

Onekama Consolidated Schools

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2007

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Onekama Consolidated School's annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2007. It is to be read in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's financial status remained stable due to an increase in the foundation grant of \$210 and oversight of budgeted expenditures.
- Foundation grant of \$8,232/pupil.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic services* like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

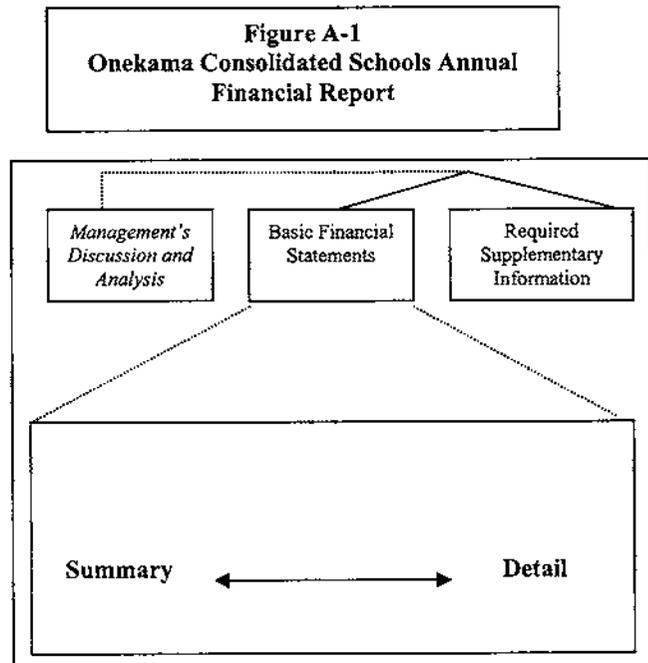


Figure A-2			
Major Features of District-Wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the District's funds do not currently contain capital assets.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenue for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

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

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

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, consideration must be given to additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

FUND FINANCIAL STATEMENTS

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

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (repayment of long-term debt) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

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

- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's *combined* net assets were larger on June 30, 2007 than they were the year before – increasing by \$404,990 or over 21% to \$2,295,638.

The District's improved financial position is the product of several independent factors. During the year the increase in the foundation allowance and oversight of expenditures were significant contributors to this improvement.

Summary of Net Assets (provides a perspective of the District as a whole).

	2006	2007
Current and other assets	\$ 2,098,646	\$ 1,977,737
Capital assets	4,283,023	4,630,929
Total assets	<u>6,381,669</u>	<u>6,608,666</u>
Long-term debt outstanding	3,659,850	3,556,842
Other liabilities	831,171	756,186
Total liabilities	<u>4,491,021</u>	<u>4,313,028</u>
Net assets		
Invested in property and equipment, net of related debt	373,173	905,856
Restricted for		
Capital Projects	517,405	355,225
Debt Service	52,116	38,304
Unrestricted	947,954	996,253
Total net assets	<u>\$ 1,890,648</u>	<u>\$ 2,295,638</u>

Statement of Activities (provides the results of operations of the District as a whole).

Revenues	2006	2007
Property Taxes, levied for general purposes	\$ 2,163,089	\$ 2,328,487
Property Taxes, levied for debt services	339,945	359,850
Property Taxes, levied for sinking fund	194,690	201,049
State aid not restricted to specific purposes	1,411,957	1,108,745
Interest and other	81,178	155,388
Special Items	109,355	-
Charges for services	284,726	246,000
Operating grants/contributions	228,728	394,671
Capital grants/contributions	-	9,000
Total revenues	4,813,668	4,803,190
Expenses		
Instruction	2,351,589	2,337,290
Support services	1,293,987	1,299,593
Community services	170,967	968
Food services	190,900	170,283
Athletics	101,791	123,072
Leaps and bounds	152,918	143,860
Other	-	1,950
Interest on long-term debt	132,934	145,414
Depreciation-unallocated	163,717	175,770
Total expenses	4,558,803	4,398,200
Increase in Net Assets	254,865	404,990
Net Assets - Beginning of year	1,635,783	1,890,648
Net Assets - End of year	\$ 1,890,648	\$ 2,295,638

District Governmental Activities

The stability of the District's finances can be credited to sound financial planning and personnel management for the 2006/07 School Year.

- This was due, in part, to the District's oversight and control of expense accounts.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported *combined* fund balances of \$1,535,523, \$92,794 below last year's ending fund balances of \$1,628,317.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. These budget amendments are:

- Changes made in the third and fourth quarters to account for final enrollment counts, staffing assignments and changes in grant funding since the original budget was adopted.
- While the District's final budget for the general fund anticipated that revenues and expenditures would reflect a decrease of \$86,676 the actual results for the year show a surplus of \$53,376 due to conservative budgeting of state revenues and within expense line items.
- Actual revenues were \$3,863,499 or \$47,057 higher than expected. This was largely due to reserving a possible state withdrawal of funds.
- The actual expenditures were \$3,761,814 or \$60,013 below budget, due primarily to conservative budgeting in supplies and utilities.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Depreciable assets for the 2006/07 school year totaled \$6,924,099. During the year, the District invested an additional \$533,674 in building and land improvements, a new bus and equipment. A summary of capital assets follows:

	<u>2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>2007</u>
Capital assets not being depreciated:				
Land	\$ 401,966	\$ -	\$ -	\$ 401,966
Capital assets being depreciated:				
Building and building improvements	5,535,258	356,002	-	5,891,260
Buses and other vehicles	344,101	63,273	-	407,374
Furniture and equipment	109,100	114,399	-	223,499
Gross capital assets	<u>6,390,425</u>	<u>533,674</u>	-	<u>6,924,099</u>
Less accumulated depreciation:	<u>(2,117,400)</u>	<u>(175,770)</u>		<u>(2,293,170)</u>
Net governmental capital assets	<u>\$ 4,273,025</u>	<u>\$ 357,904</u>	<u>\$ -</u>	<u>\$ 4,630,929</u>

Long-term Debt

At year-end the District had \$3,645,000 in general obligation bonds, \$27,701 in notes payable and \$52,372 in capital lease obligations.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of four existing circumstances that could significantly affect its financial health in the future:

- The 2007-2008 foundation allowance is estimated to remain flat at \$8,232 per pupil. We expect student enrollment to remain stable or slightly decline.

- The Onekama Consolidated Schools Teacher Association is in the second year of the contract which will expire in June 2008.
- Health insurance costs continue to be unexpected from year to year. Support staff's health insurance and the teaching staff's health insurance decreased 2.7% for fiscal year 07/08.
- The District has one more year for the sinking fund millage and the district is undecided about renewing the millage in January of 2007.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Onekama Consolidated School District Business Office at 1710 Merkey Road, Manistee, MI, 49660.



Business and Financial Advisors
Our clients' success - our business

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Onekama Consolidated Schools

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Onekama Consolidated Schools* (the "School District") as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Onekama Consolidated Schools as of June 30, 2007, and the respective changes in financial position thereof 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 1, 2007, on our consideration of the School District's 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.

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The management's discussion and analysis on pages i - vii and budgetary comparison information on page 23, 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 School District's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dennis, Gartland & Niergarth

October 1, 2007

Onekama Consolidated Schools

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and equivalents	\$ 1,531,291
Due from other governments	389,768
Prepaid expenses	<u>56,678</u>
Total current assets	1,977,737
Non-current assets	
Capital assets, net of accumulated depreciation	<u>4,630,929</u>
Total assets	<u>\$ 6,608,666</u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Current liabilities	
Accounts payable	\$ 102,025
Salaries payable and related expenses	332,437
Accrued interest	15,009
Deferred revenue	7,752
Current portion of long-term liabilities	<u>298,963</u>
Total current liabilities	756,186
Non-current portion of long-term obligations	<u>3,556,842</u>
Total liabilities	<u>4,313,028</u>
NET ASSETS	
Invested in capital assets, net of related debt	905,856
Restricted for	
Capital Projects	355,225
Debt Service	38,304
Unrestricted	<u>996,253</u>
Total net assets	<u>2,295,638</u>
Total liabilities and net assets	<u>\$ 6,608,666</u>

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

Onekama Consolidated Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Functions/Program	Program Revenues				Capital Grants and Contributions	Net (Expense)/ Revenue and Changes in Net Assets Governmental Activities
	Expenses	Charges For Services	Operating Grants and Contributions	Operating Grants and Contributions		
Governmental activities						
Instruction	\$ 2,337,290	-	\$ 304,511	\$ 9,000	\$ (2,023,779)	
Supporting Services	1,299,593	-	90,160	-	(1,209,433)	
Community Services	968	-	-	-	(968)	
Food Service	170,283	89,704	-	-	(80,579)	
Athletics	123,072	19,650	-	-	(103,422)	
Leaps and Bounds	143,860	136,646	-	-	(7,214)	
Other	1,950	-	-	-	(1,950)	
Interest on long-term debt	145,414	-	-	-	(145,414)	
Depreciation, unallocated	175,770	-	-	-	(175,770)	
Total governmental activities	\$ 4,398,200	\$ 246,000	\$ 394,671	\$ 9,000	(3,748,529)	
General purpose revenues						
Property taxes						
Levied for general purposes					2,328,487	
Levied for Debt Service					359,850	
Levied for Sinking Fund					201,049	
State school aid - unrestricted					1,108,745	
Investment and other					155,388	
Total general purpose revenues					4,153,519	
Change in net assets					404,990	
Net assets, beginning of year					1,890,648	
Net assets, end of year					2,295,638	

-5- The accompanying notes are an integral part of these financial statements.

Onekama Consolidated Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2007

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Other Governmental Funds	
ASSETS				
Cash and equivalents	\$ 1,034,970	\$ 340,801	\$ 155,520	\$ 1,531,291
Due from other governments	2,658	-	-	2,658
Accounts receivables	350,995	-	36,115	387,110
Due from other funds	5,879	-	54	5,933
Prepaid/deferred expenditures	<u>56,678</u>	<u>-</u>	<u>-</u>	<u>56,678</u>
 Total assets	 <u>\$ 1,451,180</u>	 <u>\$ 340,801</u>	 <u>\$ 191,689</u>	 <u>\$ 1,983,670</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 79,527	\$ -	\$ 22,498	\$ 102,025
Salaries payable and related expenses	315,465	-	16,972	332,437
Due to other funds	-	-	5,933	5,933
Deferred revenue	<u>7,752</u>	<u>-</u>	<u>-</u>	<u>7,752</u>
 Total liabilities	 <u>402,744</u>	 <u>-</u>	 <u>45,403</u>	 <u>448,147</u>
 FUND BALANCES				
Reserved for Debt Service	-	-	53,313	53,313
Reserved for Capital Projects	-	340,801	14,424	355,225
Reserved for prepaids	56,678	-	-	56,678
Reserved for school-based activities	-	-	78,549	78,549
Reserved for compensated absences	93,532	-	-	93,532
Reserved for early retirement incentives	37,200	-	-	37,200
Unreserved	<u>861,026</u>	<u>-</u>	<u>-</u>	<u>861,026</u>
 Total fund balances	 <u>1,048,436</u>	 <u>340,801</u>	 <u>146,286</u>	 <u>1,535,523</u>
 Total liabilities and fund balances	 <u>\$ 1,451,180</u>	 <u>\$ 340,801</u>	 <u>\$ 191,689</u>	

Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Assets

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. The cost of the assets is \$6,924,099 and the accumulated depreciation is \$2,293,170.

4,630,929

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	\$ 3,645,000	
Capital lease	52,372	
Notes payable	27,701	
Accrued interest on bonds	15,009	
Early retirement incentive payable	37,200	
Accumulated leave liability	<u>93,532</u>	<u>(3,870,814)</u>

Total net assets - governmental activities

\$ 2,295,638

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

Onekama Consolidated Schools

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2007

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Other Governmental Funds	
Revenues				
Property taxes	\$ 2,328,487	\$ -	\$ 560,899	\$ 2,889,386
Interest	77,653	19,384	8,336	105,373
State revenues	1,235,063	-	7,780	1,242,843
Federal revenues	145,140	-	73,784	218,924
Other	77,156	14,062	255,446	346,664
Total revenues	3,863,499	33,446	906,245	4,803,190
Expenditures				
Instruction	2,317,400	-	-	2,317,400
Supporting Services	1,228,968	-	-	1,228,968
Community Services	968	-	-	968
Food Service	-	-	170,283	170,283
Athletics	-	-	123,072	123,072
Other	1,447	-	143,860	145,307
Debt Service				
Principal	38,753	-	235,000	273,753
Interest	2,355	-	128,050	130,405
Other	-	-	503	503
Capital outlay	171,923	143,845	252,830	568,598
Total expenditures	3,761,814	143,845	1,053,598	4,959,257
REVENUES OVER (UNDER) EXPENDITURES	101,685	(110,399)	(147,353)	(156,067)
Other financing sources (uses)				
Operating transfers in	-	-	111,582	111,582
Operating transfers out	(111,582)	-	-	(111,582)
Proceeds from capital lease	63,273	-	-	63,273
Total other financing sources (uses)	(48,309)	-	111,582	63,273
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	53,376	(110,399)	(35,771)	(92,794)
Fund balance, beginning of year	995,060	451,200	182,057	1,628,317
Fund balance, end of year	\$ 1,048,436	\$ 340,801	\$ 146,286	\$ 1,535,523

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

Onekama Consolidated Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Total net change in fund balances - governmental funds **\$ (92,794)**

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

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	\$ 523,676	
Depreciation expense	<u>(175,770)</u>	347,906

In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time earned was less than the amounts used by \$17,310. Accumulated termination pay earned was more than amounts paid by \$37,200. (19,890)

Repayment of bond principal and capitalized leases are expenditures in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 248,050

Some of the capital assets acquired this year were financed with capital lease proceeds. The amount financed by the proceeds, net of issue costs, is reported in the governmental funds as a source of financing. On the other hand, the proceeds are not revenues in the statement of activities but rather constitute long-term liabilities in the statement of net assets. (63,273)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of the increase in accrued interest on bonds payable. (15,009)

Changes in net assets of governmental activities **\$ 404,990**

Onekama Consolidated Schools

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 89,855</u>
LIABILITIES	
Due to student groups	<u>\$ 89,855</u>

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

Onekama Consolidated Schools

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Onekama Consolidated Schools (the "School District") is a Michigan public school district consisting of one K-12 building. The School District primarily serves the Onekama and Arcadia communities. As of June 30, 2007, the School District employed 22 professional staff and 31 non-professional staff and had 428 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is considered to be a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2007.

Financial Reporting Entity

Onekama Consolidated Schools' Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity," as defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncement, student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The School District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. 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 in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

Fund Types and Major Funds

Activities in Major Funds

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.

NOTES TO FINANCIAL STATEMENTS - Continued

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Other Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Athletics, Leaps and Bounds and Food Service Funds.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

The Sinking Fund is a capital projects fund used to account for a sinking fund tax levy to be used for the construction of or repair of school facilities.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Cash and Cash Equivalents

The School District reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 4 to 50 years. The School District generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	20-50 years
Buses and vehicles	8-15 years
Furniture and equipment	4-15 years

NOTES TO FINANCIAL STATEMENTS - Continued

Long-term Debt, Deferred Debt Expense and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as a liability. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as other financing uses.

Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes. Designations of fund balance represent tentative management plans that are subject to change.

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Title I and At-Risk Program, which are reported as operating grants and contributions.

Spending Policy

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

Encumbrance Accounting

The School District formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which goods or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

NOTES TO FINANCIAL STATEMENTS - Continued

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NOTE B - BUDGETARY POLICY AND PRACTICE

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2007, the School District was not in compliance with the Act as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Pupil support	\$ 92,323	\$ 96,463	\$ 4,140
Other central support	167,329	171,756	4,427
Transportation	166,909	198,651	31,742
Transfers out	81,291	111,582	30,291

NOTE C - CASH AND INVESTMENTS

At June 30, 2007, the School District's cash and investments included the following:

	<u>Cash and</u> <u>Equivalents</u>
Bank deposits	\$ 265,155
Investments	<u>1,355,991</u>
	<u>\$ 1,621,146</u>

Bank Deposits

All of the School District's bank deposits are with financial institutions which provide FDIC insurance coverage or in highly liquid pooled money funds.

Custodial Credit Risk - Deposits

In the event of bank failure, the School District's deposits may not be returned to it. As of June 30, 2007, \$201,881 of the School District's bank balance of \$401,881 was exposed to custodial credit risk because it is uninsured and uncollateralized.

NOTES TO FINANCIAL STATEMENTS - Continued

Investments

The School District's investment policy permits investments in the following vehicles:

1. Bonds and other obligations of the United States; the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificate of deposits issued by financial institutions organized and authorized to operate in Michigan.
3. Certain commercial paper.
4. Securities issued or guaranteed by agencies or instruments of the United States government.
5. United States government of Federal agency obligation repurchase agreements.
6. Banker's acceptance issued by a bank that is a member of the FDIC.
7. Certain mutual funds.
8. Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982.

Investments at June 30, 2007 consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
MILAF	<u>\$ 1,355,991</u>	<u>\$ 1,355,991</u>	<u>-</u>	<u>-</u>	<u>-</u>

Interest Rate Risk

The School District attempts to 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 short-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District further limits its investment choices as described above. The School District's investment in the Michigan Liquid Asset Fund ("MILAF") investment pool was rated AAAM by Standard & Poor's.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

Property taxes are levied, billed and attached as enforceable liens in July and December of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred revenue. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$18.00 per \$1,000 of equalized non-homestead property value of \$129.05 million was levied for general operating purposes. For debt service and sinking fund purposes, \$1.60 and \$0.894 per \$1,000 of equalized homestead and non-homestead property value of \$224.45 million was levied for bonded debt repayments by the Debt Service Fund and Sinking Fund, respectively.

Intergovernmental Receivables and Deferred Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Deferred revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2007 are as follows:

Due from the State of Michigan	
State aid	\$ 184,717
Due from Federal grants	21,830
Due from local government	179,125
Due from other sources	<u>4,096</u>
	<u>\$ 389,768</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2007</u>
Buildings and improvements	\$ 5,535,258	\$ 356,002	\$ -	\$ 5,891,260
Furniture and equipment	109,100	114,399	-	223,499
Buses and vehicles	<u>344,101</u>	<u>63,273</u>	-	<u>407,374</u>
Total depreciable assets	5,988,459	533,674	-	6,522,133
Less accumulated depreciation	(2,117,400)	(175,770)	-	(2,293,170)
Land	<u>401,966</u>	-	-	<u>401,966</u>
Total capital assets, net	<u>\$ 4,273,025</u>	<u>\$ 357,904</u>	<u>\$ -</u>	<u>\$ 4,630,929</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$ 175,770</u>
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NOTE F - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2007 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$ 3,880,000	\$ -	\$ (235,000)	\$ 3,645,000	\$ 250,000
Notes payable	55,553	-	(27,852)	27,701	27,701
Capital lease	-	63,273	(10,901)	52,372	8,062
Early retirement liability	-	37,200	-	37,200	13,200
Accumulated leave liability	<u>110,842</u>	<u>(17,310)</u>	-	<u>93,532</u>	-
Long-term debt at June 30, 2007	<u>\$ 4,046,395</u>	<u>\$ 83,163</u>	<u>\$ (273,753)</u>	<u>\$ 3,855,805</u>	<u>\$ 298,963</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Payments on general obligation bonds are made by the Debt Service Fund. Payments on notes payable are made by the General Fund. The accumulated leave liability and early retirement payable will be liquidated primarily by the General Fund.

At June 30, 2007, the School District's long-term debt consisted of the following:

\$3,645,000 2004 School District refunding general obligation bonds for the advance refunding of the School District's 1996 bond issue; due in annual installments of \$250,000 to \$330,000 through 2018; interest rate of 3.66%.	\$ 3,645,000
Bus note; due in annual installments of \$12,851 to \$15,000 through July 2007; interest rate of 2.50%; due semi-annually.	12,851
Bus note; due in annual installments of \$10,901 through January 2010; interest rate of 2.74%; due semi-annually.	14,850
Capital lease; due in annual installments of \$10,901 to \$38,261 through January 2010; interest rate of 5.37%; due annually.	<u>52,372</u>
Total general obligation bonds, notes payable and capital leases	3,725,073
Early retirement liability	37,200
Accumulated leave liability	<u>93,532</u>
Total long-term debt	<u><u>\$ 3,855,805</u></u>

Total annual requirements to amortize bonds and notes outstanding as of June 30, 2007 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 285,763	\$ 126,189
2009	278,495	120,256
2010	320,815	113,050
2011	305,000	103,262
2012	320,000	93,960
2013-2017	1,600,000	302,348
2018-2022	<u>615,000</u>	<u>37,412</u>
	<u><u>\$ 3,725,073</u></u>	<u><u>\$ 896,477</u></u>

Interest expense for the year ended June 30, 2007 was \$145,414 and interest paid was \$130,405.

NOTES TO FINANCIAL STATEMENTS - Continued

Accumulated Leave Liability

Employees of the School District accumulate days of compensated sick leave, as specified by the bargaining units' contract. This benefit vests after 4 years of employment. Upon either resignation or retirement, the employees are compensated at a daily rate specified in the bargaining units' contracts.

Early Retirement Incentives

The School District has an early retirement incentive program for eligible teachers. Under the program teachers can elect to receive contributions of \$400 per month to their 403(b) retirement accounts for five years. As of June 30, 2007, the amount due to teachers in the program was \$37,200.

NOTE G - 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; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

The School District pays unemployment claims on a reimbursement basis through the Bureau of Workers' and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipients benefits, this amount is billed to Onkama Consolidated Schools. At June 30, 2007, there were no significant unbilled claims.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE H - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Receivables and Payables

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds		
General Fund	\$ 5,879	\$ -
Other Governmental Funds		
Food Service Fund	54	5,538
Athletics Fund	-	55
Leaps and Bounds	-	340
	<u>\$ 5,933</u>	<u>\$ 5,933</u>

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining Debt Service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

<u>Transfer in</u>	<u>Amount</u>	<u>Transfer out</u>	<u>Amount</u>
Other Governmental Funds		Major Governmental Funds	
Athletics Fund	<u>\$ 111,582</u>	General Fund	<u>\$ 111,582</u>

NOTE I - PENSION PLAN

The School District contributes to the Michigan Public School Employees' Retirement Systems ("MPERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget ("DMB"). MPERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPERS, P.O. Box 30171, Lansing, MI 48909-7671, or by calling (517) 322-5103 or on the State of Michigan's website at www.Michigan.gov.

Funding Policy

Plan members who participate in MIP are required to contribute 3.0% to 4.3% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the plan; and the School District is required to contribute at an actuarially determined rate. The rate was 16.34% for the period July 1, 2006 to September 30, 2006 and 17.74% for the period October 1, 2006 to June 30, 2007 of annual covered payroll. The contribution requirements of plan members and the School District are established and may be amended by the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2007, 2006 and 2005 were \$306,917, \$332,215 and \$322,861, respectively.

NOTE J - COMMITMENTS AND CONTINGENCIES

Capital Projects

The Sinking Fund records capital project activities funded with a Sinking Fund millage. For these funds, the School District has complied with the applicable provisions of Section 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.

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Onkama Education Association. The Board of Education and the Onkama Education Association have a contract for the year ending June 30, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

Onekama Consolidated Schools

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final Budget</u>	<u>Final Budget To Actual</u>
Revenues					
Local and intermediate sources	\$ 2,392,341	\$ 2,446,541	\$ 2,437,533	\$ 54,200	\$ (9,008)
State revenues	1,090,842	1,169,241	1,235,063	78,399	65,822
Federal revenues	144,442	155,760	145,140	11,318	(10,620)
Incoming transfers/other	<u>10,500</u>	<u>44,900</u>	<u>45,763</u>	<u>34,400</u>	<u>863</u>
Total revenues	<u>3,638,125</u>	<u>3,816,442</u>	<u>3,863,499</u>	<u>178,317</u>	<u>47,057</u>
Expenditures					
Instruction					
Basic programs	1,971,507	2,052,923	2,024,173	(81,416)	28,750
Added needs	<u>281,846</u>	<u>296,197</u>	<u>293,227</u>	<u>(14,351)</u>	<u>2,970</u>
Total instruction	<u>2,253,353</u>	<u>2,349,120</u>	<u>2,317,400</u>	<u>(95,767)</u>	<u>31,720</u>
Support services					
Pupil support	90,404	92,323	96,463	(1,919)	(4,140)
Instruction staff support	15,859	54,528	49,065	(38,669)	5,463
General administration	153,708	203,540	201,101	(49,832)	2,439
School administration	195,584	174,466	161,742	21,118	12,724
Business services	133,020	130,368	116,861	2,652	13,507
Operations and maintenance	455,662	433,491	405,252	22,171	28,239
Transportation	167,398	166,909	198,651	489	(31,742)
Other central support	<u>153,931</u>	<u>167,329</u>	<u>171,756</u>	<u>(13,398)</u>	<u>(4,427)</u>
Total support services	<u>1,365,566</u>	<u>1,422,954</u>	<u>1,400,891</u>	<u>(57,388)</u>	<u>22,063</u>
Community services	-	1,000	968	(1,000)	32
Other	-	7,500	1,447	(7,500)	6,053
Debt Service	<u>35,352</u>	<u>41,253</u>	<u>41,108</u>	<u>(5,901)</u>	<u>145</u>
Total expenditures	<u>3,654,271</u>	<u>3,821,827</u>	<u>3,761,814</u>	<u>(167,556)</u>	<u>60,013</u>
REVENUES OVER (UNDER) EXPENDITURES	(16,146)	(5,385)	101,685	10,761	107,070
Other financing uses					
Interfund transfers out	(81,017)	(81,291)	(111,582)	(274)	(30,291)
Proceeds from capital lease	-	-	63,273	-	63,273
Total other financing uses	<u>(81,017)</u>	<u>(81,291)</u>	<u>(48,309)</u>	<u>(274)</u>	<u>32,982</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(97,163)	(86,676)	53,376	10,487	140,052
Fund balance, beginning of year	<u>995,060</u>	<u>995,060</u>	<u>995,060</u>	-	-
Fund balance, end of year	<u>\$ 897,897</u>	<u>\$ 908,384</u>	<u>\$ 1,048,436</u>	<u>\$ 10,487</u>	<u>\$ 140,052</u>

COMBINING FINANCIAL STATEMENTS

Onekama Consolidated Schools

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2007

	Special Revenue Funds					Debt			Total
	Food Service	Leaps and Bounds	Athletics	Retirement Fund	Sinking Fund	Non-Major Governmental			Total
ASSETS									
Cash and cash equivalents	\$ 49,098	\$ 41,443	\$ 13,454	\$ 31,065	\$ 20,460	\$ 155,520			\$ 155,520
Accounts receivables	1,438	-	-	22,248	12,429	36,115			36,115
Due from other funds	<u>54</u>	-	-	-	-	<u>54</u>			<u>54</u>
Total assets	<u>\$ 50,590</u>	<u>\$ 41,443</u>	<u>\$ 13,454</u>	<u>\$ 53,313</u>	<u>\$ 32,889</u>	<u>\$ 191,689</u>			<u>\$ 191,689</u>
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable	-	\$ 3,504	\$ 529	\$ -	\$ 18,465	\$ 22,498			\$ 22,498
Salaries payable and related expenses	13,531	3,441	-	-	-	16,972			16,972
Due to other funds	<u>5,538</u>	<u>340</u>	<u>55</u>	-	-	<u>5,933</u>			<u>5,933</u>
Total liabilities	<u>\$ 19,069</u>	<u>7,285</u>	<u>584</u>	<u>-</u>	<u>18,465</u>	<u>45,403</u>			<u>\$ 45,403</u>
FUND BALANCES									
Reserved for Debt Service	-	-	-	53,313	-	53,313			53,313
Reserved for Capital Projects	-	-	-	-	14,424	14,424			14,424
Unreserved	<u>31,521</u>	<u>34,158</u>	<u>12,870</u>	<u>-</u>	<u>-</u>	<u>78,549</u>			<u>78,549</u>
Total fund balances	<u>\$ 31,521</u>	<u>\$ 34,158</u>	<u>\$ 12,870</u>	<u>\$ 53,313</u>	<u>\$ 14,424</u>	<u>\$ 146,286</u>			<u>\$ 146,286</u>
Total liabilities and fund balances	<u>\$ 50,590</u>	<u>\$ 41,443</u>	<u>\$ 13,454</u>	<u>\$ 53,313</u>	<u>\$ 32,889</u>	<u>\$ 191,689</u>			<u>\$ 191,689</u>

Onekama Consolidated Schools

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2007

	Special Revenue Funds				Debt Retirement Fund	Sinking Fund	Total Non-Major Governmental
	Food Service	Leaps and Bounds	Athletics				
Revenues							
Property taxes	\$ -	\$ -	\$ -	\$ 359,850	\$ 201,049	\$ 560,899	
Interest	2,311	1,125	-	4,900	-	8,336	
State revenues	7,780	-	-	-	-	7,780	
Federal revenues	69,879	3,905	-	-	-	73,784	
Other	90,103	144,166	21,177	-	-	255,446	
Total revenues	<u>170,073</u>	<u>149,196</u>	<u>21,177</u>	<u>364,750</u>	<u>201,049</u>	<u>906,245</u>	
Expenditures							
Food Service	170,283	-	-	-	-	170,283	
Athletics	-	-	123,072	-	-	123,072	
Leaps and Bounds	-	143,860	-	-	-	143,860	
Debt Service	-	-	-	235,000	-	235,000	
Principal	-	-	-	128,050	-	128,050	
Interest	-	-	-	503	-	503	
Other	-	-	-	-	252,830	252,830	
Capital outlay	-	-	-	-	-	-	
Total expenditures	<u>170,283</u>	<u>143,860</u>	<u>123,072</u>	<u>363,553</u>	<u>252,830</u>	<u>1,053,598</u>	
REVENUES OVER (UNDER) EXPENDITURES	(210)	5,336	(101,895)	1,197	(51,781)	(147,353)	
Other financing sources	-	-	-	-	-	-	
Operating transfers in	-	-	111,582	-	-	111,582	
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	(210)	5,336	9,687	1,197	(51,781)	(35,771)	
Fund balance, beginning of year	31,731	28,822	3,183	52,116	66,205	182,057	
Fund balance, end of year	<u>\$ 31,521</u>	<u>\$ 34,158</u>	<u>\$ 12,870</u>	<u>\$ 53,313</u>	<u>\$ 14,424</u>	<u>\$ 146,286</u>	



Business and Financial Advisors
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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
Onkama Consolidated Schools

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *Onkama Consolidated Schools* (the "School District") as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School 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 a 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 School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

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We consider the following deficiency to be a significant deficiency in internal control:

Recording non-cash transactions

The above definition of a significant deficiency includes any condition that adversely affects the School District's ability to report financial data in accordance with generally accepted accounting principles ("GAAP"). During the year, the School District entered into a capital lease agreement for a new school bus. This is an infrequent type of transaction for the School District. The lease payments were properly budgeted and recorded in the fund statements. However, the proceeds from the capital lease and the corresponding capital outlay were not recorded. As a consequence, transportation expenditures were over budget for the year. Although this is an isolated omission, we recommend the School District establish a procedure to ensure the proper recording of this type of transaction in the future.

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 School District's internal control. We believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Education, management, 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.

Dennis, Garthland & Niergarth

October 1, 2007



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AUDIT-RELATED COMMUNICATIONS

To the Board of Education
Onekama Consolidated Schools

We have audited the financial statements of Onekama Consolidated Schools (the "School District") for the year ended June 30, 2007, and have issued our report thereon dated October 1, 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

As stated in our engagement letter dated June 18, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that 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 the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School 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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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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 School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

We consider the following deficiency to be a significant deficiency in internal control:

Non-cash transactions

During the year, the School District entered into a capital lease agreement for a new school bus. This is an infrequent type of transaction for the School District. The lease payments were properly budgeted and recorded in the fund statements. However, the proceeds from the capital lease and the corresponding capital outlay were not recorded. As a consequence, transportation expenditures were over budget for the year. Although this is an isolated omission, we recommend the School District establish a procedure to ensure the proper recording of this type of transaction in the future.

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 School District's internal control. We believe that the significant deficiency described above is a material weakness.

Further, during the course of our audit, we became aware of a certain matter that is an opportunity for strengthening internal controls and operating efficiencies. The following paragraph summarizes our comments and suggestions regarding these matters. This letter does not effect our report dated October 1, 2007 on the financial statements of the School District.

Budget Violations

The purpose of Public Act 621 is to provide the structure necessary for a close relationship between the administration and the local school board with regard to the establishment of budgets and appropriations. During the course of the audit, we noted three budget violations in support services expenditures and one in other financing uses. We would like to use this opportunity to remind management and the Board of the importance of budget monitoring.

Significant Accounting Policies

Management has the responsibility for 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 the School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the School District 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. None of management's estimates are considered to be particularly sensitive.

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 School District's 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 School District, either individually or in the aggregate, indicate matters that could have a significant effect on the School District's financial reporting process.

Recorded Adjustments

The one entry proposed by us and recorded by the School District was related to the capital lease of the new bus.

There Were No 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 auditor's 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 auditor's 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 School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

There Were No Difficulties Encountered in Performing the Audit

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

This information is intended solely for the use of the Board of Education and management of the School District and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

October 1, 2007