ADDISON COMMUNITY SCHOOLS
ADDISON, MICHIGAN

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2008

WITH
INDEPENDENT AUDITORS' REPORT

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ADDISON COMMUNITY SCHOOLS, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Our discussion and analysis of Addison Community School District financial performance provides an overview of the School District's financial activities in the fiscal year ended June 30, 2008. The Addison Community School District implemented GASB 34 requirements in the June 30, 2004 audit as required by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments issued June, 2000. Certain comparative information between the current year and the prior year is required and will be presented in this MD&A. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

The management's discussion and analysis is provided at the beginning of the audit and organized so that the reader can understand terms the past and current position of the Addison Community School District financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the School District's revenues by program for the General Fund and Special Revenue Fund.

USING THIS ANNUAL REPORT

The School District's Annual Report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The *District Wide Financial Statements*, which include the **Statement of Net Assets** and the **Statement of Activities** provide information about the district as a whole and present a longer-term view of the School District's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The *Fund Financial Statements* provide detailed information about the School District's most significant funds-not the School District as a whole.

Reporting the school district as a whole

These two statements report the School District's net assets-the difference between assets and liabilities, as reported in the **Statement of Net Assets** – as one way to measure the School District's financial health or financial position. The **Statement of Net Assets**, for the first time, combines and consolidates governmental fund's current financial resources with capital assets and long-term obligations, regardless if they are currently available or not. In comparison to "other assets", capital assets are those assets that are tangible, valued over a specified amount, and usually have a long life. They are depreciated over a useful life. More detail on capital assets and their recorded useful lives is found in the footnote section of the audit. Long-term obligations (liabilities) are those that are longer than one year. Some liabilities are classified as "short-term" for the portion due in a year, and "long-term" for the portion due in future years (such as leases payable, compensated absences, and debt obligations). "Other liabilities" are considered to be obligations due within a year. Over time, increases or decreases in the School District's net assets – as reported in the **Statement of Activities** – is one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the School District's operating results.

However, the School District's goal is to provide services to our students, not to generate a profit as commercial entities do. There are other factors to consider such as quality of education and school safety to assess the overall health of the School District.

The **Statement of Net Assets** and **Statement of Activities** report the governmental activities and business-type activities. These statements for the Addison Community School District will include only governmental activities which encompass all of the School District's services including instruction, supporting services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the school district 's most significant funds

The School District's fund financial statements provide detailed information about the School District's most significant funds- not the School District as a whole. The fund statements are similar to financial presentations in the past, but the focus is on the District's major funds rather than fund types. The two Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported. Some funds are required by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (such as **Food Service, Athletics, Capital Projects**) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other monies (such as **Special Revenue**). The School District's major fund is the **General Fund**.

Most of the School District's services are reported in governmental funds. Governmental fund reporting focuses on how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. They are reported using an accounting method called "modified accrual" accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School District's operations and services it provides. Governmental fund information help you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between *governmental activities* (reported in the **Statement of Net Assets** and the **Statement of Activities**) and *governmental funds* in a reconciliation on page 3 and 4.

Fund types include the General Fund, Debt Retirement Fund, Special Revenue Fund, and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived from property taxes, state and federal distributions and grants and other intergovernmental revenues. The Debt Fund is used to record the funding and payment of principal and interest on Bonded Debt. The Special Revenue Fund is used to record the funding and expenditures of monies specified for a specific purpose (Food service, Athletics). The Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent for various student groups and related activities.

The School District as a Whole

The School District's net assets were $3,444,345 at the end of June 30, 2008 compared to $3,373,844 at the end of June 30, 2007. Of that amount $1,651,580 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. Our analysis below focuses on the **Net Assets** (Table 1) and **Change in Net Assets** (Table 2) of the School District's governmental activities.

Table 1
Addison Community Schools' Statement of Net Assets

	Governmental Activities	
	2008	**2007**
Current and other assets	$2,812,094	$2,650,758
Capital assets	1,706,935	1,948,142
Total assets	$4,519,029	$4,598,900
Long term liabilities outstanding	990,932	1,090,398
Other liabilities	83,751	134,658
Total liabilities	1,074,683	1,225,056
Net assets:		
Invested in capital assets, net of related debt	1,637,801	1,871,076
Restricted for:		
School lunch	4,517	9,736
Capital Projects	150,447	71,000
Unrestricted	1,651,580	1,422,032
Total net assets	$3,444,345	$3,373,844

The $1,651,580 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities, (compensated absences for example), we would have $1,651,580 left. The net assets have increased by about $70,501.

The **Statement of Activities** presented later in the government-wide financial statements, provides greater detail on the District's annual activity. The **Statement of Changes in Net Assets from Operating Results** (Table 2) shown below details the cost of the District's governmental activities and how those activities were financed.

Table 2

Addison Community Schools' Statement of Activities

	Governmental Activities	
	2008	**2007**
Program revenues:		
Charges for services:		
Instruction	$37,907	$22,438
Food services	$193,871	$211,524
Athletics	$65,712	$77,056
Operating grants:		
Instruction:		
State aid-Categoricals	$209,810	$185,489
Federal programs	$110,177	$165,237
Support services:		
State aid-Categoricals	$15,514	$16,693
Federal programs	$52,979	$23,455
Food services:		
Free and reduced lunch program	$161,403	$159,074
USDA commodities	$21,582	$26,181
Athletic contributions		$4,566
Community service contributions		$244
Total program revenues	$868,955	$891,957
General revenues:		
Property taxes	2,822,574	2,627,738
Investment earnings	42,300	53,153
State sources-unrestricted	4,945,439	5,516,584
Intermediate sources	273,326	181,073
Other	84,061	75,946
Total general revenues	8,167,700	8,454,494
Total revenues	$9,036,655	$9,346,451
Expenses:		
Instruction	$5,371,851	$5,444,449
Support services	$2,677,234	$2,918,814
Food services	$382,618	$384,267
Athletics	$291,574	$306,824
Community services		$243
Interest expense	$1,670	$7,446
Unallocated depreciation	$235,204	$259,055
Unallocated amortization	$6,003	$6,003
Total expenses	$8,966,154	$9,327,101
Change in net assets	$70,501	$19,350
Net assets, beginning of year	3,373,844	3,354,494
Net assets, end of year	$3,444,345	$3,373,844

Financial Analysis of the District's Funds

The financial performance of the district as a whole is reflected in its governmental funds as well.

GENERAL FUND **Factors affecting Revenue**

- *State Aid funding* -The State of Michigan provides a $7,221 per pupil foundation allowance that provides a substantial portion of our district's revenue. The District's blended count, which is used to compute the State Aid allowance, consists of 75% of the fall student count and 25% of the previous spring's student count. For the 2007-08 school year, the District blended count was 1064.97. In addition the district also receives various grants from the state. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. State aid payments are made with the first payment of the school year beginning in October, and the last payment being made in August. Therefore, at the end of the District's fiscal year end, there is adjustment made that includes 2 months of state aid payments into revenue that has not yet been made.

- *Property Taxes* – The District levies 18 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 31. For the 2007-08 fiscal year, a total of 18 mills was levied on non-homestead property. This did not include a Headlee reduction for the 2007-08 fiscal year. Property tax revenues for the 2007-08 fiscal year were $2,822,574 for general purposes.

- *Schools of Choice-* The School District have an agreement with the other public schools in Lenawee County to implement a Lenawee County Schools of Choice (Open Enrollment) program. During the 2007-08 school year, of the 1056 pupils enrolled, 106 (10%) of our student population were schools of choice pupils.

Factors affecting Expenses

- *Salaries and Benefits-* A significant portion of the School District's expenses are related to compensation.

- *Instructional purchases-* A substantial part of each year's budgetary expenditures include textbooks and supplemental learning materials, supplies, and purchased services.

- *Operation and Maintenance-* Much of each year's budgetary expenditures also include the general operation and maintenance of our school buildings.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget during the school year. In fact, all Michigan school districts must complete a second full budget after the state's official student membership count date (the fourth Wednesday in September), because only then are they knowledgeable of their Foundation Grant's income level. These revisions are made in order to

deal with the unexpected changes in revenues and expenditures. The following analysis describes the reasons for changes in the budget during the year.

Orginal Budget versus Final Budget

- *Revenues*- Estimated original budgets for revenues were $8,022,872 versus the final budget of $8,482,749.

- *Expenditures*- The original budget for expenditures was $7,833,809 versus the final budget of $8,039,795. The increase included program expenses not contemplated in the original budget, as district was not sure of the funding formula.

Final Budget versus Actual Figures

- The majority (about 95%) of *Local Revenues* are property taxes received from five townships including Liberty, Rollin, Somerset, Wheatland and Woodstock, and the revenues Increased.

- *State Revenues* were budgeted at $5,176,464 versus actual received of $5,170,763.

- *Federal Revenues* actually received were $690 less than the final budget of $163,156.

- *Overall revenues* were over budget by $53,241 from the final budget amounts.

- *Expenses*- Final estimated budgets for expenses were $8,039,795 versus an actual final amount of $8,042,138. The overall variation from final budget to actual was ($2,343). As previously stated, the school district is highly dependent on the stability of the State of Michigan's economy. The economy for the state continued to be very uncertain for the fiscal year 2007/08. As a school district, Addison Community Schools tried to be very conservative in our spending in order for us provide the best instructional opportunities to our students.

Actual Figures 2007/08 compared to 2006/07

- *Local Revenues* for the fiscal year ended were $2,935,536 compared to $3,075,449 in the previous year. The majority of change is reflected in the dollars received from local property tax.

- *State Revenues* for the fiscal year ended were $5,170,763 compared to $5,744,947 for fiscal year ended 2006/07. This change reflects the offset of the changes in student population and state sourced grants provided by the state in the fiscal year 2007/08 compared to the previous school year.

- *Federal Revenues* for the fiscal year ended were $163,156 compared to $348,011 from the previous school year.

- *Expenditures* for the fiscal year ended were $8,042,138 compared to $9,091,453 from the previous school year.

SPECIAL REVENUE FUNDS

- *School Lunch Fund*- The School Lunch Fund receives its revenues from the sale of goods, federal grants, and transfers from the General Fund. For the fiscal year 2007/08, the General Fund did not transfer money to the School Lunch Fund.

- *Athletic Fund*-The Athletic Fund receives its revenues from admission fees, and transfers from the General Fund. For the fiscal year 2007/08, the General Fund transferred $218,449 to the Athletic fund compared to $220,781 in the fiscal year 2006/07.

- *Capital Projects Fund*- The Capital Projects fund receives its revenues from transfers from the General Fund and interest earned from previous transfers. In fiscal year 2007/08, $79,000 was transferred in from the General Fund compared to $71,000 transferred in fiscal year 2006/07.

DEBT SERVICE FUND

- At June 30,2008, the District recorded the State Aid payment appropriated by the State of Michigan for the Durant Bond. The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

CAPITAL ASSET AND DEBT ADMINISTRATION

- *Capital Assets*- At June 30, 2008, the School District had $1,706,935 invested in capital assets, net of accumulated depreciation. This compares to $1,948,142 in the 2006/07 fiscal year. The district has a debt obligation for the Durant Bonds in the amount of $67,584. As these items also relate to capital assets, the amount ***invested in capital assets net of related debt*** is $1,637,801 compared to $1,871,076 in the previous year.

Contacting the District's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, please contact:

Business Office
Addison Community Schools
219 Comstock St
Addison, MI 49220

ROBERTSON
EATON
&
OWEN
P.C.

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Addison Community Schools
Addison, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Addison Community Schools, as of and for the year ended June 30, 2008, which collectively comprise Addison Community Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Addison Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Addison Community Schools, as of June 30, 2008, 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 September 29, 2008 on our consideration of the Addison Community 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 conjunction with this report in considering the results of our audit.

121 North Main Street, Adrian, Michigan 49221 (517)265-6154 FAX:(517)265-2572

To the Board of Education
Addison Community Schools
Addison, Michigan

The management's discussion and analysis and budgetary comparison information on pages i through vii and page 25, 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 the 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 Addison Community Schools' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements 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.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
September 29, 2008

ADDISON COMMUNITY SCHOOLS

STATEMENT OF NET ASSETS

June 30, 2008 and 2007

	Governmental Activities	
ASSETS	**2008**	**2007**
CURRENT ASSETS:		
Cash and cash equivalents	$ 172,330	$ 6,931
Investments	1,636,710	1,569,757
Accounts receivable	13,804	41,046
Due from other governmental units	979,138	1,013,689
Prepaid expenses	6,927	14,699
Inventory	3,185	4,636
TOTAL CURRENT ASSETS	2,812,094	2,650,758
NONCURRENT ASSETS:		
Capital assets	9,316,455	9,316,455
Less: Accumulated depreciation	(7,624,311)	(7,389,107)
Leased property under capital leases	58,905	58,905
Less: Accumulated amortization	(44,114)	(38,111)
TOTAL NONCURRENT ASSETS	1,706,935	1,948,142
TOTAL ASSETS	$ 4,519,029	$ 4,598,900
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 119,990	$ 72,229
Checks drawn against future deposits	6,972	84,192
Salaries payable	519,428	633,399
Accrued expenses	237,338	138,295
Unearned revenue	56,391	142,602
Current portion of capital lease obligation	1,550	8,040
Current portion of long term obligations	6,370	
Current portion of compensated absences	42,893	11,641
TOTAL CURRENT LIABILITIES	990,932	1,090,398
NONCURRENT LIABILITIES:		
Noncurrent portion of capital lease obligation		1,442
Noncurrent portion of long term obligations	61,214	67,584
Noncurrent portion of compensated absences	22,537	65,632
TOTAL NONCURRENT LIABILITIES	83,751	134,658
TOTAL LIABILITIES	1,074,683	1,225,056
NET ASSETS:		
Invested in capital assets, net of related debt	1,637,801	1,871,076
Restricted for		
School lunch	4,517	9,736
Capital projects	150,447	71,000
Unrestricted	1,651,580	1,422,032
TOTAL NET ASSETS	$ 3,444,345	$ 3,373,844

See notes to financial statements.

ADDISON COMMUNITY SCHOOLS

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Totals Governmental Activities: Net (Expense) Revenue and Changes in Net Assets 2008	Totals Governmental Activities: Net (Expense) Revenue and Changes in Net Assets 2007
GOVERNMENTAL ACTIVITIES:					
Instruction	$ 5,371,851	$ 37,907	$ 319,987	$ (5,013,957)	$ (5,071,285)
Support services	2,677,234		68,493	(2,608,741)	(2,878,666)
Food services	382,618	193,871	182,985	(5,762)	12,512
Athletics	291,574	65,712		(225,862)	(225,202)
Community services					1
Interest expense	1,670			(1,670)	(7,446)
Unallocated depreciation	235,204			(235,204)	(259,055)
Unallocated amortization	6,003			(6,003)	(6,003)
TOTAL GOVERNMENTAL ACTIVITIES	$ 8,966,154	$ 297,490	$ 571,465	(8,097,199)	(8,435,144)
GENERAL REVENUES:					
Property taxes, levied for general purposes				2,822,574	2,627,738
Investment earnings				42,300	53,153
State sources – unrestricted				4,945,439	5,516,584
Intermediate sources				273,326	181,073
Other				84,061	75,946
TOTAL GENERAL REVENUES				8,167,700	8,454,494
CHANGE IN NET ASSETS				70,501	19,350
Net assets, beginning of year				3,373,844	3,354,494
Net assets, end of year				$ 3,444,345	$ 3,373,844

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

ADDISON COMMUNITY SCHOOLS

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2008
With Comparative Totals for June 30, 2007

	General Fund	Other Nonmajor Governmental Funds	Totals Governmental Funds 2008	Totals Governmental Funds 2007
ASSETS:				
Cash and cash equivalents	$ 159	$ 172,171	$ 172,330	$ 6,931
Investments	1,630,675	6,035	1,636,710	1,569,757
Accounts receivable	5,410	1,370	6,780	41,046
Due from other funds				73,420
Due from other governmental units	943,840	3,036	946,876	988,218
Prepaid expenditures	6,927		6,927	14,699
Inventory		3,185	3,185	4,636
TOTAL ASSETS	$2,587,011	$ 185,797	$2,772,808	$2,698,707
LIABILITIES:				
Accounts payable	$ 119,773	$ 217	$ 119,990	$ 72,229
Checks drawn against future deposits		6,972	6,972	84,192
Due to other funds				73,420
Salaries payable	518,981	448	519,429	633,399
Accrued expenditures	237,229	109	237,338	138,295
Unearned revenue	35,817	20,574	56,391	142,602
TOTAL LIABILITIES	911,800	28,320	940,120	1,144,137
FUND BALANCES:				
Reserved for:				
Inventory		3,185	3,185	4,636
School lunch program		1,332	1,332	5,100
Unreserved, reported in:				
General Fund	1,675,211		1,675,211	1,471,937
Capital projects		150,447	150,447	71,000
Special Revenue Funds		2,513	2,513	1,897
TOTAL FUND BALANCES	1,675,211	157,477	1,832,688	1,554,570
TOTAL LIABILITIES AND FUND BALANCES	$2,587,011	$ 185,797	$2,772,808	$2,698,707

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

ADDISON COMMUNITY SCHOOLS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS

TO THE STATEMENT OF NET ASSETS

June 30, 2008 and 2007

	2008		2007	
TOTAL GOVERNMENTAL FUND BALANCES	$	$1,832,688	$	$1,554,570
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in the governmental activities are not financial resources and are not reported in the funds:				
The cost of the capital asset is	9,316,455		9,316,455	
The accumulated depreciation is	(7,624,311)	1,692,144	(7,389,107)	1,927,348
The cost of leased property is	58,905		58,905	
The accumulated amortization is	(44,114)	14,791	(38,111)	20,794
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		32,262		25,471
Long-term receivables that are not available To pay for current period expenditures		7,204		
Long term liabilities are not due and payable in the current period and are not reported in the funds:				
Bonds payable		(67,587)		(67,584)
Capital lease obligation		(1,550)		(9,482)
Compensated absences		(65,430)		(77,273)
NET ASSETS OF GOVERNMENTAL ACTIVITIES		$3,444,345		$3,373,844

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

ADDISON COMMUNITY SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	General Fund	Other Nonmajor Governmental Funds	Totals Governmental Funds 2008	2007
REVENUES:				
Local sources:				
Property taxes	$ 2,822,574	$	$ 2,822,574	$ 2,627,738
Investment earnings	42,300		42,300	53,153
Food sales and athletic admissions		259,583	259,583	288,580
Contributions				4,566
Other	70,662	8,776	79,438	101,412
TOTAL LOCAL SOURCES	2,935,536	268,359	3,203,895	3,075,449
State sources	5,170,763	16,100	5,186,863	5,744,947
Federal sources	163,156	166,885	330,041	348,011
Intermediate sources	266,535		266,535	172,930
TOTAL REVENUES	8,535,990	451,344	8,987,334	9,341,337
EXPENDITURES:				
Current:				
Instruction	5,347,318		5,347,318	5,455,128
Support services	2,693,226		2,693,226	2,922,500
Food service activities		379,773	379,773	389,800
Athletic activities		291,574	291,574	306,824
Community service				244
Interest	1,594	76	1,670	8,824
Capital outlay				8,133
TOTAL EXPENDITURES	8,042,138	671,423	8,713,561	9,091,453
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	493,852	(220,079)	273,773	249,884
OTHER FINANCING SOURCES (USES):				
Prior year revenue	35,421	85	35,506	
Prior year expenditures	(111)		(111)	
Redemption of principal	(6,871)	(2,611)	(9,482)	(9,959)
Payments to other public schools	(21,568)		(21,568)	
Transfers in		297,449	297,449	291,781
Transfers out	(297,449)		(297,449)	(291,781)
TOTAL OTHER FINANCING SOURCES (USES)	(290,578)	294,923	4,345	(9,959)
CHANGE IN FUND BALANCES	203,274	74,844	278,118	239,925
FUND BALANCES:				
Beginning of year	1,471,937	82,633	1,554,570	1,314,645
End of year	$ 1,675,211	$ 157,477	$ 1,832,688	$ 1,554,570

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

ADDISON COMMUNITY SCHOOLS

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

For the Years Ended June 30, 2008 and 2007

	2008	2007
Change in fund balances total governmental funds	$ 278,118	$ 239,925
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures in the Statement of Revenues, Expenditures, and Changes in Fund Balances. These costs are allocated over their estimated useful lives as depreciation on the Statement of Activities:		
Depreciation expense	(235,204)	(259,055)
Amortization expense on leased property	(6,003)	(6,003)
Capital outlay		8,133
Accrued interest on bonds and other long-term obligations is recorded in the Statement of Activities when incurred; it is not recorded in the governmental funds until it is paid.		
Accrued interest payable beginning of year		1,378
Accrued interest payable end of year		
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the governmental funds:		
Special education revenue from the Lenawee Intermediate School District – beginning of year	(25,471)	(17,508)
Special education revenue from the Lenawee Intermediate School District - end of year	32,262	25,471
Long term receivable	7,024	
Repayment of principal on long-term lease debt is an expenditure in the governmental funds, but not in the Statement of Activities (where it is a reduction of liabilities):		
Redemption of principal	7,932	9,959
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to increase net assets.		
Sale of school property less gain on sale		7,110
Compensated absences are reported on the accrual method in the Statement of Activities, and recorded as an expenditure when financial resources are used in governmental funds:		
Accrued compensated absences beginning of the year	77,273	87,213
Accrued compensated absences end of year	(65,430)	(77,273)
Change in net assets of governmental activities	$ 70,501	$ 19,350

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

ADDISON COMMUNITY SCHOOLS

STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES

FIDUCIARY FUND

June 30, 2008 and 2007

	Agency Fund	
ASSETS	**2008**	**2007**
Cash and cash equivalents	$ 104,408	$ 113,832
TOTAL ASSETS	$ 104,408	$ 113,832
LIABILITIES		
Due to student groups	$ 104,408	$ 113,832
TOTAL LIABILITIES	$ 104,408	$ 113,832

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The District is governed by the Board of Education (the "Board") of Addison Community Schools, which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-Wide And Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. The government-wide financial statements categorize primary activities as either governmental or business-type. All of the District's activities are classified as governmental activities. Amounts reported in the funds as interfund receivables and payables are eliminated in the governmental activities column of the statement of net assets. Amounts reported in the funds as receivable from or payable to fiduciary funds are included in the statement of net assets as receivable from or payable to external parties, rather than as internal balances. Therefore, all internal balances are eliminated in the total primary government column.

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

The District first utilizes restricted resources to finance qualifying activities.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide And Fund Financial Statements (Continued)

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

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

The District does not allocate indirect costs.

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

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

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

The District reports the following major governmental fund:

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

Other Nonmajor Funds

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trust or major capital projects). The District accounts for its food service and athletic activities in the Special Revenue Funds.

The *Debt Fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The *Capital Projects Fund* accounts for the financial resources accumulated, and all capital expenditures of the district.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide And Fund Financial Statements (Continued)

Agency Fund

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. It is used to account for assets that the District holds for others in an agency capacity, primarily student activities.

C. Measurement Focus, Basis Of Accounting And Basis Of Presentation

Accrual Method

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

Modified Accrual Method

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

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

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis Of Accounting And Basis Of Presentation (Continued)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

D. Other Accounting Policies

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

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

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

2. Property Taxes

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

For the year ended June 30, 2008, the District levied the following amounts per $1,000 of assessed valuation.

Fund		Mills
General Fund	(Non-homestead)	18.000

3. Accounts Receivable

Accounts receivable at June 30, 2008 have been determined to be collectible in full.

4. Inventories and Prepaid Expenditures

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

5. Capital Assets

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

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

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

Buildings and additions	50 years
Furniture and equipment	5 – 20 years
Transportation equipment	8 years

The District's capitalization policy is to capitalize individual amounts exceeding $5,000.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

6. Fund Balances

Fund balances on the Governmental Fund Balance Sheet are classified as either reserved or unreserved. The term reserved indicates that a portion of the fund balance is not appropriable for expenditure or is legally segregated for a specific future use. The reserve for Taxes receivable represents the income from property taxes recognized, but not yet received at the fiscal year ended June 30, 2008. The reserve for Inventory is the portion of fund balance represented by inventory not available for appropriation and expenditure at June 30, 2008. The reserve for the School Lunch Program represents the portion of fund balance that is legally segregated for expenditure within the School Lunch Fund.

7. Use of Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue Funds.

The District maintains a formalized encumbrance system. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the General Fund. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

2. Public hearings are conducted to obtain taxpayer comments.

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.

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

5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.

6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.

7. On the Budgetary Comparison Schedule, six functions exceeded budget. Expenditures also exceeded appropriations in the General Fund.

   The following expenditure functions that exceeded budget are as follows:

	Final Budget	Actual	Variance
Pupil	$ 135,304	$ 135,310	$ (6)
School Administration	530,345	534,204	(3,859)
Business	173,924	175,206	(1,282)
Operation & maintenance	1,033,577	1,033,594	(17)
Transportation	332,054	332,697	(643)
Central	123,668	124,936	(1,268)

The District utilizes pooled cash accounts for some of its funds.

NOTE 3. DEPOSITS AND INVESTMENTS – CREDIT RISK

Deposits

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2008, $242,227 of the District's bank balance of $342,227 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 242,227

Investments

The District's investments included deposits into the Michigan CLASS (CLASS) asset management accounts in the amount of $522,490 and deposits in the Michigan Liquid Asset Fund (MILAF) in the amount of $1,114,220 CLASS and MILAF are local government investment pools. MILAF may only invest in instruments as authorized by Sections 622, 1221 and 1223 of the Michigan school code.

Credit Risk: The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The CLASS investment is not rated. The MILAF investment is rated AAAm by Standard and Poor's Ratings Services.

Concentration of credit risk. The risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy is to diversify investments to minimize the impact of potential losses. As of March 31, 2008, concentrations of 5% or higher include 31.9% of investments at Michigan Class and 68.1% of investments at MILAF.

Interest Rate Risk: The District will minimize interest rate risk, which is the risk that the market value of securities invested will fall due to changes in market interest rates, by: structuring the investments so that they mature to meet cash requirements for ongoing operations and thus avoiding the need to sell in the open market; and by investing in shorter-term securities. The weighted average maturity of the securities underlying the CLASS investment is 78.74 days. The weighted average maturity of the MILAF portfolio is 56 days.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Districts name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name.

	CATEGORY			
	1	2	3	Carrying Amount
Investments:	$ 1,636,710	$ -	$ -	$ 1,636,710

NOTE 4. CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	PRIMARY GOVERNMENT			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land improvements	$ 2,370,477	$	$	$ 2,370,477
Buildings and improvements	5,431,968			5,431,968
Machinery and equipment	587,145			587,145
Transportation equipment	926,865			926,865
Leased property under capital leases	58,905			58,905
Depreciable capital assets	9,375,360		-	9,375,360
Less accumulated depreciation for:				
Land improvements	2,338,394	3,453		2,341,847
Buildings and improvements	4,051,979	107,835		4,159,814
Machinery and equipment	425,370	46,063		471,433
Transportation equipment	573,364	77,853		651,217
Total accumulated depreciation	7,389,107	235,204	-	7,624,311
Less accumulated amortization for:				
Leased property under capital leases	38,111	6,003	-	44,114
Governmental activities capital assets, net	$ 1,948,142	$ (241,207)	$ -	$ 1,706,935

Capital assets are depreciated over their estimated useful lives using the straight line method of depreciation for all classes of assets. Depreciation and amortization for the fiscal year ended June 30, 2008 and 2007 amounted to $235,204 and $6,003 and $259,055 and $6,003, respectively. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5. LONG-TERM DEBT

The Durant Bonds, including interest, were issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid Payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. Due to economic conditions in the State of Michigan, payments of State Aid were eliminated and those payments due in years 2003 through 2005 and 2008 through 2008 are scheduled to be paid in year 2011.

NOTE 5. LONG-TERM DEBT (Continued)

The following is a schedule of the Durant obligations for the District for the year ended June 30, 2008.

Payment Dates Due on May 15*	Amount of Principal Installment	Interest	Total Principal Installment and Interest Payment
2009	$ 6,370	$ 1,668	$ 8,038
2010	6,673	1,365	8,038
2011	39,546	14,458	54,004
2012	7,323	714	8,037
2013	7,672	365	8,037
	$ 67,584	$ 18,570	$ 86,154

*Or the next business day after May 15, if May 15 is not a business day.

Annual Interest Rate is	4.761353%
Average Life of Bonds is	6.783 years

The debt service requirements of governmental activities at June 30, 2008, are as follows:

Year Ended June 30,	Principal	Interest	Amount Payable
2009	$ 6,370	$ 1,668	$ 8,038
2010	6,673	1,365	8,038
2011	39,546	14,458	54,004
2012	7,323	714	8,037
2013	7,672	365	8,037
	$ 67,584	$ 18,570	$ 86,154

Compensated Absences

Employees can accumulate compensated absences by not using the number of sick day allotted each year. The vested liability for compensated absences for teachers is based on the amount specified in the employee's contract multiplied by the number of days accumulated by employees who have been employed by the District for twenty or more years. Other support staff have negotiated the daily rate in each employee's contract. The current portion represents the estimated amount that will be paid to employees in the next fiscal year.

NOTE 5. LONG-TERM DEBT (Continued)

Capital Leases

The District has entered into a lease agreement with Marlin Leasing for the use of a vending machine. The lease term is forty-eight (48) months, ending in May 2008, with payments of $300 per month. Unfortunately, the District failed to timely cancel this lease and it renewed for another year. Marlin Leasing and the District agreed to a payoff amount of $1,550 to be paid in the 2008-09 fiscal year.

Obligations of governmental activities under capital leases at June 30, 2008 are as follows:

Year Ended June 30,	Principal	Interest	Total
2009	$ 1,550	$	$ 1,550
	$ 1,550	$ -	$ 1,550

The following is a schedule of the governmental long-term obligations for the District for the year ended June 30, 2008:

	Bonds	Capital Leases	Compensated Absences	Total
Balance July 1, 2007	$ 67,584	$ 9,482	$ 77,273	$ 154,339
Increases		1,550	18,364	19,914
Decreases		(9,482)	(30,207)	(39,689)
Balance June 30, 2008	67,584	1,550	65,430	134,564
Less: Current portion	6,370	1,550	42,893	50,813
Total due after one year	$ 61,214	$ -	$ 22,537	$ 83,751

NOTE 6. OPERATING LEASE

The District has entered into a lease agreement with Canon Financial Services for the use of copiers. The lease term is sixty (60) months, ending in August 2013, with payments of $448 per month. There were no rental costs for the year ended June 30, 2008, as the lease begins September 1, 2008.

NOTE 6. OPERATING LEASE (Continued)

The following is a schedule of operating lease payments:

Year Ended June 30,	Total
2009	$ 4,480
2010	5,376
2011	5,376
2012	5,376
2013	5,376
2014	896
	$ 26,880

NOTE 7. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN

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

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

Members enrolled in MIP on or after July 1, 2008, will contribute 3% of compensation up to $5,000; 3.6% of compensation $5,001 through $15,000; 6.4% of compensation over $15,000.

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

NOTE 7. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2008 were 17.74% of payroll through September 30, 2007, and 16.72% effective October 1, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to the MPSERS for the years ended June 30, 2008, 2007, and 2006, were $784,858, $969,968, and $879,871, respectively, and were equal to the required contribution for those years.

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

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

NOTE 8. RISK MANAGEMENT

The 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 District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are accrued based on the ultimate cost of the experience to date of participating members. The District cannot estimate any losses from reported and unreported claims at June 30, 2008. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

NOTE 9. CONTINGENCIES

The District had no contingencies at June 30, 2008.

NOTE 10. AT RISK

During the year the District received State categorical aid for at risk students of $156,636.

NOTE 11. INTERFUND TRANSFERS

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

A schedule of interfund transfers follows:

Fund	Transfers out	Fund	Transfers in
Major	$ 297,449	Nonmajor	$ 297,449
	$ 297,449		$ 297,449

NOTE 12. SHORT-TERM DEBT

The district entered into a line of credit agreement for up to $500,000 with KeyBank. The principal amount borrowed was $300,000 with a variable interest rate and was paid off in January 2008. Interest expense related to this line of credit was $1,594 for the year ended June 30, 2008.

Short-term debt activity for the fiscal year ended June 30, 2008 was as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
State aid anticipation note	$ -	$ 300,000	$ 300,000	$ -

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P.C.

INDEPENDENT AUDITORS' REPORT ON REQUIRED SUPPLEMENTARY INFORMATION

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 the Government Accounting Standards Board. 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.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
September 29, 2008

121 North Main Street, Adrian, Michigan 49221 (517)265-6154 FAX:(517)265-2572

ADDISON COMMUNITY SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Local sources	$ 2,900,211	$ 2,875,622	$ 2,935,536	$ 59,914
State sources	4,830,365	5,176,464	5,170,763	(5,701)
Federal sources	182,296	163,846	163,156	(690)
Intermediate sources	110,000	266,817	266,535	(282)
TOTAL REVENUES	8,022,872	8,482,749	8,535,990	53,241
EXPENDITURES:				
Instruction:				
Basic programs	4,077,708	4,273,155	4,273,155	
Added needs	1,077,837	1,074,163	1,074,163	-
TOTAL INSTRUCTION	5,155,545	5,347,318	5,347,318	-
Support services:				
Pupil	137,923	135,304	135,310	(6)
Instructional staff	121,402	120,859	120,859	
General administration	282,985	241,152	236,420	4,732
School administration	531,056	530,345	534,204	(3,859)
Business	190,357	173,924	175,206	(1,282)
Operation and maintenance	964,594	1,033,577	1,033,594	(17)
Transportation	308,607	332,054	332,697	(643)
Central	139,746	123,668	124,936	(1,268)
Interest	1,594	1,594	1,594	
TOTAL SUPPORT SERVICES	2,678,264	2,692,477	2,694,820	(2,343)
TOTAL EXPENDITURES	7,833,809	8,039,795	8,042,138	(2,343)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	189,063	442,954	493,852	50,898
OTHER FINANCING SOURCES (USES):				
Prior period revenue	59,589	59,589	35,421	(24,168)
Prior period expenditures			(111)	(111)
Redemption of principal	(6,871)	(6,871)	(6,871)	
Payments to other public schools	(21,000)	(21,568)	(21,568)	
Transfers out	(220,781)	(297,449)	(297,449)	
TOTAL OTHER FINANCING SOURCES (USES)	(189,063)	(266,299)	(290,578)	(24,279)
NET CHANGE IN FUND BALANCE	-	176,655	203,274	26,619
FUND BALANCE:				
Beginning of year			1,471,937	
End of year			$ 1,675,211	

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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Addison Community Schools taken as a whole. The accompanying information identified in the table of contents as combining financial statements and other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
September 29, 2008

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Members: A.I.C.P.A. and M.A.C.P.A.

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

To the Board of Education
Addison Community Schools
Addison, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Addison Community Schools, as of and for the year ended June 30, 2008, which collectively comprise Addison Community Schools' basic financial statements and have issued our report thereon dated September 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Addison Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

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To the Board of Education
Addison Community Schools
Addison, Michigan

likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We considered the deficiencies described as 2008-1 thru 2008-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in 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 deficiencies described above as 2008-1 thru 2008-2, are not material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Addison Community 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 reported to management of Addison Community Schools in a separate letter dated September 29, 2008.

Addison Community Schools' response to the findings identified in our audit are described in the accompanying schedule of findings and response. We did not audit Addison Community Schools' response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, Departments of the State of Michigan, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
September 29, 2008

ADDISON COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2008

Finding 2008-1

Finding considered a significant deficiency

Criteria:

Effective for the year ended June 30, 2008, Statement on Auditing Standards No.112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2007), requires us to communicate in writing to managements and those charged with governance, significant deficiencies and material weaknesses identified in an audit.

Condition

Currently there is little segregation of conflicting duties of initiating transactions, and the recording of those transactions.

Cause

The District has a limited number of personnel.

Effect

Segregation of duties would provide another measure of internal control to provide the ability of the District to determine, in a reasonable amount of time, whether all transactions initiated are recorded and reported timely and accurately.

Recommendation

The District should continue as it has in the past.

Client Response

The Board of Education and management will do the best as they can to segregate duties.

ADDISON COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2008

Finding 2008-2

Finding considered a significant deficiency

Criteria:

Effective for the year ended June 30, 2008, Statement on Auditing Standards No.112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2007), requires us to communicate in writing to managements and those charged with governance, significant deficiencies and material weaknesses identified in an audit.

Condition

The District is required to adopt a budget for the General Fund. The budget should be adopted at a minimum level of appropriation. This is usually at the major revenue category and expenditure functional level. Each of the expenditure function levels should not be overspent.

Cause

The administration of the District understands the requirement, and annually prepares the budget which is approved by the Board of Education. In June of the fiscal year, administration prepares amended budgets to be approved by the Board of Education. The amended budget discloses estimated expenditures at the functional level.

Effect

Because of limited resources, timing of adjustments and type of adjustments at year end, resulted in functional expenditures being over expended at year end. On the Required Supplementary Information Budgetary Comparison Schedule, six expenditure functions were overspent. Total expenditures for the General Fund were also overspent.

Recommendation

That the administration determine prior to the amendment of the appropriations, that the information is complete including adjusting entries to record the year end accruals.

Client Response

At the time of amendments, the appropriations and expenditures are adjusted as accurately as possible. The District knows of no way to assure that the expenditures are exact when the final revenues and expenses are not known until later. The District does, however, assure that every attempt to be as accurate as possible will be taken.

ADDISON COMMUNITY SCHOOLS

BALANCE SHEET

NONMAJOR GOVERNMENTAL FUND TYPE

June 30, 2008
With Comparative Totals for June 30, 2007

ASSETS	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds 2008	Total Nonmajor Governmental Funds 2007
Cash and cash equivalents	$ 21,724	$	$ 150,447	$ 172,171	$ 4,165
Investments	6,035			6,035	
Accounts receivable	1,370			1,370	
Due from other funds					72,153
Due from other governmental units	3,036			3,036	7,512
Inventory	3,185			3,185	4,636
TOTAL ASSETS	$ 35,350	$ -	$ 150,447	$ 185,797	$ 88,466
LIABILITIES AND FUND BALANCE					
LIABILITIES:					
Accounts payable	$ 217	$	$	$ 217	$ 690
Checks drawn against future deposits	6,972			6,972	2,887
Salaries payable	448			448	
Accrued expenditures	109			109	
Unearned revenue	20,574			20,574	989
Due to other funds					1,267
TOTAL LIABILITIES	28,320	-	-	28,320	5,833
FUND BALANCE:					
Reserved for:					
Inventory	3,185			3,185	4,636
Unreserved, reported in:					
Special revenue funds	3,845			3,845	6,997
Capital projects			150,447	150,447	71,000
TOTAL FUND BALANCE	7,030	-	150,447	157,477	82,633
TOTAL LIABILITIES AND FUND BALANCE	$ 35,350	$ -	$ 150,447	$ 185,797	$ 88,466

ADDISON COMMUNITY SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

NONMAJOR GOVERNMENTAL FUND TYPE

For the Year Ended June 30, 2008
With Comparative Totals for June 30, 2007

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds 2008	Total Nonmajor Governmental Funds 2007
REVENUES:					
Local sources:					
Food sales and athletic admissions	$ 259,583	$	$	$ 259,583	$ 288,580
Contributions					4,566
Other	8,329		447	8,776	8,376
TOTAL LOCAL SOURCES	267,912		447	268,359	301,522
State sources	16,100			16,100	26,181
Federal sources	166,885			166,885	159,074
TOTAL REVENUES	450,897	-	447	451,344	486,777
EXPENDITURES:					
Current:					
Food service activities	379,773			379,773	389,800
Athletic activities	291,574			291,574	306,824
Interest	76			76	443
TOTAL EXPENDITURES	671,423	-	-	671,423	697,067
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(220,526)	-	447	(220,079)	(210,290)
OTHER FINANCING SOURCES (USES):					
Prior year revenue	85			85	
Redemption of principal	(2,611)			(2,611)	(5,033)
Transfers in	218,449		79,000	297,449	291,781
NET CHANGE IN FUND BALANCE	(4,603)		79,447	74,844	76,458
FUND BALANCES:					
Beginning of year	11,633	-	71,000	82,633	6,175
End of year	$ 7,030	$ -	$ 150,447	$ 157,477	$ 82,633

ADDISON COMMUNITY SCHOOLS

COMBINING BALANCE SHEET

SPECIAL REVENUE FUNDS

June 30, 2008
With Comparative Totals for June 30, 2007

ASSETS	School Lunch	Athletics	Totals 2008	Totals 2007
Cash and cash equivalents	$	$ 21,724	$ 21,724	$ 4,165
Investments	6,035		6,035	
Accounts receivable	600	770	1,370	
Due from other funds				1,153
Due from other governmental units	3,036		3,036	7,512
Inventory	3,185		3,185	4,636
TOTAL ASSETS	$ 12,856	$ 22,494	$ 35,350	$ 17,466
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	$	$ 217	$ 217	$ 690
Checks drawn against future deposits	6,972		6,972	2,887
Salaries payable		448	448	
Accrued expenditures		109	109	
Unearned revenue	1,367	19,207	20,574	989
Due to other funds				1,267
TOTAL LIABILITIES	8,339	19,981	28,320	5,833
FUND BALANCES:				
Reserved for:				
Inventory	3,185		3,185	4,636
Unreserved, reported in:				
Special Revenue Funds	1,332	2,513	3,845	6,997
TOTAL FUND BALANCES	4,517	2,513	7,030	11,633
TOTAL LIABILITIES AND FUND BALANCES	$ 12,856	$ 22,494	$ 35,350	$ 17,466

ADDISON COMMUNITY SCHOOLS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2008
With Comparative Totals for June 30, 2007

	School Lunch	Athletics	Totals 2008	Totals 2007
REVENUES:				
LOCAL SOURCES:				
Food sales and athletic admissions	$ 193,871	$ 65,712	$ 259,583	$ 288,580
Contributions				4,566
Other	300	8,029	8,329	8,376
TOTAL LOCAL SOURCES	194,171	73,741	267,912	301,522
State sources	16,100		16,100	26,181
Federal sources	166,885		166,885	159,074
TOTAL REVENUES	377,156	73,741	450,897	486,777
EXPENDITURES:				
Cost of goods sold	196,885		196,885	202,191
Salaries and wages	130,338	186,142	316,480	322,817
Employee benefits	44,928	47,256	92,184	89,466
Contracted services	115	25,900	26,015	27,747
Travel, workshops, and conferences	427	2,535	2,962	6,542
Meetings and supplies	3,746	22,774	26,520	31,087
Interest	76		76	443
Miscellaneous	3,334	6,967	10,301	16,774
TOTAL EXPENDITURES	379,849	291,574	671,423	697,067
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(2,693)	(217,833)	(220,526)	(210,290)
OTHER FINANCING SOURCES:				
Prior year revenue	85		85	
Redemption of principal	(2,611)		(2,611)	(5,033)
Transfers in		218,449	218,449	220,781
NET CHANGE IN FUND BALANCES	(5,219)	616	(4,603)	5,458
FUND BALANCES:				
Beginning of year	9,736	1,897	11,633	6,175
End of year	$ 4,517	$ 2,513	$ 7,030	$ 11,633

ADDISON COMMUNITY SCHOOLS

STATEMENT OF CHANGES IN ASSETSAND LIABILITIES

AGENCY FUND

For the Year Ended June 30, 2008

ASSETS	Balance July 2, 2007	Additions	Deletions	Balance June 30, 2008
Cash and cash equivalents	$ 113,832	$ 99,873	$ 109,297	$ 104,408
Total Assets	$ 113,832	$ 99,873	$ 109,297	$ 104,408
LIABILITIES				
Due to student groups	$ 113,832	$ 99,873	$ 109,297	$ 104,408
Total Liabilities	$ 113,832	$ 99,873	$ 109,297	$ 104,408

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To the Board of Education
Addison Community Schools
Addison , Michigan

In planning and performing our audit of the financial statements of the Addison Community Schools (District) as for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 29, 2008 on the financial statements of Addison Community Schools. We will review the status of this comment during our next audit engagement.

Our comments and recommendations are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss this comment in further detail at your convenience, perform any additional study of this matter, or assist you in implementing the recommendation. Our comment is summarized as follows:

CURRENT YEAR COMMENT

School lunch revenues

We recommend classifying school lunch revenues in separate revenue accounts within in your financial software to better monitor the performance in the school lunch program from year to year.

This report is intended solely for the information and use of Addison Community Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Robertson, Eaton & Owen, P.C.
September 29, 2008

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Members, A.I.C.P.A. and M.A.C.P.A.

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To the Board of Education
Addison Community Schools
Addison , Michigan

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Very truly yours,

Robertson, Eaton & Owen, P.C.
September 29, 2008

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