

### Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name OSCODA AREA SCHOOLS	County IOSCO & ALCONA
Fiscal Year End 06/30/07	Opinion Date 10/10/07	Date Audit Report Submitted to State 11/15/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

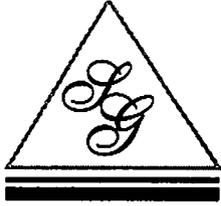
YES NO **Check each applicable box below.** (See instructions for further detail.)

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SINGLE AUDIT	
Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.		Telephone Number (989) 362-4491	
Street Address 325 NEWMAN STREET, PO BOX 592		City EAST TAWAS	State Zip MI 48730
Authorizing CPA Signature	Printed Name DONALD W. BRANNAN, CPA		License Number 1101021039



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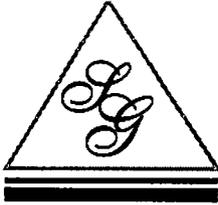
Herman A. Bertuleit, CPA

OSCODA AREA SCHOOLS  
IOSCO AND ALCONA COUNTIES, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED JUNE 30, 2007

**AUDITORS' REPORT**

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October 10, 2007

Independent Auditors' Report

Board of Education  
Oscoda Area Schools  
Iosco and Alcona Counties, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Oscoda Area Schools, Iosco and Alcona Counties, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements, as listed in the index. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Oscoda Area Schools 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 our report dated October 10, 2007, on our consideration of Oscoda Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Oscoda Area Schools' basic financial statements. The combining nonmajor funds and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Stephenson, Gracik & Co., P.C.*

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# Oscoda Area Schools

Board of Education Office  
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## OSCODA AREA SCHOOLS

### Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007

The following section presents the administration's discussion and analysis of Oscoda Area Schools' financial performance during the year ended June 30, 2007. Please read it in conjunction with the financial statements and other supplemental information included in the Audit. This Analysis is a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34).

Generally accepted accounting principles (GAAP), according to GASB 34, requires the reporting of two types of financial statements: Fund Financial Statements and District -Wide Financial Statements.

#### Fund Financial Statements

The fund level statements are reported on a modified accrual basis. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Fund financial statements report the School District's operations in more detail than the district-wide financial statements. Fund statements are provided for the General Fund, Capital Projects Bond and Sinking Funds, Debt Service Funds, Athletic and Food Service Funds.

#### District-Wide Financial Statements

The district-wide financial statements are reported using the full accrual basis of accounting. With this method all of the District's assets and liabilities, and all of the current year revenues and expenditures, are reported regardless of when cash is received or paid. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets.

#### Summary of Net Assets:

The comparative analysis for the net assets at June 30, 2007 and June 30, 2006 follows:

	<b>Net Assets Summary District-Wide Activities</b>	
	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current Assets	\$ 6,223,581	\$ 6,215,796
Capital Assets & Bond Cost	16,625,942	17,125,654
<b>Total Assets</b>	<b>22,849,523</b>	<b>23,341,450</b>
Current Liabilities	4,530,530	4,374,427
Long-Term Liabilities	13,107,419	13,523,696
<b>Total Liabilities</b>	<b>17,637,949</b>	<b>17,898,123</b>

**Net Assets Summary  
District -Wide Activities**

	<u>June 30, 2007</u>		<u>June 30, 2006</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Debt	\$ 4,173,209	\$	4,250,177
Restricted	645,402		641,424
Unrestricted	392,963		551,726
<b>Total Net Assets</b>	<b>\$ 5,211,574</b>	<b>\$</b>	<b>5,443,327</b>

**Analysis of Financial Position:**

- During the fiscal year ended June 30, 2007, the District's net assets decreased by \$231,753.
- Total assets declined by \$492 thousand. Depreciation reduced capital assets by \$854 thousand.
- Total liabilities declined by \$260 thousand. Debt principal payments reduced liabilities by \$434 thousand.

Some of the significant factors affecting net assets during the year are discussed below. A reconciliation of the change in fund balance and the change in net assets can be found in the Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities in this report.

**1. Change in Fund Balance**

The change in fund balance for the district's governmental funds was a decrease of \$100,525. This reduction was mainly the result of a decrease in the General Fund of \$83,672.

The change in Food Service, Athletics, Sinking Fund, Capital Project Fund and Debt Retirement Funds is shown on the Combining Statement of Revenue, Expenditures and Changes in Fund Balances in this report and totals (\$16,853).

**2. Capital Outlay Acquisitions**

Actual capital outlay acquisitions for the fiscal year were \$395,065, funded primarily from the Sinking Fund and proceeds of the 2001 Building & Site Bonds. In the Statement of Activities the cost of capitalized expenses is allocated over the estimated life of the asset.

**3. Depreciation**

GASB 34 requires school districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net assets. For the fiscal year ended June 30, 2007 the increase in depreciation was \$853,728.

**4. Repayment of Principal**

The repayment of debt decreases the District's long-term obligations and increases net assets. The amount of debt principal repayment during the fiscal year was \$433,847.

**Results of Operations:**

For the fiscal years ended June 30, 2007 and June 30, 2006, the District-wide results of operations were:

	<u>2007</u>	<u>2006</u>
<b>General Revenue:</b>		
Property Taxes levied for General Operations	\$ 5,463,431	\$ 5,223,308
State of Michigan Aid – Unrestricted	5,467,066	5,317,877
Property Taxes levied for Debt Service, Sinking Fund	1,365,197	1,385,282
Other Federal, State and Local	424,898	506,058
<b>Total General Purpose Revenue</b>	<b>12,720,592</b>	<b>12,432,525</b>
<b>Program Revenue:</b>		
Charges for Services – Local	460,418	543,248
Operating Grants and Contributions	2,719,603	2,562,965
<b>Total Program Revenues</b>	<b>3,180,021</b>	<b>3,106,213</b>
<b>Total Revenues</b>	<b>15,900,613</b>	<b>15,538,738</b>
<b>Expenses:</b>		
Instruction	8,349,886	8,216,030
Support Services	5,225,509	5,040,589
Community Services	63,816	38,573
Food Services	750,511	750,522
Athletics	256,281	256,432
Interest on long-term debt	556,271	567,634
Amortization of Deferred Bond Costs and Bond Premiums (Net)	67,604	0
Depreciation (unallocated)	853,728	836,784
Other	8,760	24,277
<b>Total Expenses</b>	<b>16,132,366</b>	<b>15,730,841</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ (231,753)</b>	<b>\$ (192,103)</b>

**1. Property Taxes**

The District levies 18 mills of property taxes on non-homestead property. This revenue is one component of the total per pupil foundation allowance set by the State of Michigan. As noted in the Results of Operations, the property taxes generated General Fund revenue of \$5.5 million during the fiscal year ended June 30, 2007.

The District levied .7742 mills for the Sinking Fund and 1.69 mills for debt service on the 2001 Building and Site Bond, the 2005 Refunding Bond and the 2006 Refunding Bond. The Sinking Fund revenue generated was \$428,860 and was included in a capital projects fund.

**2. State of Michigan Aid, Unrestricted**

The State of Michigan unrestricted aid is determined by the following variables: the foundation allowance, student enrollment and the District's non-homestead tax levy. The non-homestead taxes are deducted from the calculated total foundation amount to determine the amount paid by the State of Michigan. As noted in the Results of Operations above, Unrestricted State Aid was \$5.5 million. The portion of the foundation allowance payment that is restricted for special education was \$.5 million and is included under Program Revenues.

a. **State of Michigan State Aid Act- per pupil foundation allowance**. The foundation allowance was \$7,085 per pupil, an increase of \$210 over the prior year. An equity payment of \$23 per pupil was also paid as unrestricted state aid.

b. **Student Enrollment** -The District's student enrollment for the September count of 2006 was 1,534 students. This was a reduction of 42 pupils from the prior year fall count. For fiscal 2006-2007 the District qualified under the Michigan School Aid Act for a three year average of blended pupil counts. The annual membership average is blended at 75% of the current fiscal year fall count and 25% of the prior year winter count. The State Aid Membership used for payment calculations for 2006-07 was 1,591. This reflected the average of the blended counts for fiscal 2005-2007. The average membership of 1,591, multiplied by the foundation of allowance of \$7,085, resulted in a total foundation allowance of \$11.3 million.

**Total Revenues**

The total revenues of the District were \$15.9 million, an increase of \$.4 million from the previous year. This increase was primarily due to the increase in the foundation per pupil and the three year average pupil membership.

Program specific revenues in the form of charges for services, grants and contributions accounted for \$3.2 million or 20% of the total. As noted on the Statement of Activities of this report, general purpose revenues including unrestricted state aid and property taxes provided 80% of the total.

**General Fund Budget and Actual Results**

The Uniform Budgeting and Accounting Act of the State of Michigan requires that the Board of Education approve the original budget for the fiscal year prior to July 1, before student enrollment counts, approved federal grant awards and other information is known. Therefore, it is expected that there will be changes between the initial budget and subsequent amendments, as more information becomes available. The budget was amended in November, May and June. Exhibit I of the Audit summarizes the comparative budget and actual results.

**General Fund Revenue – Actual vs. Budget**

Total General Fund revenue was \$15,000 less than budgeted. A detailed comparison of local, state and federal sources for budget and actual revenues can be found in the General Fund Details of Revenue Compared to Budget statement in this report.

**General Fund Expenditures vs. Budget**

Total expenditures were \$148 thousand less than budgeted. A detailed comparison of budgeted and actual expenditures can be found in the General Fund Details of Expenditures Compared to Budget statement in this report.

	<b>Revenue</b>	<b>Expenditures</b>
<b>General Fund:</b>		
<b>Original Budget</b>	\$ 13,228,590	\$ 13,706,724
<b>Final Budget</b>	13,681,388	13,744,331
<b>Actual</b>	13,666,287	13,596,574
<b>Variance</b>	\$ 15,101	\$ 147,757
<b>% of Budget</b>	.1%	1.1%

**Capital Asset and Debt Administration**

**Capital Assets**

At the end of the fiscal year 2007, the District had \$25 million invested in land and buildings, furniture and equipment, vehicles and buses, measured at historical cost. Of this amount, \$8.7 million has been depreciated. Net book value was \$16.3 million at the end of the fiscal year 2007, a decrease of nearly \$.5 million from the previous year. Major additions to capital assets were from the Sinking Fund. The capital asset information can be found in Note 4 of this report.

**Long-Term Debt**

At June 30, 2007, the District had \$12.9 million in principal outstanding on long-term bonds. Additional information on the District's long-term debt can be found in Note 6 of this report.

**Economic Factors and Next Year's Budgets**

The General Fund Budget for 2007-08 was adopted in June 2007 based upon estimates of fall enrollment and state aid payments. Approximately 83% of total General Fund revenue for Oscoda Area Schools is from the foundation allowance. Under State law, the school district cannot assess additional property tax revenue for general operations. Accordingly, the District is heavily dependent upon the State's ability to fund the appropriations to local schools. The District will amend the budget periodically to reflect final student counts, state aid payments and other funding and expenditure changes.

The approval by voters of the District's sinking fund, beginning in 1998 and currently authorized through 2007, has provided additional funding for capital projects. The sinking fund levy is projected to add more than \$432,000 in revenue for important building and site projects in the District during 2007-08.

**Requests for Information**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Oscoda Area Schools  
Business Office  
3550 River Road  
Oscoda, MI 48750  
(989) 739-2033

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

STATEMENT OF NET ASSETS  
June 30, 2007

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 2)	\$ 4,848,906
Receivables:	
State of Michigan (Note 3)	1,086,139
Local Units	61,326
Inventory: (Note 1)	
Supplies	8,875
Building Trades Homes	218,335
Bond Issuance Costs - net (Note 1)	256,540
Noncurrent Assets:	
Capital Assets, Net (Note 4)	<u>16,369,402</u>
Total Assets	<u>22,849,523</u>
 <u>Liabilities</u>	
Accounts Payable	99,669
State Aid Anticipation Note Payable (Note 5)	2,900,000
Due to Other Units	2,320
Interest Payable	181,787
Accrued Expenses	359,622
Retirement Incentive Payable	73,000
Salaries Payable	810,899
Deferred Revenue (Note 7)	103,233
Long-Term Liabilities (Note 6)	
Due within one year	506,486
Due in more than one year	<u>12,600,933</u>
Total Liabilities	<u>17,637,949</u>
 <u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	4,173,209
Restricted For:	
Athletics	9,377
Food Services	56,540
Debt Retirement	298,538
Capital Projects	280,947
Unrestricted	<u>392,963</u>
Total Net Assets	<u>\$ 5,211,574</u>

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

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2007

	Program Revenues			Net (Expenses) Revenue and Change in Net Assets
Expenses	Charges for Services	Operating Grants and Contributions	Government Type Activities	
Instruction	\$ 8,349,886	\$ 42,007	\$ 1,634,002	\$ (6,673,877)
Support Services	5,225,509	117,463	480,778	(4,627,268)
Community Services	63,816	27,166	43,208	6,558
Food Services	750,511	229,114	555,996	34,599
Athletics	256,281	44,668	5,619	(205,994)
Interest on Long-Term Debt	556,271	0	0	(556,271)
Amortization of Deferred Bond Costs and Bond Premiums (Net)	67,604	0	0	(67,604)
Unallocated Depreciation	853,728	0	0	(853,728)
Other Expenses	8,760	0	0	(8,760)
<b>Total</b>	<b>\$ 16,132,366</b>	<b>\$ 460,418</b>	<b>\$ 2,719,603</b>	<b>(12,952,345)</b>
General Purpose Revenue:				
Current Property Taxes				6,828,628
State School Aid - Unrestricted				5,467,066
Investment Earnings				169,639
Miscellaneous				259,014
Gain (Loss) on Sale of Capital Assets				(3,755)
Total General Purpose Revenue				12,720,592
Change in net assets				(231,753)
Net assets - beginning				5,443,327
Net assets - ending				\$ 5,211,574

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

OSCODA AREA SCHOOLS  
losco and Alcona Counties, Michigan

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
June 30, 2007

<u>ASSETS</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and Cash Equivalents (Note 2)	\$ 4,206,224	\$ 642,682	\$ 4,848,906
Receivables:			
State of Michigan (Note 3)	1,080,082	6,057	1,086,139
Local Units	61,326	0	61,326
Inventory: (Note 1)			
Supplies	4,095	4,780	8,875
Building Trades Homes	<u>218,335</u>	<u>0</u>	<u>218,335</u>
Total Assets	<u>\$ 5,570,062</u>	<u>\$ 653,519</u>	<u>\$ 6,223,581</u>
 <u>LIABILITIES AND FUND EQUITY</u> 			
<u>Liabilities</u>			
Accounts Payable	\$ 95,349	\$ 4,320	\$ 99,669
Tax Anticipation Note Payable (Note 5)	2,900,000	0	2,900,000
Due to Other Units	2,320	0	2,320
Interest Payable	91,412	0	91,412
Accrued Expenditures	359,622	0	359,622
Salaries Payable	810,899	0	810,899
Deferred Revenue (Note 7)	<u>99,436</u>	<u>3,797</u>	<u>103,233</u>
Total Liabilities	<u>4,359,038</u>	<u>8,117</u>	<u>4,367,155</u>
 <u>Fund Equity</u>			
Fund Balances:			
Reserved:			
Food Service	0	56,540	56,540
Debt Service	0	298,538	298,538
Capital Projects	0	280,947	280,947
Unreserved, Reported In:			
General Fund	1,211,024	0	1,211,024
Special Revenue Funds	<u>0</u>	<u>9,377</u>	<u>9,377</u>
Total Fund Equity	<u>1,211,024</u>	<u>645,402</u>	<u>1,856,426</u>
Total Liabilities and Fund Equity	<u>\$ 5,570,062</u>	<u>\$ 653,519</u>	<u>\$ 6,223,581</u>

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

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
June 30, 2007

Total governmental fund balances	\$	1,856,426
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 as assets in governmental funds. Capital assets at the year end consist of:		
Capital Asset Cost	\$	25,026,205
Capital Asset Accumulated Depreciation		<u>(8,656,803)</u>
		16,369,402
Accrued interest on long-term liabilities		(90,375)
Retirement incentive liabilities have payment dates specified in a legally enforceable agreement that are year after year end and, therefore per GASB interpretation #6, are not reported as liabilities in the governmental funds		(73,000)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:		
Bonds Payable (net of unamortized discount)		(12,100,256)
Compensated Absences Payable		(745,061)
Capital Leases Payable		<u>(5,562)</u>
Total long-term liabilities		<u>(12,850,879)</u>
Total net assets - governmental activities	\$	<u>5,211,574</u>

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

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2007

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>			
Local Sources:			
Current Property Taxes	\$ 5,463,431	\$ 1,365,197	\$ 6,828,628
Tuition	28,526	0	28,526
Transportation Fees	8,242	0	8,242
Food Sales	0	229,540	229,540
Gate Receipts	0	44,668	44,668
Interest on Investments	133,418	36,221	169,639
Rents	1,110	0	1,110
Building Trades Home	156,000	0	156,000
Contributions	0	4,939	4,939
Other Local Sources	190,890	1,520	192,410
State Sources	6,707,377	69,715	6,777,092
Federal Sources	977,293	486,281	1,463,574
Total revenue	13,666,287	2,238,081	15,904,368
<u>Expenditures</u>			
Current:			
Instruction	8,292,510	0	8,292,510
Support Services	5,230,408	0	5,230,408
Community Services	63,816	0	63,816
Food Services	0	748,728	748,728
Athletics	0	256,281	256,281
Capital Outlay	0	395,065	395,065
Debt Service:			
Principal Retirement	8,847	425,000	433,847
Interest and Fees on Long-Term Debt	993	574,485	575,478
Other Expenses	0	8,760	8,760
Total expenditures	13,596,574	2,408,319	16,004,893
Excess of revenue over (under) expenditures	69,713	(170,238)	(100,525)
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In	40,000	193,385	233,385
Operating Transfers Out	(193,385)	(40,000)	(233,385)
Total other financing sources (uses)	(153,385)	153,385	0
Excess of revenue and other sources over (under) expenditures and other uses	(83,672)	(16,853)	(100,525)
Fund balances - beginning of year	1,294,696	662,255	1,956,951
Fund balances - end of year	\$ 1,211,024	\$ 645,402	\$ 1,856,426

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

OSCODA AREA SCHOOLS  
Losco and Alcona Counties, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2007

Total net change in fund balances - governmental funds \$ (100,525)

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

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

Current year depreciation expense	\$ (853,728)	
Capital outlays reported in the governmental funds	395,065	
Gain (loss) on disposal of capital assets	<u>(3,755)</u>	(462,418)

Repayment of the debt principal is an expenditure in the governmental  
funds, but the repayment reduces long-term liabilities in the statement of net  
assets. This is the amount of repayments reported as expenditures in the  
governmental funds.

Bonds Payable	425,000	
Capital Lease Payable	<u>8,847</u>	433,847

Governmental funds report the effect of issuance costs and premiums when  
debt is first issued, whereas these amounts are deferred and amortized in  
the statement of activities. The net effect of these differences in the  
treatment of general obligation bonds and related items is as follows:

Amortization of Deferred Bond Costs and Bond Premiums (Net)		(67,604)
---	--	----------

Net change in accrued interest payable:

Accrued interest on long-term liabilities June 30, 2006	109,582	
Accrued interest on long-term liabilities June 30, 2007	<u>(90,375)</u>	19,207

Net change in accrued compensated absences:

Accrued compensated absences June 30, 2006	757,801	
Accrued compensated absences June 30, 2007	<u>(745,061)</u>	12,740

Net change in early retirement incentives:

Early retirement incentives June 30, 2006	6,000	
Early retirement incentives June 30, 2007	<u>(73,000)</u>	<u>(67,000)</u>

Change in net assets of governmental activities \$ (231,753)

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

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND  
June 30, 2007

	<u>Student Activity</u>
<u>ASSETS</u>	
Cash and Cash Equivalents (Note 2)	\$ 76,525
Investments (Note 2)	<u>6,253</u>
Total Assets	<u>\$ 82,778</u>
<u>LIABILITIES</u>	
Due to Student Groups	<u>\$ 82,778</u>

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

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Oscoda Area Schools (School District) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The School District is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

The School District operates under an elected School Board (seven members) and provides services to students in grades K-12. The board is responsible for adopting and amending budgets and for administering the school programs in accordance with governing laws.

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Oscoda Area Schools' Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by the Oscoda Area Schools. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the School District's major governmental fund:

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

The other governmental funds of the School District account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt; and the acquisition or construction of major capital facilities.

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The School District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amounts held for student and employee groups.

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

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

Fund Financial Statements:

Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

OSCODA AREA SCHOOLS  
Losco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2007, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by Cadre Consulting, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Due From State of Michigan

This represents amounts receivable from the State of Michigan for federal and state reimbursable programs.

G. Inventory – Supplies

Inventory on government-wide financial statements is stated at cost and expensed when used.

Inventory in governmental funds consists of expendable supplies held for consumption. Inventory is stated at cost and recorded as an expenditure in the governmental fund types when purchased.

H. Inventory – Building Trades Home and Lots

Inventory represents the cost of property purchased for future building sites and partial construction costs.

I. Bond Issuance Costs

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

OSCODA AREA SCHOOLS  
losco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net assets.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

M. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the School District's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements. For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements.

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences (Continued)

No liability amounts were recorded in governmental fund statements, in accordance with GASB 33, due to the fact that there was a legally enforceable document that set a date for payment of vested benefits subsequent to June 30, 2007.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

O. Property Taxes

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the School District through February. The delinquent real property taxes of the School District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the School District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

P. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance 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 School District. For the year ended June 30, 2007, the foundation allowance was based on the average of the fiscal years 2005, 2006 and 2007 blended pupil membership counts.

The state portion of the foundation allowance 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 (currently the fiscal year) and is funded through 11 payments from October, 2006 - August, 2007. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

Q. State Categorical Revenue

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/ expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/ expenses to the funds that initially paid for them are not presented on the financial statements.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2007.

T. Economic Dependency

The School District received approximately 52% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

U. 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 that affect the amounts reported in the financial statements and accompanying notes. 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.

V. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds and an informational study for Capital Project Funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.

Oscoda Area Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

W. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ 4,848,906	\$ 76,525	\$ 4,925,431
Investments	<u>0</u>	<u>6,253</u>	<u>6,253</u>
Total	<u>\$ 4,848,906</u>	<u>\$ 82,778</u>	<u>\$ 4,931,684</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking and Savings Accounts and Certificates of Deposit)	\$ 169,066
Investments in Financial Institution Pooled Funds	4,762,585
Petty Cash and Cash on Hand	<u>33</u>
Total	<u>\$ 4,931,684</u>

As of June 30, 2007, the School District had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	<u>\$ 4,762,585</u>	Daily

Interest Rate Risk

In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools, and limiting the average maturity in accordance with the School District's cash requirements.

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district. As of June 30, 2007, the School District's investment in the MILAF investment pool was rated AAAM by Standard & Poor's, and the investment in the National City Bank investment pool was unrated.

Concentration of Credit Risk

The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Investments in U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest may be purchased in any dollar amount or up to 100% of the available reserves.

Investments in other types of authorized securities may be made with the provision that no more than fifty percent of the total current investment portfolio consists of one type of security.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2007, \$112,310 of the School District's bank balance of \$219,229 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

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

The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the District's Investment policy which is in accordance with State law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

Foreign Currency Risk

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

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

OSCODA AREA SCHOOLS  
Losco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 3 - RECEIVABLES (CONTINUED)

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>Governmental Activities</u>	<u>Amount</u>
Federal Sources	\$ 13,493
State Aid	<u>1,072,646</u>
Total Governmental Activities	<u>\$ 1,086,139</u>

NOTE 4 - CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Capital Assets Not Being Depreciated:				
Land	\$ 94,533	\$ 0	\$ 0	\$ 94,533
Capital Assets Being Depreciated				
Buildings and Improvements	16,800,945	265,042	0	17,065,987
Site Improvements	3,704,260	104,379	(26,768)	3,781,871
Furniture, Fixtures and Equipment	2,433,762	34,950	0	2,468,712
Vehicles and Buses	1,691,268	0	(76,166)	1,615,102
Construction in Progress	9,307	0	(9,307)	0
Subtotal	<u>24,639,542</u>	<u>404,371</u>	<u>(112,241)</u>	<u>24,931,672</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(4,960,868)	(340,449)	0	(5,301,317)
Site Improvements	(590,745)	(176,032)	23,013	(743,764)
Furniture, Fixtures and Equipment	(1,004,539)	(245,801)	0	(1,250,340)
Vehicles and Buses	<u>(1,346,102)</u>	<u>(91,446)</u>	<u>76,166</u>	<u>(1,361,382)</u>
Subtotal	<u>(7,902,254)</u>	<u>(853,728)</u>	<u>99,179</u>	<u>(8,656,803)</u>
Capital Assets Being Depreciated	<u>16,737,288</u>	<u>(449,357)</u>	<u>(13,062)</u>	<u>16,274,869</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 16,831,821</u>	<u>\$ (449,357)</u>	<u>\$ (13,062)</u>	<u>\$ 16,369,402</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 5 - SHORT-TERM DEBT

The School District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

OSCODA AREA SCHOOLS  
Osco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 5 - SHORT-TERM DEBT (CONTINUED)

The following is a summary of the short-term financing:

	<u>July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2007</u>
State Aid Anticipation Note Payable	\$ <u>2,700,000</u>	\$ <u>2,900,000</u>	\$ <u>2,700,000</u>	\$ <u>2,900,000</u>

The State Aid Anticipation Note was acquired to help cover school operations for fiscal year 2007. The note is dated August 18, 2006, bears interest at 3.68% and will be due for payment on August 20, 2007.

NOTE 6 - LONG-TERM LIABILITIES

A. Bonds Payable

	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest</u>	<u>Total Obligation</u>
School Improvement Bonds:				
The bonds dated November 24, 1998 which bear interest at 4.76% to 8% are due serially each May 15 through 2013	1998	\$ 173,287	\$ 47,614	\$ 220,901
2001 School Building and Site Bonds:				
The bonds dated November 15, 2001 which bear interest at 2.4% to 5.625% are due serially each May 1 through 2026	2002	1,740,000	173,135	1,913,135
2005 Refunding Bonds:				
The bonds dated April 26, 2005 which bear interest at 3% to 4.4% are due serially each May 1 through 2023	2005	6,595,000	3,378,690	9,973,690
2006 Refunding Bonds:				
The bonds dated March 30, 2006 which bear interest at 4% to 5% are due serially each May 1 through 2026	2006	<u>4,435,000</u>	<u>2,576,012</u>	<u>7,011,012</u>
Total Bonds Payable		<u>\$ 12,943,287</u>	<u>\$ 6,175,451</u>	<u>\$ 19,118,738</u>

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

B. Capital Leases

	Date of Contract	Principal Due	Interest	Total Obligation
Dolphin Capital Copier Lease:				
The lease dated January 28, 2003 is due in monthly payments of \$820 over a period of 60 months				
	2003	\$ <u>5,562</u>	\$ <u>178</u>	\$ <u>5,740</u>

The annual principal and interest requirements for long-term debt for the years after June 30, 2007 are as follows:

	Government Activities		
	Principal	Interest	Total
2008	\$ 445,562	\$ 542,429	\$ 987,991
2009	476,333	530,457	1,006,790
2010	497,110	512,428	1,009,538
2011	601,396	527,490	1,128,886
2012	538,777	472,470	1,011,247
2013 - 2017	3,004,671	1,959,044	4,963,715
2018 - 2022	3,755,000	1,249,680	5,004,680
2023 - 2026	<u>3,630,000</u>	<u>381,631</u>	<u>4,011,631</u>
Total	<u>\$ 12,948,849</u>	<u>\$ 6,175,629</u>	<u>\$ 19,124,478</u>

The annual State of Michigan appropriation, through the State Aid payments, is the only revenue source for making the annual debt service payment on the school improvement bonds. If the legislature fails to appropriate the funds, the School District is under no obligation for payment.

C. Compensated Absences Payable

The School District has an employee benefit plan that allows employees to accumulate an unlimited amount of sick and vacation pay days. The amount of accumulated sick and vacation pay liability, recorded in the government-wide statements, for the School District was \$745,061 at June 30, 2007, of which \$60,924 was the estimated current portion.

D. Defeasance of Debt

On April 26, 2005, the School District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds beginning in 2015 and ending in 2023. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. At June 30, 2007, \$6,190,000 of bonds outstanding are considered defeased.

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

D. Defeasance of Debt (Continued)

On March 30, 2006 the School District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds beginning in 2012 and ending in 2026. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. At June 30, 2007, \$4,295,000 of bonds outstanding are considered defeased.

E. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2007:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
<u>Governmental Activities</u>					
Bonds Payable	\$13,368,287	\$ 0	\$ (425,000)	\$ 12,943,287	\$ 440,000
Deferred Amounts for Issuance					
Premium	125,900	0	(6,648)	119,252	0
Deferred Amounts on Refunding	<u>(742,701)</u>	<u>0</u>	<u>36,958</u>	<u>(705,743)</u>	<u>0</u>
Total Bonds Payable, Net	12,751,486	0	(394,690)	12,356,796	440,000
Capital Leases	14,409	0	(8,847)	5,562	5,562
Compensated Absences	<u>757,801</u>	<u>0</u>	<u>(12,740)*</u>	<u>745,061</u>	<u>60,924</u>
Total Long-Term Liabilities	<u>\$13,523,696</u>	<u>\$ 0</u>	<u>\$ (416,277)</u>	<u>\$ 13,107,419</u>	<u>\$ 506,486</u>

\*Represents net of additions and retirements for the year.

The payment dates of compensated absences payable are undeterminable.

The interest expenditures on long-term obligations for the year were \$556,271.

NOTE 7 - DEFERRED REVENUE

Governmental funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>
General Fund:	
Gifted Program Grant	\$ 541
Literacy Achievement Program	22,522
Michigan School Readiness	16,500
Middle School Math	17,770
Nonplaintiff Durant Settlement	42,103
Food Service Fund:	
Meal Cards	<u>3,797</u>
Total	<u>\$ 103,233</u>

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 8 - OPERATING TRANSFERS

During the year ended June 30, 2007, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ 40,000	\$ 193,385
Non-major Governmental Funds	<u>193,385</u>	<u>40,000</u>
	<u>\$ 233,385</u>	<u>\$ 233,385</u>

Interfund transfers for the year ended June 30, 2007 consisted of the following:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
General Fund	\$ 40,000	Food Service Fund	\$ 40,000
Food Service Fund	746	General Fund	746
Athletic Fund	<u>192,639</u>	General Fund	<u>192,639</u>
Total	<u>\$ 233,385</u>	Total	<u>\$ 233,385</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted at the functional level.

During the year ended June 30, 2007, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General/Interest and Fees on Long-Term Debt	\$ 990	\$ 993	\$ 3

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 10 - RETIREMENT PLANS

Defined Benefit Plan

The Oscoda Area Schools contributes to the Michigan Public School Employee's Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Public School Employee's Retirement System. MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

Effective January 1, 1987, employees who were MPERS members could have elected to contribute on a tax deferred basis to a Member Investment Plan (MIP). MIP members enrolled prior to January 1, 1990 contribute at 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%. Employees first hired January 1, 1990 or later will automatically be included in the MIP and will contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. For a limited period ending January 1, 1993, 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.

During the plan fiscal year 2006, employer contributions were 16.34% of covered compensation as school districts were responsible for the entire pension and health insurance contribution. After September 30, 2006, the contribution rate increased to 17.74% of covered compensation. The contribution requirements of plan members and Oscoda Area Schools are established and may be amended by the MPERS Board. The School District's contributions to MPERS for the years ending June 30, 2007, 2006 and 2005 were \$1,365,177, \$1,237,568 and \$1,158,747, respectively, equal to the required contributions for each year.

The MPERS also provides for death and disability benefits which are established by state statute. Under the MPERS Act, all retirees have the option of continuing health, dental and vision insurance coverage. All health care benefits under the MPERS are on a self-insured pay-as-you-go basis. Retirees electing these coverages pay a portion of the premium for this coverage from their monthly pension benefit.

Deferred Compensation Plans

The School District offers its employees participation in the Tax-Deferred Payments (TDP) program through MPERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program, they must continue until completion of the purchase of the service credit or termination of employment from Oscoda Area Schools. Payments into the program are vested once 10 years of service credit have been earned through the MPERS. Employee contributions to the TDP program totaled \$47,611 for the year ended June 30, 2007.

The School District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$205,064 for the year ended June 30, 2007. The assets of the plan are administered and held by various approved third party financial institutions.

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 11 - UNEMPLOYMENT COMPENSATION

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. Accrued unemployment compensation was \$5,705 as of June 30, 2007.

NOTE 12 - BONDED CONSTRUCTION FUND AND SINKING FUND

The 2001 Capital Project Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the Revised School Code.

Beginning with the year of bond issuance, the School District has reported the annual construction activity in the 2001 Capital Project Fund. The project for which the 2001 Capital Project Fund were issued was considered complete on May 17, 2006 and the cumulative expenditures recognized for the construction period were \$15,699,950.

The Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the revised bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

NOTE 13 - RISK MANAGEMENT

The 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 continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 14 - GOVERNMENTAL REGULATION

Substantially all of the School District's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the School District expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the School District. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

NOTE 15 - CONTINGENCIES AND COMMITMENTS

The School District participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2007, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

NOTE 16 - IDLE IMPAIRED CAPITAL ASSETS

County Line Elementary School building has been closed down for three years and is currently listed for sale. The carrying value of the land and building at June 30, 2007 is \$107,379. No impairment loss is recorded, as the carrying value is lower than the estimated fair value of \$226,000.

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

NOTE 17 - COMPARATIVE DATA

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the School District's financial position and operations.

REQUIRED SUPPLEMENTARY INFORMATION

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL  
 GENERAL FUND  
For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local Sources	\$ 5,853,583	\$ 5,997,025	\$ 5,981,617	\$ (15,408)
State Sources	6,375,532	6,688,994	6,707,377	18,383
Federal Sources	786,475	995,369	977,293	(18,076)
Total revenue	13,015,590	13,681,388	13,666,287	(15,101)
<u>Expenditures</u>				
Current:				
Instruction	8,115,728	8,324,905	8,292,510	32,395
Support Services	5,523,369	5,336,876	5,230,408	106,468
Community Services	50,840	72,713	63,816	8,897
Capital Outlay	6,950	0	0	0
Debt Service:				
Principal Retirement	8,847	8,847	8,847	0
Interest and Fees on Long-Term Debt	990	990	993	(3)
Total expenditures	13,706,724	13,744,331	13,596,574	147,757
Excess of revenue over (under) expenditures	(691,134)	(62,943)	69,713	132,656
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	213,000	0	0	0
Operating Transfers In	40,000	40,000	40,000	0
Operating Transfers Out	(201,366)	(194,451)	(193,385)	1,066
Total other financing sources (uses)	51,634	(154,451)	(153,385)	1,066
Excess of revenue and other sources over (under) expenditures and other uses	(639,500)	(217,394)	(83,672)	133,722
Fund balances - beginning of year	1,294,696	1,294,696	1,294,696	0
Fund balances - end of year	\$ 655,196	\$ 1,077,302	\$ 1,211,024	\$ 133,722

OTHER INFORMATION

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
June 30, 2007

	<u>Food Service Fund</u>	<u>Athletic Fund</u>	<u>2001 School Bond Debt Retirement Fund</u>	<u>2005 Refunding Bond Debt Retirement Fund</u>	<u>2006 Refunding Bond Debt Retirement Fund</u>	<u>Sinking Fund</u>	<u>2001 Capital Project Fund</u>	<u>Total Other Governmental Funds</u>
<b><u>ASSETS</u></b>								
Cash and Cash Equivalents	\$ 53,820	\$ 9,377	\$ 41,429	\$ 153,715	\$ 103,394	\$ 151,629	\$ 129,318	\$ 642,682
Receivables:								
State of Michigan	6,057	0	0	0	0	0	0	6,057
Inventory:								
Supplies	<u>4,780</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,780</u>
Total Assets	<u>\$ 64,657</u>	<u>\$ 9,377</u>	<u>\$ 41,429</u>	<u>\$ 153,715</u>	<u>\$ 103,394</u>	<u>\$ 151,629</u>	<u>\$ 129,318</u>	<u>\$ 653,519</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>								
<b><u>Liabilities</u></b>								
Accounts Payable	\$ 4,320	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,320
Deferred Revenue	<u>3,797</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,797</u>
Total Liabilities	<u>8,117</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,117</u>
<b><u>Fund Equity</u></b>								
<b>Fund Balances:</b>								
<b>Reserved:</b>								
Food Service	56,540	0	0	0	0	0	0	56,540
Debt Service	0	0	41,429	153,715	103,394	0	0	298,538
Capital Projects	0	0	0	0	0	151,629	129,318	280,947
<b>Unreserved, Reported In:</b>								
Special Revenue Funds	<u>0</u>	<u>9,377</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9,377</u>
Total Fund Equity	<u>56,540</u>	<u>9,377</u>	<u>41,429</u>	<u>153,715</u>	<u>103,394</u>	<u>151,629</u>	<u>129,318</u>	<u>645,402</u>
Total Liabilities and Fund Equity	<u>\$ 64,657</u>	<u>\$ 9,377</u>	<u>\$ 41,429</u>	<u>\$ 153,715</u>	<u>\$ 103,394</u>	<u>\$ 151,629</u>	<u>\$ 129,318</u>	<u>\$ 653,519</u>

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 OTHER GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2007

	<u>Food Service Fund</u>	<u>Athletic Fund</u>	<u>2001 School Bond Debt Retirement Fund</u>	<u>2005 Refunding Bond Debt Retirement Fund</u>	<u>2006 Refunding Bond Debt Retirement Fund</u>	<u>Sinking Fund</u>	<u>2001 Capital Project Fund</u>	<u>Total Other Governmental Funds</u>
<u>Revenue</u>								
Local Sources:								
Current Property Taxes	\$ 0	\$ 0	\$ 454,589	\$ 293,495	\$ 188,253	\$ 428,860	\$ 0	\$ 1,365,197
Food Sales	229,540	0	0	0	0	0	0	229,540
Gate Receipts	0	44,668	0	0	0	0	0	44,668
Interest on Investments	4,762	1,186	7,245	7,863	4,285	2,170	8,710	36,221
Contributions	0	4,939	0	0	0	0	0	4,939
Other Local Sources	0	1,395	0	0	0	125	0	1,520
State Sources	69,715	0	0	0	0	0	0	69,715
Federal Sources	486,281	0	0	0	0	0	0	486,281
Total revenue	<u>790,298</u>	<u>52,188</u>	<u>461,834</u>	<u>301,358</u>	<u>192,538</u>	<u>431,155</u>	<u>8,710</u>	<u>2,238,081</u>
<u>Expenditures</u>								
Current:								
Food Services	748,728	0	0	0	0	0	0	748,728
Athletics	0	256,281	0	0	0	0	0	256,281
Capital Outlay	0	0	0	0	0	360,115	34,950	395,065
Debt Service:								
Principal Retirement	0	0	395,000	30,000	0	0	0	425,000
Interest and Fees on Long-Term Debt	0	0	81,202	281,281	212,002	0	0	574,485
Other Expenses	0	0	310	0	1,525	1,632	5,293	8,760
Total expenditures	<u>748,728</u>	<u>256,281</u>	<u>476,512</u>	<u>311,281</u>	<u>213,527</u>	<u>361,747</u>	<u>40,243</u>	<u>2,408,319</u>
Excess of revenue over (under) expenditures	<u>41,570</u>	<u>(204,093)</u>	<u>(14,678)</u>	<u>(9,923)</u>	<u>(20,989)</u>	<u>69,408</u>	<u>(31,533)</u>	<u>(170,238)</u>

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 OTHER GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2007

	<u>Food Service Fund</u>	<u>Athletic Fund</u>	<u>2001 School Bond Debt Retirement Fund</u>	<u>2005 Refunding Bond Debt Retirement Fund</u>	<u>2006 Refunding Bond Debt Retirement Fund</u>	<u>Sinking Fund</u>	<u>2001 Capital Project Fund</u>	<u>Total Other Governmental Funds</u>
<u>Other Financing Sources (Uses)</u>								
Operating Transfers In	\$ 746	\$ 192,639	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 193,385
Operating Transfers Out	<u>(40,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(40,000)</u>
Total other financing sources (uses)	<u>(39,254)</u>	<u>192,639</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>153,385</u>
Excess of revenue and other sources over (under) expenditures and other uses	2,316	(11,454)	(14,678)	(9,923)	(20,989)	69,408	(31,533)	(16,853)
Fund balances - beginning of year	<u>54,224</u>	<u>20,831</u>	<u>56,107</u>	<u>163,638</u>	<u>124,383</u>	<u>82,221</u>	<u>160,851</u>	<u>662,255</u>
Fund balances - end of year	<u>\$ 56,540</u>	<u>\$ 9,377</u>	<u>\$ 41,429</u>	<u>\$ 153,715</u>	<u>\$ 103,394</u>	<u>\$ 151,629</u>	<u>\$ 129,318</u>	<u>\$ 645,402</u>

INDIVIDUAL FUND SCHEDULES

OSCODA AREA SCHOOLS  
Losco and Alcona Counties, Michigan

GENERAL FUND  
 DETAILS OF REVENUE COMPARED TO BUDGET  
 For the Year Ended June 30, 2007  
With Comparative Totals for the Year Ended June 30, 2006

	<u>2007</u> Amended Budget	<u>2007</u> Actual	<u>2006</u> Actual
<u>Local Sources</u>			
Current Property Taxes	\$ 5,474,975	\$ 5,463,431	\$ 5,223,308
Tuition	27,425	28,526	25,745
Transportation Fees	4,000	8,242	7,044
Interest on Investments	133,000	133,418	98,340
Rents	1,000	1,110	3,471
Building Trades Home	156,000	156,000	160,302
Medicaid Fee for Service	61,035	60,922	93,066
Miscellaneous Local Sources	<u>139,590</u>	<u>129,968</u>	<u>177,021</u>
	<u>5,997,025</u>	<u>5,981,617</u>	<u>5,788,297</u>
<u>State Sources</u>			
State Aid Foundation Allowance	5,230,268	5,248,753	5,127,611
NonPlaintiff Durant Settlement	16,592	16,592	0
Renaissance Zone	218,313	218,313	190,266
At Risk	550,139	549,291	416,270
Gifted and Talented	0	0	593
Literacy Achievement Program	26,000	23,359	21,350
Preschool Program/Early Childhood Education	165,000	168,300	174,900
Special Education Grant	455,868	455,868	482,361
Career Prep	26,814	26,815	28,370
Transportation	<u>0</u>	<u>86</u>	<u>1,385</u>
	<u>6,688,994</u>	<u>6,707,377</u>	<u>6,443,106</u>
<u>Federal Sources</u>			
ECIA Title I	681,669	666,283	612,610
ECIA Title II- Improving Teacher Quality	156,872	153,924	188,199
Title II D - Education Technology	6,559	6,560	12,072
Comprehensive School Reform	0	0	18,121
Rural and Low-Income Schools	53,245	53,244	0
Title V	13,024	13,024	16,045
Medicaid Outreach	0	158	7,325
Schools and Roads Grant Funds	84,000	84,100	69,408
Special Education	0	0	1,608
Homeland Security Grant	<u>0</u>	<u>0</u>	<u>6,414</u>
	<u>995,369</u>	<u>977,293</u>	<u>931,802</u>
<u>Other Financing Sources</u>			
Sale of Capital Assets	0	0	137,051
Operating Transfers In	<u>40,000</u>	<u>40,000</u>	<u>50,000</u>
	<u>40,000</u>	<u>40,000</u>	<u>187,051</u>
Total Revenue and Other Financing Sources	<u>\$ 13,721,388</u>	<u>\$ 13,706,287</u>	<u>\$ 13,350,256</u>

OSCODA AREA SCHOOLS  
losco and Alcona Counties, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2007  
With Comparative Totals for the Year Ended June 30, 2006

	2007 Amended Budget	2007 Actual	2006 Actual
<u>Instruction</u>			
Basic Programs:			
Elementary			
Salaries	\$ 1,541,972	\$ 1,542,258	\$ 1,651,752
Employee Benefits	776,955	776,315	746,449
Purchased Services	15,495	15,346	13,974
Supplies, Materials and Other	52,218	51,010	70,794
	<u>2,386,640</u>	<u>2,384,929</u>	<u>2,482,969</u>
Junior High School			
Salaries	852,120	850,669	864,659
Employee Benefits	421,801	421,722	387,821
Purchased Services	12,920	12,223	12,259
Supplies, Materials and Other	15,581	14,818	31,691
	<u>1,302,422</u>	<u>1,299,432</u>	<u>1,296,430</u>
High School			
Salaries	1,109,303	1,107,647	1,189,022
Employee Benefits	528,950	529,040	571,106
Purchased Services	72,397	71,739	65,177
Supplies, Materials and Other	42,539	41,117	32,951
	<u>1,753,189</u>	<u>1,749,543</u>	<u>1,858,256</u>
Preschool			
Salaries	153,052	150,265	147,173
Employee Benefits	69,338	69,295	59,801
Purchased Services	2,800	699	2,748
Supplies, Materials and Other	800	1,274	979
	<u>225,990</u>	<u>221,533</u>	<u>210,701</u>
Summer School			
Salaries	12,994	12,991	1,598
Employee Benefits	3,408	3,117	383
Supplies, Materials and Other	542	542	659
	<u>16,944</u>	<u>16,650</u>	<u>2,640</u>
Total Basic Programs	<u>5,685,185</u>	<u>5,672,087</u>	<u>5,850,996</u>
Added Needs:			
Special Education			
Salaries	771,292	770,406	783,918
Employee Benefits	365,288	364,731	352,688
Purchased Services	73,230	64,327	71,655
Supplies, Materials and Other	1,580	4,049	965
	<u>1,211,390</u>	<u>1,203,513</u>	<u>1,209,226</u>

OSCODA AREA SCHOOLS  
losco and Alcona Counties , Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2007  
With Comparative Totals for the Year Ended June 30, 2006

	2007 Amended Budget	2007 Actual	2006 Actual
<u>Instruction (Continued)</u>			
Added Needs: (Continued)			
Compensatory Education			
Salaries	\$ 567,155	\$ 563,610	\$ 561,781
Employee Benefits	245,689	244,154	236,919
Purchased Services	8,508	8,508	40,176
Supplies, Materials and Other	<u>12,192</u>	<u>8,112</u>	<u>6,167</u>
	<u>833,544</u>	<u>824,384</u>	<u>845,043</u>
Career and Technical/Vocational Education			
Salaries	200,934	201,074	177,016
Employee Benefits	89,147	88,874	74,080
Purchased Services	165,700	165,481	138,398
Supplies, Materials and Other	<u>139,005</u>	<u>137,097</u>	<u>147,210</u>
	<u>594,786</u>	<u>592,526</u>	<u>536,704</u>
Total Added Needs	<u>2,639,720</u>	<u>2,620,423</u>	<u>2,590,973</u>
Total Instruction	<u>8,324,905</u>	<u>8,292,510</u>	<u>8,441,969</u>
<u>Support Services</u>			
Pupil Services:			
Guidance Services			
Salaries	236,424	236,429	135,170
Employee Benefits	116,402	116,052	62,972
Purchased Services	<u>1,350</u>	<u>1,212</u>	<u>0</u>
	<u>354,176</u>	<u>353,693</u>	<u>198,142</u>
Health Services			
Salaries	32,270	32,101	31,941
Employee Benefits	24,516	24,402	24,964
Purchased Services	29,260	29,217	30,510
Supplies, Materials and Other	<u>1,100</u>	<u>837</u>	<u>771</u>
	<u>87,146</u>	<u>86,557</u>	<u>88,186</u>
Psychological Services			
Purchased Services	<u>32,000</u>	<u>28,325</u>	<u>60,030</u>
Speech			
Salaries	97,170	97,173	92,446
Employee Benefits	50,503	50,344	43,426
Purchased Services	800	629	448
Supplies, Materials and Other	<u>700</u>	<u>285</u>	<u>921</u>
	<u>149,173</u>	<u>148,431</u>	<u>137,241</u>

OSCODA AREA SCHOOLS  
losco and Alcona Counties, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2007  
With Comparative Totals for the Year Ended June 30, 2006

	<u>2007</u> Amended Budget	<u>2007</u> Actual	<u>2006</u> Actual
<u>Support Services (Continued)</u>			
Pupil Services: (Continued)			
Social Work			
Salaries	\$ 23,270	\$ 23,274	\$ 22,823
Employee Benefits	11,097	10,999	9,691
Purchased Services	0	0	1,603
Supplies, Materials and Other	<u>100</u>	<u>55</u>	<u>110</u>
	<u>34,467</u>	<u>34,328</u>	<u>34,227</u>
 Total Pupil Services	 <u>656,962</u>	 <u>651,334</u>	 <u>517,826</u>
 Instructional Staff:			
Intructional Improvement			
Salaries	115,018	81,539	31,372
Employee Benefits	18,259	19,219	7,834
Purchased Services	60,649	55,661	48,102
Supplies, Materials and Other	<u>31,547</u>	<u>25,654</u>	<u>17,047</u>
	<u>225,473</u>	<u>182,073</u>	<u>104,355</u>
 Library Services			
Salaries	99,735	99,556	85,819
Employee Benefits	49,328	49,320	40,403
Purchased Services	6,064	6,063	2,817
Supplies, Materials and Other	<u>1,060</u>	<u>1,060</u>	<u>5,573</u>
	<u>156,187</u>	<u>155,999</u>	<u>134,612</u>
 Total Instructional Staff	 <u>381,660</u>	 <u>338,072</u>	 <u>238,967</u>
 General Administration:			
Board of Education			
Salaries	3,120	3,120	5,370
Employee Benefits	239	239	411
Purchased Services	63,070	55,950	65,802
Supplies, Materials and Other	<u>5,600</u>	<u>5,572</u>	<u>4,365</u>
	<u>72,029</u>	<u>64,881</u>	<u>75,948</u>
 Executive Administration			
Salaries	200,720	200,508	176,748
Employee Benefits	100,345	100,211	98,301
Purchased Services	53,675	47,628	52,943
Supplies, Materials and Other	<u>9,094</u>	<u>7,839</u>	<u>8,913</u>
	<u>363,834</u>	<u>356,186</u>	<u>336,905</u>
 Total General Administration	 <u>435,863</u>	 <u>421,067</u>	 <u>412,853</u>

OSCODA AREA SCHOOLS  
losco and Alcona Counties, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2007  
With Comparative Totals for the Year Ended June 30, 2006

	<u>2007</u> Amended Budget	<u>2007</u> Actual	<u>2006</u> Actual
<u>Support Services (Continued)</u>			
School Administration:			
Office of the Principal			
Salaries	\$ 593,826	\$ 593,753	\$ 628,501
Employee Benefits	323,302	323,171	329,375
Purchased Services	14,310	14,292	12,734
Supplies, Materials and Other	<u>8,435</u>	<u>6,914</u>	<u>13,556</u>
	<u>939,873</u>	<u>938,130</u>	<u>984,166</u>
Director of Instruction			
Salaries	84,351	84,352	83,396
Employee Benefits	48,664	48,397	46,875
Purchased Services	46,138	44,513	59,138
Supplies, Materials and Other	<u>1,559</u>	<u>1,116</u>	<u>1,948</u>
	<u>180,712</u>	<u>178,378</u>	<u>191,357</u>
Other Administration			
Purchased Services	0	1,011	912
Supplies, Materials and Other	<u>3,272</u>	<u>1,702</u>	<u>2,879</u>
	<u>3,272</u>	<u>2,713</u>	<u>3,791</u>
 Total School Administration	 <u>1,123,857</u>	 <u>1,119,221</u>	 <u>1,179,314</u>
 Business:			
Business Services			
Board of Review Changes	0	1,010	0
Purchased Services	116,894	116,502	85,248
Supplies, Materials and Other	<u>22,903</u>	<u>21,393</u>	<u>12,088</u>
	<u>139,797</u>	<u>138,905</u>	<u>97,336</u>
Fiscal Services			
Salaries	89,700	89,646	88,226
Employee Benefits	53,661	53,649	44,551
Purchased Services	2,660	1,143	1,519
Supplies, Materials and Other	<u>3,300</u>	<u>2,247</u>	<u>2,759</u>
	<u>149,321</u>	<u>146,685</u>	<u>137,055</u>
 Total Business	 <u>289,118</u>	 <u>285,590</u>	 <u>234,391</u>
 Operations and Maintenance:			
Salaries	394,916	394,814	427,300
Employee Benefits	267,769	267,621	277,858
Purchased Services	631,294	617,171	710,528
Supplies, Materials and Other	<u>80,429</u>	<u>78,876</u>	<u>107,644</u>
	<u>1,374,408</u>	<u>1,358,482</u>	<u>1,523,330</u>

OSCODA AREA SCHOOLS  
losco and Alcona Counties, Michigan

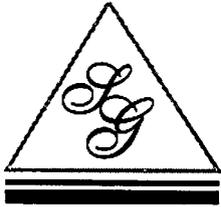
GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2007  
With Comparative Totals for the Year Ended June 30, 2006

	<u>2007</u> Amended Budget	<u>2007</u> Actual	<u>2006</u> Actual
<u>Support Services (Continued)</u>			
Transportation:			
Salaries	\$ 428,294	\$ 427,511	\$ 430,173
Employee Benefits	206,964	207,796	200,200
Purchased Services	73,382	43,563	42,051
Supplies, Materials and Other	<u>214,762</u>	<u>231,503</u>	<u>167,467</u>
	<u>923,402</u>	<u>910,373</u>	<u>839,891</u>
Central Services:			
Staff and Personnel Services			
Salaries	1,840	2,371	1,166
Employee Benefits	639	639	252
Purchased Services	21,686	18,031	30,812
Supplies, Materials and Other	<u>5,465</u>	<u>5,579</u>	<u>1,687</u>
	<u>29,630</u>	<u>26,620</u>	<u>33,917</u>
Technology			
Salaries	51,000	50,376	52,860
Employee Benefits	27,529	27,501	26,239
Purchased Services	40,909	40,228	39,731
Supplies, Materials and Other	<u>2,538</u>	<u>1,544</u>	<u>1,639</u>
	<u>121,976</u>	<u>119,649</u>	<u>120,469</u>
Total Support Services	<u>5,336,876</u>	<u>5,230,408</u>	<u>5,100,958</u>
<u>Community Services</u>			
Community Recreation			
Salaries	7,000	6,898	7,275
Employee Benefits	1,185	1,187	1,455
Other Purchased Services	9,419	8,203	4,212
Other Supplies	<u>24,786</u>	<u>23,629</u>	<u>10,444</u>
	<u>42,390</u>	<u>39,917</u>	<u>23,386</u>
Community Activities			
Salaries	5,453	3,917	168
Employee Benefits	1,385	993	39
Purchased Services	1,872	2,745	1,450
Supplies, Materials and Other	<u>15,409</u>	<u>11,737</u>	<u>9,614</u>
	<u>24,119</u>	<u>19,392</u>	<u>11,271</u>
Other Community Services			
Salaries	849	849	1,347
Employee Benefits	215	215	323
Purchased Services	4,530	3,435	1,887
Supplies, Materials and Other	<u>610</u>	<u>8</u>	<u>359</u>
	<u>6,204</u>	<u>4,507</u>	<u>3,916</u>

OSCODA AREA SCHOOLS  
losco and Alcona Counties, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2007  
With Comparative Totals for the Year Ended June 30, 2006

	<u>2007 Amended Budget</u>	<u>2007 Actual</u>	<u>2006 Actual</u>
<u>Community Services</u> (Continued)			
Total Community Services	\$ <u>72,713</u>	\$ <u>63,816</u>	\$ <u>38,573</u>
<u>Capital Outlay</u>			
Support Services	<u>0</u>	<u>0</u>	<u>6,950</u>
<u>Debt Service</u>			
Principal Retirement	8,847	8,847	8,046
Interest and Fees on Long-Term Debt	<u>990</u>	<u>993</u>	<u>1,794</u>
Total Debt Service	<u>9,837</u>	<u>9,840</u>	<u>9,840</u>
<u>Operating Transfers Out</u>			
Athletic Fund	193,705	192,639	194,788
Food Service Fund	<u>746</u>	<u>746</u>	<u>766</u>
Total Transfers Out	<u>194,451</u>	<u>193,385</u>	<u>195,554</u>
Total Expenditures and Transfers	<u>\$ 13,938,782</u>	<u>\$ 13,789,959</u>	<u>\$ 13,793,844</u>



*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

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Kyle E. Troyer, CPA

Herman A. Bertuleit, CPA

October 10, 2007

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

Board of Education  
Oscoda Area Schools  
Iosco and Alcona Counties, Michigan

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Oscoda Area Schools' 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 Oscoda Area Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Oscoda Area Schools' internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Oscoda Area Schools' 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 Oscoda Area Schools' financial statements that is more than inconsequential will not be prevented or detected by the Oscoda Area Schools' internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Financial Statement Preparation

Oscoda Area Schools prepare various financial information throughout the year to assess operations and the financial condition of the School District. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the School District relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

Members of the Board  
Oscoda Area Schools  
October 10, 2007

Oscoda Area Schools have individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the School District is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the School District would not be in a position to detect the errors or omissions.

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 Oscoda Area Schools' internal control.

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

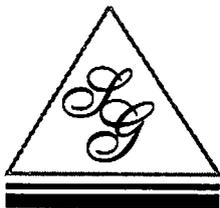
Compliance and Other Matters

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

We noted certain matters that we have reported to management of Oscoda Area Schools in a separate letter dated October 10, 2007.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Michigan Department of Education, 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.

*Stephenson, Grain & Co., P.C.*



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October 10, 2007

To the Board of Education  
Oscoda Area Schools  
Iosco and Alcona Counties, Michigan

Dear Board Members:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Oscoda Area Schools for the year ended June 30, 2007, and have issued our report thereon dated October 10, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated March 03, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Oscoda Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Oscoda Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Oscoda Area Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Oscoda Area Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Oscoda Area Schools' compliance with those requirements.

Significant Accounting Policies

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

#### Accounting Estimates

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

#### Audit Adjustments

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

#### Disagreements with Management

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

#### Consultations with Other Independent Accountants

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

#### Issues Discussed Prior to Retention of Independent Auditors

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

#### Difficulties Encountered in Performing the Audit

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

#### Additional Information

As a result of our study and evaluation of the internal controls and compliance as described in the third and fourth paragraphs, certain matters came to our attention upon which we would like to comment and offer the following recommendations.

Financial Statement Preparation

Oscoda Area Schools prepare various financial information throughout the year to assess operations and the financial condition of the School District. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the School District relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

Oscoda Area Schools have individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the School District is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the School District would not be in a position to detect the errors or omissions.

Petty Cash

The School Administrative office has a petty cash account that is not maintained in accordance with the same procedures and controls as used by all other cash accounts and cash activity of the District. This account does not have a set balance and the disbursements from this account are not approved at the Board level. We recommend that the School Board set a maximum amount to be maintained in the petty cash account and that the disbursements out of the petty cash account should be presented to the Board on a periodic basis for approval. This account should be reimbursed up to the set balance amount based on the approval of disbursements.

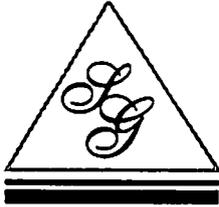
Activity Funds Disbursements

During Student Activity Fund disbursement testing, it was noted that the cancelled check for one of the disbursements chosen from the High School Activity Fund had only one signature on the check. Board policy requires two signatures on all checks. We recommend that two signatures be obtained prior to checks being sent out for payment.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of Oscoda Area Schools.

This information is intended solely for the use of management, the Board of Education, others within the entity, the Michigan Department of Education, 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.

*Stephenson, Graich & Co., P.C.*



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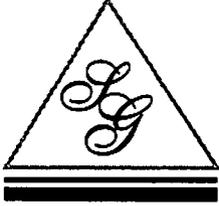
Herman A. Bertuleit, CPA

OSCODA AREA SCHOOLS  
IOSCO AND ALCONA COUNTIES, MICHIGAN

SINGLE AUDIT REPORTS  
YEAR ENDED JUNE 30, 2007

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September 18, 2007

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

Board of Education  
Oscoda Area Schools  
Iosco and Alcona Counties, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Oscoda Area Schools, Iosco and Alcona Counties, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the Oscoda Area Schools' basic financial statements and have issued our report thereon dated September 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Oscoda Area Schools' 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 Oscoda Area Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Oscoda Area Schools' internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Oscoda Area Schools' 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 Oscoda Area Schools' financial statements that is more than inconsequential will not be prevented or detected by the Oscoda Area Schools' internal control. We consider deficiency 07-1 described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Oscoda Area Schools' 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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

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Board of Education  
Oscoda Area Schools  
September 18, 2007  
Page Two

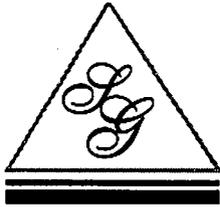
Compliance and Other Matters

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

We noted certain matters that we have reported to management of Oscoda Area Schools in a separate letter dated September 18, 2007.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Michigan Department of Education, 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.

*Stephenson, Gralik & Co., P.C.*



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September 18, 2007

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education  
Oscoda Area Schools  
Iosco and Alcona Counties, Michigan

Compliance

We have audited the compliance of Oscoda Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Oscoda Area Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Oscoda Area Schools' management. Our responsibility is to express an opinion on Oscoda Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Oscoda Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Oscoda Area Schools' compliance with those requirements.

In our opinion, Oscoda Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Oscoda Area Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Oscoda Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Oscoda Area Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

- 3 -

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Oscoda Area Schools, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 18, 2007. Our audit was performed for the purpose of forming our opinion on the financial statements that collectively comprise Oscoda Area School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Michigan Department of Education, 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.

*Stephenson, Grubb & Co., P.C.*

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2007

Findings - Financial Statements Audit

06-1

Internal Controls

Activity Funds Accounting

The results of our testing of the High School and Cedar Lake Elementary Activity Accounts revealed improper controls and inadequate supporting documentation for cash disbursements. One out of five disbursements tested did not have an invoice or adequate support. The missing invoice was for the band account. In addition, the Cedar Lake Elementary Activity Account combined several fund-raiser and miscellaneous activities into one activity. Through that combination, there were two activities with balances at June 30, 2005 that did not have new ledger cards created for the year ending June 30, 2006. The bank statements for the Cedar Lake Elementary Account had not been reconciled monthly to the total amounts in activity funds for the school.

Current Status:

Procedures were reviewed with Oscoda Area Schools' personnel responsible for the various activity funds. We did not note any findings related to the activity funds in the year ending June 30, 2007.

Findings and Questioned Costs - Major Federal Award Programs Audit

06-2

Eligibility

School Lunch Eligibility Verification

The OMB Circular A-133 Compliance Supplement and Michigan Department of Education Auditing Manual for the School Lunch Program require the Local Educational Agency to perform income verifications for a selected sample of free or reduced applications. Changes in eligibility that reflect an increase in benefits are required to be made within three days. Changes in eligibility that reflect a decrease in benefits are required to be made within ten days of notification of such changes. The results of our testing of eligibility verifications found two of five applications tested had a change in status. We could not verify the changes in status had been made until over a month after the change became effective.

Current Status:

We noted procedures were implemented immediately after the prior audit. The student's eligibility status is printed prior to the verification, and immediately after the eligibility change to provide supporting documentation that all eligibility changes are updated within the required timeframe.

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2007

Summary of Auditors' Results

- (1) The auditors' report expresses unqualified opinions on the financial statements of Oscoda Area Schools.
- (2) One significant deficiency relating to the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (3) No instances of noncompliance material to the financial statements of Oscoda Area Schools, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (4) No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award programs for Oscoda Area Schools expresses an unqualified opinion.
- (6) The auditors' report disclosed no audit findings relative to the major federal award programs for Oscoda Area Schools.
- (7) The programs tested as major programs included: Child Nutrition Cluster School Breakfast program CFDA #10.553, Child Nutrition Cluster School Lunch program CFDA #10.555 and Title I CFDA #84.010.
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000.
- (9) Oscoda Area Schools did not qualify as a low-risk auditee.

Findings – Financial Statements Audit

07-1 Financial Statement Preparation

**Criteria:** Accounting principles require personnel of Oscoda Area Schools have the knowledge to review and determine the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

**Condition:** Oscoda Area Schools' personnel prepare various financial information throughout the year to assess operations and the financial condition of the School District. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the School District relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

**Questioned Costs:** None.

**Context:** Oscoda Area Schools have individuals on staff to review the financial report to ensure it is accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

**Effect:** As a result, the School District is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the School District would not be in a position to detect the errors or omissions.

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2007

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs relative to the major federal award programs for Oscoda Area Schools for the year ending June 30, 2007.

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2007

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2006	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2007
<u>U.S. Department of Agriculture</u>							
Child Nutrition Cluster:							
Passed through Michigan Department of Education:							
National School Breakfast Program:							
061970	10.553	\$ 14,314	\$ 0	\$ 0	\$ 14,314	\$ 14,314	\$ 0
071970		<u>127,657</u>	<u>0</u>	<u>0</u>	<u>127,657</u>	<u>127,657</u>	<u>0</u>
		<u>141,971</u>	<u>0</u>	<u>0</u>	<u>141,971</u>	<u>141,971</u>	<u>0</u>
National School Lunch Program:							
Sec. 4 - All Lunches:							
061950	10.555	4,863	0	0	4,863	4,863	0
071950		37,532	0	0	37,532	37,532	0
Sec. 11 - Free and Reduced:							
061960		29,735	0	0	29,735	29,735	0
071960		226,487	0	0	226,487	226,487	0
Snack Program:							
071980		<u>2,816</u>	<u>0</u>	<u>0</u>	<u>2,816</u>	<u>2,816</u>	<u>0</u>
		<u>301,433</u>	<u>0</u>	<u>0</u>	<u>301,433</u>	<u>301,433</u>	<u>0</u>
Total Child Nutrition Cluster		<u>443,404</u>	<u>0</u>	<u>0</u>	<u>443,404</u>	<u>443,404</u>	<u>0</u>
Passed through Michigan Department of Education:							
Food Distribution for National Lunch or Breakfast Programs:							
Entitlement Commodities	10.550	42,203	0	0	42,203	42,203	0
Bonus Commodities		<u>674</u>	<u>0</u>	<u>0</u>	<u>674</u>	<u>674</u>	<u>0</u>
		<u>42,877</u>	<u>0</u>	<u>0</u>	<u>42,877</u>	<u>42,877</u>	<u>0</u>

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2007

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2006	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2007
<u>U.S. Department of Agriculture</u> (Continued)							
Passed through Alcona County: Schools and Roads Grant Funds	10.665	\$ 29,260	\$ 0	\$ 0	\$ 29,260	\$ 29,260	\$ 0
Passed through Iosco County: Schools and Roads Grant Funds		46,080	0	0	46,080	46,080	0
		75,340	0	0	75,340	75,340	0
Total U.S. Department of Agriculture		561,621	0	0	561,621	561,621	0
<u>U.S. Department of Education</u>							
Passed through Michigan Department of Education: Title I - Grants to Local Educational Agencies:	84.010						
Part A Imp Basic Pro 051530 0506		79,090	79,090	10,707	0	10,707	0
ESEA 2% School Improvement Grants 051550 0506		75,000	1,330	0	73,670	73,670	0
Part A Imp Basic Pro 061530 0506		607,100	570,620	68,707	36,480	105,187	0
Part A Imp Basic Pro 061530 0607		89,074	0	0	89,074	88,555	519
Part A Imp Basic Pro 071530 0607		558,953	0	0	467,059	465,076	1,983
		1,409,217	651,040	79,414	666,283	743,195	2,502
Passed through Michigan Department of Education: Individuals with Disabilities Act: PL 94-142 IDEA Flow Through	84.027	1,608	1,608	1,608	0	1,608	0
Passed through Michigan Department of Education: Title V:	84.298						
LEA Allocation - Part A Innovative:							
050250 0506		6,939	6,896	900	0	900	0
060250 0506		14,444	8,190	3,558	6,254	9,812	0
060250 0607		131	0	0	131	131	0
070250 0607		6,639	0	0	6,639	6,639	0
		28,153	15,086	4,458	13,024	17,482	0

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2007

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2006	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2007
<u>U.S. Department of Education (Continued)</u>							
Passed through Michigan Department of Education:							
Title II:							
Part D Ed Tech 064290 0506	84.318	\$ 11,536	\$ 10,018	\$ 2,721	\$ 1,518	\$ 4,239	\$ 0
Part D Ed Tech 074290 0607		5,719	0	0	3,719	3,719	0
		17,255	10,018	2,721	5,237	7,958	0
Passed through Ferris State University:							
Title II Freedom to Learn							
	84.318	2,350	1,027	(973)	1,323	350	0
		19,605	11,045	1,748	6,560	8,308	0
Passed through Michigan Department of Education:							
Title VI, Part B, Subpart 2							
Rural and Low-Income Schools 060660 0607	84.358B	53,245	0	0	53,244	48,451	4,793
Passed through Michigan Department of Education:							
Title IIA:							
Improving Teacher Quality 060520 0506	84.367	178,016	161,144	24,065	16,872	40,937	0
Improving Teacher Quality 070520 0607		173,534	0	0	137,052	137,052	0
		351,550	161,144	24,065	153,924	177,989	0
Total U.S. Department of Education		1,863,378	839,923	111,293	893,035	997,033	7,295

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2007

<u>Federal Grantor or Pass Through Grantor Program Title/Grantor's Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2006</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2007</u>
<u>U.S. Department of Health and Human Services</u> Passed through Iosco Regional Educational Service Agency as Fiscal Agent: Medical Assistance Program Title XIX: Administrative Claims 2006-2007	93.778 \$ 158	\$ 0	\$ 0	\$ 158	\$ 45	\$ 113
Total Federal Awards	\$ 2,425,157	\$ 839,923	\$ 111,293	\$ 1,454,814	\$ 1,558,699	\$ 7,408

OSCODA AREA SCHOOLS  
Iosco and Alcona Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2007

## Notes:

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
2. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
3. The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with this schedule for USDA donated food commodities and are reported in the Cash Receipts column.
4. Expenditures include spoilage or pilferage.
5. Reconciliation to financial statements:

General Fund	\$ 977,293
Special Revenue Funds:	
Food Service Fund	486,281
Federal revenue from oil and gas royalties, included in General Fund total above, not subject to Single Audit reporting requirements	<u>(8,760)</u>
	<u>\$ 1,454,814</u>