities, the business-type activities, the aggregated discretely presented component units, each major fund, and the aggregate remaining fund information of the Rapson School as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements of the Rapson School management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Rapson School as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 26, 2007, on my consideration of the Rapson School internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information 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. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rapson School basic financial statements. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, i express no opinion on them.

George Zahul, CPA, PC

George Zahul, CPA, PC
October 26, 2007

George Zahul, CPA, PC
101 N Port Crescent St
Bad Axe, MI 48413
989-269-9966

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the School District
Rapson School
Bad Axe, MI 48413

I have audited the financial statements of the governmental activities, the business-type activities, the aggregated discretely presented component units, each major fund, and the aggregate remaining fund information of Rapson School as of and for the year ended June 30, 2007, which collectively comprise Rapson School basic financial statements and have issued my report thereon dated October 26, 2007. I conducted my 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 my audit, I considered the Rapson School internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Rapson School financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the State of Michigan, and the United States Department of Agriculture Rural Development and is not intended to be and should not be used by anyone other than those specified parties.

George Zahul, CPA, PC

George Zahul, CPA, PC
October 26, 2007

Rapson School
Management's Discussion and Analysis

This section of the School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the district's financial statements, which immediately follow this section.

Financial Highlights

The 2006/07 fiscal years resulted in a Fund Balance in the General Fund of $212,355.25. This was an expected result for the District. The Fund Balance was slightly lower than was originally budgeted.

In total, District revenues exceeded $103,704.00 for fiscal year ended June 30, 2007. Spending over the same time period was $119,505.00. In both cases that was a decrease of approximately $2,593.00 over fiscal 2004 for revenues and a decrease of $2,160.00 for spending.

Overview of the Financial Statements

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

The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.

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

Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Rapson School
Management's Discussion and Analysis

Major Features of District-Wide and Fund Financial Statements

	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial Statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, Expenditures and changes In fund balances	*Statement of fiduciary net assets *Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability Information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Rapson Schools funds do not currently contain capital assets, although they can
Type of inflow/ Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and dedications during the year, regardless of when cash is received or paid

Summarized above are the major Features of District-Wide and Fund Financial Statements summarizing the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-Wide Statements

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

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

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

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

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

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

Fund Financial Statements

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

Some funds are required by State law and by bond covenants.

The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has one kind of fund:

Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

Rapson School
Management's Discussion and Analysis

Financial Analysis of the District as a Whole

Net Assets

District net assets decreased during the fiscal 2007. Depreciation of District assets, of $17,512.00, as opposed to new purchases of $17,540.00 also had an impact.

Rapson School

		2007
Current and other Assets	$	212,355
Capital Assets, Less Accumulated Depreciation		131,024
Total Assets	$	343,379
Other Liabilities	$	0
Total Liabilities	$	0
Net Assets:		
Invested in Capital Assets net of Related Debt	$	131,024
Unrestricted		212,355
Total net Assets (deficit)	$	343,379

Changes in Rapson School Net Assets

		2007
Revenues		
Operating Grants	$	19,621
General Revenues		
Property Taxes		17,638
State Aid – Unrestricted		40,400
Other		26,045
Total Revenues	$	103,704
Expenses		
Instruction	$	79,020
Support Services		22,498
Food Services		448
Business Type Activities		
Unallocated Depreciation		17,512
Total Expenses	$	119,478
Decreases in Net Assets	$	(15,773)

Rapson School
Management's Discussion and Analysis

District Governmental Activities

Though the District expenditures exceeded revenues by $15,801.12 during the fiscal year 2006-2007, it remains in relatively good financial shape.

The District accepts students under the "Schools of Choice" option available to students in the State of Michigan. During this year the District enrolled additional students through this option. These additional enrollments increased the District's state aid allowance under Section 20. This additional funding helped to minimize the amount of operational funds needed from accumulated fund equity to meet current operating expenses.

The District will continue to accept "School of Choice" students in an effort to maintain current programming.

Financial Analysis of the District's Funds

The District's excess of expenditures for the year over revenues was not unanticipated. Steps were taken to reduce expenditures, but with the State revenues lower due to declining enrollment and lack of School Aide increases it made it a difficult year.

General Fund and Budget Highlights

During the 2007 fiscal year the original District budgets were amended several times to reflect the changes that had an impact on the District.

Initial budget amendments took place in the fall of the year and reflected the awareness of settled contracts, actual student counts, and the impact of staffing changes. Additional amendments reflected state pro-ration of the District foundation grant as well as better information on utilities, snow removal and the other District expenditures, which vary depending on the year. The final budget amendment anticipated a deficit of slightly more than $45,515.390. Final figures show that amount decreased $15,801.12.

Capital Assets

The district made capital purchases of $17,540.00 during the year.

Rapson School
Management's Discussion and Analysis

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited the District was aware of several areas that could have a major impact on the 2006-2007 fiscal year, and subsequent years.

The State of Michigan has finalized the student foundation allowance for the 2006-2007 year. This is a increase in funding, following three consecutive years of flat revenue growth in the foundation allowance. Because the Michigan economy is still unstable, it is uncertain whether or not the State will be able to meet the funding level.

The District will continue to seek and accept "Schools of Choice" students in order to have a funding base, which will allow it to continue as a separate entity.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact in writing the Business Office, Rapson School 2072 N. Verona Road, Bad Axe, MI 48413.

Rapson School
Statement of Net Assets
June 30, 2007

Assets

Current Assets		
Cash and Investments	$	202,765.02
Taxes and Accounts Receivable		9,590.23
Total Current Assets		212,355.25
Non Current Assets		
Land		3,000.00
Building		128,541.00
Building Additions		7,079.00
Computers, Furniture and Equipment		139,784.93
Less Accumulated Depreciation		(147,381.00)
Net Property and Equipment		131,023.93
Total Non Current Assets		131,023.93
Total Assets	$	343,379.18

Liabilities and Net Assets

Current Liabilities

Non Current Liabilities

Net Assets	
Invested in capital assets net of related debt	131,023.93
Unrestricted	212,355.25
Total Net Assets	343,379.18

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

Rapson School
Statement Of Activities
For the Year Ended June 30, 2007

	Governmental Activites			
		Program Revenues		
Functions/Programs	Program Expenses	Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities				
Instruction	$ 79,019.75	$ 0.00	$ 2,081.00	$ (76,938.75)
Support Services	22,497.74	0.00	0.00	(22,497.74)
Food Services	447.98	0.00	0.00	(447.98)
Unallocated Depreciation	17,512.00	0.00	17,540.00	28.00
Total Governmental Activities	$ 119,477.47	$ 0.00	$ 19,621.00	(99,856.47)
General Revenues				
Property Taxes General				17,637.87
Investment Earnings				9,449.74
State Sources				40,400.48
HISD Special Education Allocation				1,902.22
Other				14,693.04
Total General Revenues				84,083.35
Change in Net Assets (Deficit)				(15,773.12)
Net Assets Beginning of Year				363,754.19
Net Assets End of Year				$ 343,379.18

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

Rapson School
Balance Sheet
Governmental Funds
June 30, 2007

	General Fund	Other Nonmajor Governmental Funds: Capital Projects Fund	Other Nonmajor Governmental Funds: Debt Service Fund	Total Governmental Funds
Assets				
Cash and Investments	$ 202,765.02	$ 0.00	$ 0.00	$ 202,765.02
State Aid Receivable	6,516.34	0.00	0.00	6,516.34
Accounts Receivable	3,073.89	0.00	0.00	3,073.89
Total Assets	$ 212,355.25	$ 0.00	$ 0.00	$ 212,355.25
Liabilities and Fund Equity				
Liabilities				
Fund Equity				
Unreserved	212,355.25	0.00	0.00	212,355.25
Total Fund Equity	212,355.25	0.00	0.00	212,355.25
Total Liabilities and Fund Equity	$ 212,355.25	$ 0.00	$ 0.00	$ 212,355.25
Total Governmental Fund Balances				$ 212,355.25
Amounts reported for governmental activities in the statement of net assets are different because				
Capital assets used in governmental activities are not reported in the funds				
The cost of the capital assets are				278,404.93
Less Accumulated Depreciation				(147,381.00)
Long-Term Liabilities are not due and payable in the current period and are not reported in the funds				
Net Assets of Governmental Activities				$ 343,379.18

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

Rapson School
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	General Fund	Other Nonmajor Governmental Funds: Capital Projects	Total Governmental Funds
Revenues			
Local Sources	$ 17,637.87	$ 0.00	$ 17,637.87
Federal Sources	19,621.00	0.00	19,621.00
State Sources	40,400.48	0.00	40,400.48
Special Education	1,902.22	0.00	1,902.22
Interest	9,449.74	0.00	9,449.74
Miscellaneous	14,693.04	0.00	14,693.04
Total Revenues	103,704.35	0.00	103,704.35
Expenditures			
Instruction	79,019.75	0.00	79,019.75
Support Services	22,497.74	0.00	22,497.74
Food Services	447.98	0.00	447.98
Capital Outlay	17,540.00	0.00	17,540.00
Total Expenditures	119,505.47	0.00	119,505.47
Excess of Revenues over Expenditures	(15,801.12)	0.00	(15,801.12)
Other Financing Sources (Uses)			
Operating Transfers in	0.00	0.00	0.00
Operating Transfers out	0.00	0.00	0.00
Total Other Financing Sources (Uses)	0.00	0.00	0.00
Excess of Revenues and Other Over(Under)Expenditures and Other Us	(15,801.12)	0.00	(15,801.12)
Fund Balance at Beginning of Year	228,156.37	0.00	228,156.37
Fund Balance at End of Year	$ 212,355.25	$ 0.00	$ 212,355.25

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

Rapson School

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2007

Net Change in Fund Balances Total Governmental Funds	$ (15,801.12)
Amounts reported for governmental activities in the statement of activities are different because	
Governmental funds report capital outlays as expenditures in the year incurred and depreciation is recored for assets in the statement of activities	
Depreciation Expense	(17,512.00)
Capital Outlay	17,540.00
Accrued Interest on bonds is recorded in the statement of activities when incurred it is not recorded in governmental funds until it is paid	
Proceeds and repayments of principal on long-term debt are revenues and expenditures in the government funds, but not in the statement of activities	
Change in Net Assets of Governmental Activities	$ (15,773.12)

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

Note 1 - Summary of Significant Accounting Policies:

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

A. Reporting Entity

The Rapson School (the "District") is governed by the Rapson 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 form local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity and 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 Statements No. 14 and 39.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter fund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The Statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as a program revenues but instead as general revenues.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

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, fines, permits and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

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

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

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The general fund is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

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

Accrual Method

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

Modified Accrual Method

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

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

State Revenue

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

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

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

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

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

Property Taxes

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

Inventories and Prepaid Items

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

Receivables and Payable's

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 inter fund loans) or "advances to/form other funds" (i.e., the non-current portion of inter fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectible's.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and Additions	20 - 40 years
Furniture and other Equipment	5 - 15 years

The District's capitalization policy is to capitalize individual amounts exceeding $1,500. Group purchases are evaluated on a case-by-case basis.

Compensated Absences

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

Long-term Obligations

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

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 and 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 form the actual debt proceeds received, are reported as debt service expenditures.

Use of Estimates

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

Note 2 - Stewardship, Compliance and Accountability:

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue and debt service funds.

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

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

2. Public hearings are conducted to obtain taxpayer comments.

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). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.

4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

5. Formal budgetary integration is employed as a management control device during the year for the general, special revenue and debt service funds.

6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The District does not consider these amendments to be significant.

Note 3 - Cash and Investments:

Deposits

The District's cash accounts consist of various interest bearing checking and savings accounts. At year-end, the carrying amount of the District's deposits was $212,355.02 and the bank balance was $212,355.02.

Investments

State statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, deposit agreements with federally insured financial institutions within the State of Michigan, high grade commercial paper, repurchase obligations of the U.S. government and U.S.agencies, banker's acceptances of U.S. banks and mutual funds comprises of the above authorized investments. As of June 30, 2007, the District had no investments.

The total District cash and investments amounted to $212,355.02 as of June 30, 2007 and $117,294.96 was covered by Federal Depository Insurance.

Note 5 - Employee Retirement System - Defined Benefit Plan:

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

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contributed at the following graduated permanently fixed contribution rate: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 4.3% of all wages over $15,000.

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

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2007 were 16.34%. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2007 were $11,474.86.

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

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

Required Supplemental Information

Rapson School
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2007

	General Fund				
	Original Budget	Final Budget	Variance Original Compared to Final Increase (Decrease)	Actual	Variance Actual Compared to Final Favorable (Unfavorable)
Revenues					
Local Sources	$ 10,783.00	$ 17,637.87	$ 6,854.87	$ 17,637.87	$ 0.00
Federal Sources	325.00	19,621.00	19,296.00	19,621.00	0.00
State Sources	31,047.00	34,130.87	3,083.87	40,400.48	6,269.61
Special Education	4,204.00	1,902.22	(2,301.78)	1,902.22	0.00
Interest	2,000.00	2,000.00	0.00	9,449.74	7,449.74
Miscellaneous	100.00	11,603.52	11,503.52	14,693.04	3,089.52
Total Revenues	48,459.00	86,895.48	38,436.48	103,704.35	16,808.87
Expenditures					
Instruction	84,788.00	85,996.87	1,208.87	79,019.75	6,977.12
Support Services	34,921.00	27,074.00	(7,847.00)	22,497.74	4,576.26
Food Service	800.00	800.00	0.00	447.98	352.02
Capital Outlay	2,000.00	18,540.00	16,540.00	17,540.00	1,000.00
Total Expenditures	122,509.00	132,410.87	9,901.87	119,505.47	12,905.40
Excess of Revenues over Expenditures	(74,050.00)	(45,515.39)	28,534.61	(15,801.12)	29,714.27
Other Financing Sources (Uses)					
Operating Transfers in	0.00	0.00	0.00	0.00	0.00
Operating Transfers out	0.00	0.00	0.00	0.00	0.00
Excess of Revenues and Other Over(Under)Expenditures and Other Us	$ (74,050.00)	$ (45,515.39)	$ 28,534.61	(15,801.12)	$ 29,714.27
Fund Balance at Beginning of Year				228,156.37	
Fund Balance at End of Year				$ 212,355.25	

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

Additional Supplemental Information

Rapson School
General Fund
Schedule of Revenues
For the Year Ended June 30, 2007

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property Taxes	$ 17,637.87	$ 17,637.87	$ 0.00
Interest Income	2,000.00	9,449.74	7,449.74
Special Education	1,902.22	1,902.22	0.00
Miscellaneous	11,603.52	14,693.04	3,089.52
State School Aid	34,130.87	40,400.48	6,269.61
Reap	17,540.00	17,540.00	0.00
Title V	21.00	21.00	0.00
Title II	2,060.00	2,060.00	0.00
Total Revenues	$ 86,895.48	$ 103,704.35	$ 16,808.87

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

Rapson School General Fund
General Fund
Schedule of Expenditures
For the Year Ended June 30, 2007

	Budget	Actual	Variance Favorable (Unfavorable)
Instruction			
Wages	$ 52,000.00	$ 50,761.99	$ 1,238.01
Substitute Wages	1,200.00	1,386.64	(186.64)
Aide Wages	9,331.09	6,428.93	2,902.16
At Risk Wages	0.00	1,331.09	(1,331.09)
Benefits	0.00	596.97	(596.97)
Retirement	10,679.48	10,643.54	35.94
FICA	4,605.30	4,705.64	(100.34)
Contracted Services - Instruction	4,000.00	0.00	4,000.00
Telephone	1,100.00	1,074.84	25.16
Teaching Supplies	500.00	9.11	490.89
Textbooks	500.00	0.00	500.00
Title V Expense	21.00	21.00	0.00
Title IID Expense	81.00	81.00	0.00
Title II A Expense	1,979.00	1,979.00	0.00
Total Instruction	85,996.87	79,019.75	6,977.12
Food Services			
Food & Milk Expense	800.00	447.98	352.02
Total Food Services	800.00	447.98	352.02
Support Services			
Special Education			
Special Education - Wages	7,000.00	6,478.88	521.12
Special Ed - Employee Benefits	0.00	651.47	(651.47)
Special Education - Retirement	940.00	831.32	108.68
Special Education - FICA	405.00	358.46	46.54
Special Ed - Travel Expenses	500.00	0.00	500.00
Total Special Education	8,845.00	8,320.13	524.87
Administrative			
Board Salaries	1,797.00	1,797.00	0.00
Election Workers Salaries	500.00	0.00	500.00
Contracted Services	6,500.00	7,226.36	(726.36)
Board Supplies	1,000.00	348.89	651.11
Total Administrative	9,797.00	9,372.25	424.75
Operating and Maintenance			
Utilities	1,100.00	1,078.60	21.40
Insurance - Property	1,432.00	1,432.00	0.00
Insurance - Errors & Omissions	2,000.00	0.00	2,000.00
Contracted Plant Maintenance	750.00	0.00	750.00
Custodial Supplies	100.00	0.00	100.00
Heating Oil	2,200.00	2,148.90	51.10
Pupil Transportation Services - General	350.00	145.86	204.14
Total Operating and Maintenance	7,932.00	4,805.36	3,126.64

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

Rapson School General Fund
General Fund
Schedule of Expenditures
For the Year Ended June 30, 2007

	Budget	Actual	Favorable
Total Support Services	27,074.00	22,497.74	4,576.26
Capital Outlay			
Capital Outlay	1,000.00	0.00	1,000.00
Reap Expense	17,540.00	17,540.00	0.00
Total Capital Outlay	18,540.00	17,540.00	1,000.00
Total Expenditures	$ 132,410.87	$ 119,505.47	$ 12,905.40

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

George Zahul, CPA, PC
101 N Port Crescent St
Bad Axe, MI 48413
989-269-9966

October 26, 2007

To the School District
Rapson School
Bad Axe, MI 48413

The following comments related to situations that came to my attention during the course of my recent examination of the Rapson School's financial statements as of and for the year ended June 30, 2007, and are submitted for your evaluation and consideration. I would like to emphasize that, since my examination was conducted for the purpose of expressing an opinion on the previously referred to financial statements, these comments are not necessarily all inclusive.

1. The School District had no over expenditures.

If you would need assistance in implementing the above, I would by happy to assist you.

I want to take this opportunity to thank the Board for selecting me to do your audit, and I want to thank the School District Officials for their help and assistance during the audit.

Very truly yours,

George A. Zahul
Certified Public Accountant