

Ludington Area School District

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended June 30, 2007

Ludington Area School District

**TABLE OF CONTENTS**

Management’s Discussion and Analysis.....i - ix

Independent Auditors’ Report..... 1

Basic Financial Statements

    District-wide Financial Statements

        Statement of Net Assets.....2

        Statement of Activities .....3

    Fund Financial Statements

        Governmental Funds

            Balance Sheet.....4

            Reconciliation of the Governmental Funds Balance Sheet  
            to the Statement of Net Assets .....5

            Statement of Revenues, Expenditures and Changes  
            in Fund Balances .....6

            Reconciliation of the Governmental Funds Statement of Revenues,  
            Expenditures and Changes in Fund Balances to the Statement  
            of Activities .....7

            Statement of Fiduciary Assets and Liabilities.....8

        Notes to Financial Statements .....9

Required Supplementary Information

    Budgetary Comparison Schedule—General Fund .....24

Ludington Area School District, a public K-12 education institution, is located in Ludington, Michigan. Management's Discussion and Analysis, a requirement of GASB 34, is intended to be Ludington Area School District's discussion and analysis of the financial results for the fiscal year ended June 30, 2007.

The Governmental Accounting Standards Board in their Statement No. 34 adopted this new reporting model; *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* in June 2000. GASB 34 requires the reporting of two types of financial statements: *District Wide Financial Statements* and *Fund Financial Statements*.

### **Using this Annual Report:**

This annual report consists of a series of financial statements and notes to those statements, designed by the Ludington Area Schools and its agents for ease of use and effective encoding of critical financial information.

The **District-wide Financial Statements** provide information about the activities of the School District in total and its long-term position. The **Fund Financial Statements** provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's larger individual funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students.

### **Reporting the School District as a Whole – District-wide Financial Statements:**

The district-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements, which appear first in the School District's financial statements, report information on the District as a whole and its activities in a way to provide an easy-to-understand overview of the District's financial position and results of operations for the year. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, similar to the accounting used by the private-sector. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Ludington Area 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 District's financial health or financial position. Over time, increases or decreases in the District's net assets – as reported in the Statement of Activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results.

The Statement of Net Assets and Statement of Activities report the governmental activities of the Ludington Area School District, which encompass all of the District's services, including instruction, supporting services, and community services. Property taxes, state aid, and federal grants finance most of these activities.

### **Reporting the School District's Most Significant Funds – Fund Financial Statements:**

The Ludington Area School District's fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law and bond covenants. However, the District has established other funds to help it control and manage money for particular purposes. The governmental funds of the District use the following accounting approach:

Governmental funds: All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using the modified accrual basis of accounting. This method 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 operations of the School District and the services it provides. Governmental fund information helps 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 fund financial statements and the district-wide financial statements in a reconciliation schedule.

### **The School District as Trustee – Reporting the District's Fiduciary Responsibilities:**

The Ludington Area School District serves as a trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the District's other financial statements because these assets cannot be used to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### The School District as a Whole:

Note that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the Ludington Area School District's net assets as of June 30, 2007 and 2006.

**TABLE 1 Statement of Net assets**

	2007 <u>in millions</u>	2006 <u>in millions</u>
Assets		
Current and other assets	\$ 5.9	\$ 5.7
Capital assets – Net of accumulated depreciation	<u>17.4</u>	<u>17.9</u>
Total assets	23.3	23.6
Liabilities		
Current liabilities	2.5	2.8
Long-term liabilities	<u>9.6</u>	<u>10.1</u>
Total liabilities	<u>12.1</u>	<u>12.9</u>
Net Assets		
Invested in capital assets, net of debt	8.5	8.6
Restricted	1.1	0.8
Unrestricted	<u>1.6</u>	<u>1.3</u>
Total net assets	<u>\$ 11.2</u>	<u>\$ 10.7</u>

The aforementioned analysis focuses on our Statement of Net Assets (see Table 1). Current and other net assets increased by .2 million dollars due to an increase in unrestricted net assets. Long-term liabilities decreased due to normal repayment of debt. The School District has a total net asset balance of \$11.2 million. Of this amount, \$1.5 million represents unrestricted net assets of governmental activities.

# Ludington Area School District

## Management's Discussion and Analysis

The Statement of Activities (Table 2) for the School District is summarized below:

**TABLE 2 Statement of Activities**

	2007 <u>in millions</u>	2006 <u>in millions</u>
Revenue		
Program revenue:		
Charges for services	\$ 1.0	\$ 1.3
Operating grants and contributions	2.8	2.7
General revenue:		
Property taxes	12.4	11.8
Grants and unrestricted contributions	6.4	6.6
Other	.4	.4
Total revenue	<u>23.0</u>	<u>22.8</u>
 Program Expenses		
Instruction	14.4	14.8
Support services	5.7	5.9
Community services	.1	.1
Food services	.6	.6
Athletics	.4	.5
Depreciation and amortization	.8	.4
Interest on long-term debt	.4	.8
Total expenses	<u>22.4</u>	<u>23.1</u>
 Change in net assets	.5	(.3)
 Net Assets at Beginning of Year	<u>10.7</u>	<u>11.0</u>
 Net Assets at End of Year	\$ <u>11.2</u>	\$ <u>10.7</u>

The results of the School District's operations for the years ended June 30, 2007 and 2006 as a whole are reported in this Statement of Activities.

As reported in the Statement of Activities, the revenues for all our governmental activities this year were \$23 million. Ludington Area School District experienced a decrease in instruction expenditures due to a reduction in the number of teachers, and a reduction in the number of instructional aides. Furthermore, the teachers and support staff did not receive any step increases along the salary schedules. These are pay raises for years of service up until prescribed maximums, typically 11 to 13 years in the State (and here). These reductions were partially offset by a modest increase in health insurance premiums (3.1 percent), and an increase in the retirement rate from 16.32 percent to 17.74 percent. Support services expenditures decreased slightly despite an increase in electricity and natural gas because of staffing reductions.

### The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for specific purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

The following is a summary of changes in fund balances within the individual funds.

#### **Major Funds:**

- Our General Fund reflects a fund balance increase in the amount of \$199,413 for 2006/07. Last year we suffered a deficit of \$424,939. Revenues remained virtually the same for the school year, while expenditures decreased by 2.6% from prior year levels. Also, the retirement rate went up about 8.6 percent, or approximately \$175,000.
- The School District was approved to establish a 10-year sinking fund for the maintenance of buildings throughout the school district. Approximately \$294,000 was spent during 2006/07 on improvements. This fund will be used to renovate the upstairs of a building originally built in 1925. This construction will be done without the use of any debt instrument, and will be completed for the 2008/09 school year.

#### **Other Governmental Funds:**

- The School Food Service Fund experienced a fund balance increase of approximately \$22,000, due in large part by reducing hours and reducing the number of employees receiving health benefits. Management continues to do its utmost to contain costs and offer healthy choices to students and staff.
- The Debt Service Funds has a fund balance of \$288,390, comprised solely of excess revenue from the annual construction fund property tax debt levy. The General Fund transfers money to the Debt Service Funds in order to pay debt principal and interest relative to the other issues.
- The capital project fund is a construction fund financed by a \$10.155 million bond. We have spent more than \$10.5 million through June 30, 2007. All scheduled work was completed by June 30, 2006, and fund balance for this fund was \$45,187.

# Ludington Area School District

## Management's Discussion and Analysis

### Governmental Fund Budgetary Analysis

The following tables show the original and final approved budgets for the 2006/07 School Year, as well as the actual revenues and expenditures for the general operating fund.

**TABLE 3: GENERAL FUND REVENUES 2006/07**

<u>ACCOUNT CODE</u>	<u>REVENUES</u>	<u>ORIGINAL BUDGET</u>	<u>ADJUSTED BUDGET</u>	<u>ACTUAL REVENUES</u>
100	Local	\$ 11,470,812	\$ 11,685,110	\$ 11,755,577
300	State	7,676,295	7,566,347	7,554,959
400	Federal	1,206,240	1,024,603	1,107,737
500	Incoming transfers and Transactions	1,404,050	432,550	369,400
Total revenue and other transactions		<u>\$ 21,757,397</u>	<u>\$ 20,708,610</u>	<u>\$ 20,787,673</u>

### **DISCUSSION AND ANALYSIS:**

Property valuations increased more than originally expected relative to local revenues, interest on delinquent taxes was much higher than expected. The State revenue decreased in proportion to our continued property tax revenue increase. We originally budgeted a Michigan Municipal Bonding Authority (MMBA) loan in the amount of \$1.0 million as an 'other revenue source.' This was re-classified pursuant to GASB standards. Efficiency factor for revenues: 99.77% of final budget.

**TABLE 4: GENERAL FUND EXPENDITURES 2006/07**

<u>ACCOUNT CODE</u>	<u>DESCRIPTION</u>	<u>ORIGINAL BUDGET</u>	<u>ADJUSTED BUDGET</u>	<u>ACTUAL EXPENDITURES</u>
Instruction:				
110	Basic Programs	\$ 11,276,370	\$ 11,271,008	\$ 11,365,868
120	Added Needs	3,067,006	3,077,109	3,007,057
Support Services				
210	Pupil	611,901	612,458	605,189
220	Instructional	472,362	461,624	391,800
230	General	271,644	273,974	259,433
240	Administration School	1,247,786	1,249,533	1,207,269
250	Administration Business	469,804	497,969	503,650
260	Operations/Maintenance	1,910,473	1,895,792	1,811,965
270	Transportation	930,630	945,579	895,177
280	Central Services	94,600	86,700	47,038
300	Community Services	74,167	82,075	79,254
500	Transfers and Other	1,458,600	452,000	414,560
Total net expenditures and other Transactions		<u>21,885,343</u>	<u>20,905,821</u>	<u>20,588,260</u>
Excess revenue over (under) expenditure		<u>\$ (127,946)</u>	<u>\$ (197,211)</u>	<u>\$ 199,413</u>

# Ludington Area School District

## Management's Discussion and Analysis

### DISCUSSION AND ANALYSIS:

Other than a reclassification of loans taken out less than one fiscal year in duration, there were no surprises regarding expenses. Basic programs expenses were over budget, but within one percent of budgeted. This was largely due to greater than expected expenses for our Alternative Education contracted services. All other general operating expenditures came in under budget. Budget efficiency factor: 98.58% of final budget.

### Capital Asset and Debt Administration

#### Capital Assets

At June 30, 2007, the School District had a decrease in capital assets over the previous fiscal year as shown below.

	<u>2007</u>	<u>2006</u>
Land and land improvements	\$ 1,105,433	\$ 1,105,433
Buildings and improvements	14,673,564	15,238,908
Furniture and equipment	1,310,664	1,330,563
Vehicles	162,778	123,022
Construction in progress	<u>114,936</u>	<u>53,003</u>
Total capital assets, net of depreciation	\$ <u>17,367,375</u>	\$ <u>17,850,929</u>

This year's additions were for the most part from Sinking Fund expenditures relative to Foster Elementary. Also, a new bus was purchased this school year, which explains the increase in vehicles. Foster Elementary renovations and additions are scheduled to be completed for the 2008/09 school year. The amount reported as Construction in progress for last year was moved to the Buildings and improvements category for the current year.

#### Debt

At June 30, 2007, Ludington Area School District had \$9,320,443 in outstanding debt. Those obligations consisted of the following:

	<u>2007</u>	<u>2006</u>
2003 Construction Bonds	\$ 8,925,000	\$ 9,310,000
2003 School Building and Site Bond premium	203,025	220,584
Durant Bond, State Guaranteed	163,372	163,372
Compensated absences	790,116	790,298
Other debt	-	48,433
	\$ <u>10,081,513</u>	\$ <u>10,532,687</u>

The School District is only obligated to make the annual payments on the Durant Bonds to the extent of annual State of Michigan school aid appropriations.

### Economic Factors and Next Year's Budgets

All K-12 public schools receive a per pupil financial allowance by the State of Michigan. Local funds are collected on non-homestead property, and the difference between that amount and the amount guaranteed by the State of Michigan for the number of students enrolled is made up by the State. Ludington Area School District continues to receive more of its foundation allowance from local property tax revenue than is average State-wide. This disparity continues to widen, due to decreasing student enrollment and increasing property values.

The per-pupil allocation paid by the State of Michigan to local school districts increased by \$210 for 2006/07, while health insurance increased about 3.1 percent. Our school district continued a physician's preferred health plan for its employees, and the rate of increase has been modest. We have also moved over 10 percent of our insured employees to an H.S.A. plan which has provided additional saving. Finally, we have decreased the number of employees eligible to receive health insurance benefits by 12 compared to 2005/06. We anticipate that these changes will provide additional savings in the future.

We continue to face an economic downturn that limits revenue while cost levels continue to increase, a general decline in student population, increased professional development needs due to the requirements of No Child Left Behind Act and other legislation, increased expenses due to special education laws and increased emphasis on early identification of children with special needs. All of these factors have an economic impact on our School District

The Michigan legislature has not yet agreed upon the Foundation Allowance for 2007/08 and within the last month decided to spare local school districts from a decrease in the 2006/07 foundation allowance from what they originally promised. The ESPA and EA contracts for 2007/08 school year are not settled at this time, but should be finalized shortly.

As a result of all the items noted above, the School District adopted its fiscal year 2007/2008 budget calling for a decrease in fund balance of approximately \$438,000. We anticipate performing better than this, and anticipate determinations from the State of Michigan relative to the 2007/08 Foundation Allowance increases to be minimal but tangible. We will again issue a State Aid Anticipation Note this year in the amount of \$1.3 million.

The School District has completed its high school remodeling project within budget. We continued to authorize additional work beyond the scope of the bond proposal passed by the electorate in 2003. This work included additional HVAC work, and locker refurbishing. The fund balance of \$45,187 should be entirely spent in the 2007/08 fiscal year. The 2007/08 fiscal school year will also be the year that we renovate the upstairs area at Foster Elementary, allowing us to use that area for instruction. We will also be building two additional classrooms there.

### **Contacting the School District's Financial Management**

This financial report is designed to provide a general overview of the Ludington Area School District's finances for all those interested in the School District's finances. If you have questions about this report or need additional information, contact the Central Business Office, 809 E. Tinkham Ave., Ludington, Michigan 49431.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

August 31, 2007

Board of Education  
Ludington Area School District  
Ludington, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ludington Area School District (School District), as of and for the year ended June 30, 2007, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Ludington Area 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 Ludington Area School District, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated August 31, 2007, on our consideration of Ludington Area 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.

The management's discussion and analysis and budgetary comparison information on pages i - ix and page 24, 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.



Ludington Area School District  
**STATEMENT OF NET ASSETS**  
June 30, 2007

		Governmental activities
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$	2,859,040
Investments		1,249,782
Receivables		28,453
Due from other governmental units		1,441,437
Prepaid items		3,120
Inventories		7,202
Total current assets		5,589,034
NONCURRENT ASSETS		
Capital assets, net		
Nondepreciable		1,220,369
Depreciable		16,147,006
Bond issuance costs, net		174,853
Note receivable		191,072
Total noncurrent assets		17,733,300
Total assets		23,322,334
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities		1,818,269
Due to other governmental units		251,704
Bonds and other obligations, due within one year		422,600
Total current liabilities		2,492,573
NONCURRENT LIABILITIES		
Bonds and other obligations, less amounts due within one year		9,658,913
Total liabilities		12,151,486
NET ASSETS		
Invested in capital assets, net of related debt		8,459,390
Restricted		
Debt service		222,190
Capital projects		927,337
Unrestricted		1,561,931
Total net assets	\$	11,170,848

The accompanying notes are an integral part of this statement.

Ludington Area School District  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2007

<i><b>Functions/Programs</b></i>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Governmental activities</u>
Governmental activities				
Instruction	\$ 14,390,286	\$ 364,152	\$ 2,240,795	\$ (11,785,339)
Support services	5,696,380	261,993	104,963	(5,329,424)
Community services	79,254	50,504	-	(28,750)
Food services	639,769	230,466	432,012	22,709
Athletics	443,405	79,119	-	(364,286)
Interest on long-term debt	424,908	-	-	(424,908)
Unallocated depreciation and amortization	845,423	-	-	(845,423)
Total governmental activities	<u>\$ 22,519,425</u>	<u>\$ 986,234</u>	<u>\$ 2,777,770</u>	(18,755,421)
General revenues				
Property taxes levied for				
General purposes				11,103,039
Debt service				1,353,976
Grants and contributions not restricted to specific programs				6,379,638
Unrestricted investment earnings				360,897
Miscellaneous				<u>10,710</u>
Total general revenues				<u>19,208,260</u>
Change in net assets				452,839
Net assets at July 1, 2006				<u>10,718,009</u>
Net assets at June 30, 2007				<u>\$ 11,170,848</u>

The accompanying notes are an integral part of this statement.

Ludington Area School District  
**BALANCE SHEET**  
 Governmental Funds  
 June 30, 2007

	General Fund	Sinking Fund	Other governmental funds	Total governmental funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,159,490	\$ 404,042	\$ 295,508	\$ 2,859,040
Investments	543,011	605,536	101,235	1,249,782
Receivables	27,993	-	460	28,453
Due from other governmental units	1,436,474	-	4,963	1,441,437
Due from other funds	74,798	-	2,081	76,879
Prepaid items	3,120	-	-	3,120
Inventories	-	-	7,202	7,202
Total assets	\$ 4,244,886	\$ 1,009,578	\$ 411,449	\$ 5,665,913
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 96,275	\$ 7,443	\$ 3,469	\$ 107,187
Accrued liabilities	1,610,604	-	6,578	1,617,182
Due to other governmental units	251,704	-	-	251,704
Due to other funds	2,081	74,798	-	76,879
Total liabilities	1,960,664	82,241	10,047	2,052,952
<b>Fund balances</b>				
<b>Reserved</b>				
Prepaid items	3,120	-	-	3,120
Inventories	-	-	7,202	7,202
Debt service	-	-	288,390	288,390
Capital projects	-	927,337	45,187	972,524
<b>Unreserved</b>				
<b>Undesignated</b>				
General Fund	2,281,102	-	-	2,281,102
Special revenue funds	-	-	60,623	60,623
Total fund balances	2,284,222	927,337	401,402	3,612,961
Total liabilities and fund balances	\$ 4,244,886	\$ 1,009,578	\$ 411,449	\$ 5,665,913

The accompanying notes are an integral part of this statement.

Ludington Area School District  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS**

June 30, 2007

Total fund balance—governmental funds		\$ 3,612,961
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 26,125,994	
Accumulated depreciation	<u>(8,758,619)</u>	17,367,375
Bond issuance costs are not capitalized and amortized in the governmental funds.		
Bond issuance costs	213,019	
Accumulated amortization	<u>(38,166)</u>	174,853
Other long-term note receivable in governmental activities is not reported in the governmental funds.		
		191,072
Accrued interest in governmental activities is not reported in the governmental funds.		
		(93,900)
Premium on bonds payable is not capitalized and amortized in the governmental funds.		
Bond premium	(263,384)	
Accumulated amortization	<u>60,359</u>	(203,025)
Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
Bonds and notes payable	(9,088,372)	
Compensated absences	<u>(790,116)</u>	<u>(9,878,488)</u>
Net assets of governmental activities in the Statement of Net Assets		<u>\$ 11,170,848</u>

The accompanying notes are an integral part of this statement.

Ludington Area School District  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
 Governmental Funds  
 For the year ended June 30, 2007

	General Fund	Sinking Fund	Other governmental funds	Total governmental funds
<b>REVENUES</b>				
Local sources				
Property taxes	\$ 11,103,039	\$ 472,903	\$ 881,072	\$ 12,457,014
Investment earnings	308,780	29,086	23,031	360,897
Fees and charges	263,165	-	309,585	572,750
Other	80,593	9,200	-	89,793
Total local sources	11,755,577	511,189	1,213,688	13,480,454
State sources	7,554,959	-	39,724	7,594,683
Federal sources	1,107,737	-	392,288	1,500,025
Total revenues	20,418,273	511,189	1,645,700	22,575,162
<b>EXPENDITURES</b>				
Instruction	14,372,925	-	-	14,372,925
Support services	5,721,521	-	-	5,721,521
Community services	79,254	-	-	79,254
Food services	-	-	644,524	644,524
Athletics	-	-	443,405	443,405
Debt service				
Principal	-	-	433,587	433,587
Interest and other charges	-	-	407,017	407,017
Capital projects	-	294,080	55,436	349,516
Total expenditures	20,173,700	294,080	1,983,969	22,451,749
Excess (deficiency) of revenues over (under) expenditures	244,573	217,109	(338,269)	123,413
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other governmental units and other transactions	369,400	-	-	369,400
Transfers in	-	-	414,560	414,560
Transfers out	(414,560)	-	-	(414,560)
Total other financing sources (uses)	(45,160)	-	414,560	369,400
Net change in fund balances	199,413	217,109	76,291	492,813
Fund balances at July 1, 2006	2,084,809	710,228	325,111	3,120,148
Fund balances at June 30, 2007	\$ 2,284,222	\$ 927,337	\$ 401,402	\$ 3,612,961

The accompanying notes are an integral part of this statement.

Ludington Area School District  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2007

Net change in fund balances—total governmental funds	\$	492,813
--	----	---------

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

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (856,074)	
Capital outlay	<u>361,869</u>	(494,205)

Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.		27,700
--	--	--------

Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		433,433
--	--	---------

Bond premiums are amortized over time in the Statement of Activities, but are recorded in full in the year received in the governmental funds.		17,559
--	--	--------

Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.		(24,643)
---	--	----------

Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds		<u>182</u>
---	--	------------

Change in net assets of governmental activities	\$	<u><u>452,839</u></u>
---	----	-----------------------

The accompanying notes are an integral part of this statement.

Ludington Area School District  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
Fiduciary Funds  
June 30, 2007

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>210,067</u>
<b>LIABILITIES</b>	
Deposits held for others	\$ <u>210,067</u>

The accompanying notes are an integral part of this statement.

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2007

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

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

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School 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 School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

***District-wide and Fund Financial Statements***

**District-wide Financial Statements** – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-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 School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *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-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues 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 School District does not allocate indirect costs.

Ludington Area School District  
NOTES TO FINANCIAL STATEMENTS—CONTINUED  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*District-wide and Fund Financial Statements—Continued*

**Fund financial statements** – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-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 School District reports the following major governmental funds:

- The *General Fund* is the School District’s primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *Sinking Fund* accounts for the sinking fund property taxes received for the acquisition of fixed assets or construction of major capital projects.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *Capital Project Fund* is the School District’s bond construction fund. It accounts for all the financial resources and expenditures related to the 2003 bond issue.

**Fiduciary funds** – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

*Measurement Focus, Basis of Accounting and Basis of Presentation*

**Accrual Method**

The district-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, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Ludington Area School District  
NOTES TO FINANCIAL STATEMENTS—CONTINUED  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Measurement Focus, Basis of Accounting and Basis of Presentation—Continued*

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. 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 School 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 compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, 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 School 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 school districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30, 2007 is reported as due from other governmental units.

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

Ludington Area School District  
NOTES TO FINANCIAL STATEMENTS—CONTINUED  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Other Accounting Policies*

**Deposit and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides 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 School District intends to hold the investment until maturity.

State statutes authorize the School 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 School 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. The School District's deposits and investments are in accordance with statutory authority.

**Interfund Receivables and Payables**

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

**Property Taxes**

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

For the year ended June 30, 2007, the School District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund—Non-homestead	18.0
Debt Service Fund—Homestead/Non-homestead	.94
Sinking Fund—Homestead/Non-homestead	.50

Ludington Area School District  
NOTES TO FINANCIAL STATEMENTS—CONTINUED  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Other Accounting Policies—Continued*

**Inventories**

Food service inventory is valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and is recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

**Capital Assets**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000 as composite groups for financial reporting purposes. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	50 years
Buses and other vehicles	7 years
Furniture and other equipment	5 to 20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

**Compensated Absences**

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Other Accounting Policies—Continued*

**Deferred Revenue**

Deferred revenue arises when assets are recorded before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

**Long-term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Net Assets In District-wide Financial Statements**

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

**Fund Equity In Fund Financial Statements**

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates**

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

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

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

**Budgets and Budgetary Accounting**

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 Fund and special revenue funds. All annual appropriations lapse at year end.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The School District does not consider these amendments to be significant.

**School Bond Construction Compliance**

The 2004 Capital Projects Fund includes capital project activities funded with bonds dated and issued November 19, 2003. For this capital project, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's School Code.

Following is a summary of the revenue and expenditures in the 2004 Capital Projects Fund from the inception of the fund through June 30, 2007.

	<u>Capital Project Fund</u>
Revenue and bond proceeds	\$ 10,753,761
Expenditures	10,708,574

**Sinking Fund**

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

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
 June 30, 2007

**NOTE C—DEPOSITS AND INVESTMENTS**

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

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
External investment pool	\$ <u>1,539,000</u>	30	not rated	<u>100 %</u>

The School District voluntarily invests certain excess funds in an external investment pool (Pool). The Pool is an external investment pool of "qualified" investments for Michigan school districts. The Pool is not regulated nor registered with the SEC. The fair value of the School District's investments is the same as the fair value of the Pool.

**Interest rate risk.** The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

**Concentration of credit risk.** The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2007, \$2,655,284 of the School District's bank balance of \$2,955,284 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments.** The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

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

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE D—CAPITAL ASSETS**

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

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2007</u>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 914,933	\$ -	\$ -	\$ 914,933
Land improvements	190,500	-	-	190,500
Construction in progress	<u>53,003</u>	<u>114,936</u>	<u>53,003</u>	<u>114,936</u>
Total capital assets, not being depreciated	1,158,436	114,936	53,003	1,220,369
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	20,506,373	53,003	-	20,559,376
Furniture and equipment	2,792,607	142,279	-	2,934,886
Vehicles	<u>1,306,709</u>	<u>104,654</u>	<u>-</u>	<u>1,411,363</u>
Total capital assets, being depreciated	24,605,689	299,936	-	24,905,625
<b>Less accumulated depreciation:</b>				
Buildings and improvements	5,267,465	618,347	-	5,885,812
Furniture and equipment	1,462,044	162,178	-	1,624,222
Vehicles	<u>1,183,687</u>	<u>64,898</u>	<u>-</u>	<u>1,248,585</u>
Total accumulated depreciation	<u>7,913,196</u>	<u>845,423</u>	<u>-</u>	<u>8,758,619</u>
Total capital assets, being depreciated, net	<u>16,692,493</u>	<u>(545,487)</u>	<u>-</u>	<u>16,147,006</u>
Capital assets, net	<u>\$ 17,850,929</u>	<u>\$ (430,551)</u>	<u>\$ 53,003</u>	<u>\$ 17,367,375</u>

**Depreciation**

Depreciation expense has been charged as unallocated depreciation.

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
 June 30, 2007

**NOTE E—BOND ISSUANCE COSTS**

Bond issuance cost activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Bond issuance costs	\$ 213,019	\$ -	\$ -	\$ 213,019
Less accumulated amortization	27,515	10,651	-	38,166
Bond issuance costs, net	\$ 185,504	\$ (10,651)	\$ -	\$ 174,853

**Amortization**

Amortization expense has been charged as unallocated amortization.

**NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of June 30, 2007 is as follows:

**Due to/from other funds:**

Receivable fund	Payable fund	Amount
Other governmental funds	General Fund	\$ 2,081
General Fund	Sinking Fund	74,798
		\$ 76,879

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Interfund Transfers**

The General Fund transferred \$360,000 to the Athletics Fund and \$5,000 to the Food Service Fund to finance operations. In addition, the General Fund transferred \$49,560 to the Debt Service Fund for debt retirement.

**NOTE G—SHORT-TERM DEBT**

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2007 follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
State aid anticipation note				
2006/2007 3.68% due May 2007	\$ -	\$ 1,000,000	\$ 1,000,000	\$ -

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
 June 30, 2007

**NOTE H—LONG-TERM OBLIGATIONS**

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations consisted of capital leases.

**Summary of Long-term Obligations**

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

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Due within</u> <u>one year</u>
<b>Governmental activities:</b>					
Bonds	\$ 9,473,372	\$ -	\$ 385,000	\$ 9,088,372	\$ 405,000
Unamortized premium	220,584	-	17,559	203,025	17,600
Other obligations	48,433	-	48,433	-	-
Compensated absences	<u>790,298</u>	<u>105,378</u>	<u>105,560</u>	<u>790,116</u>	<u>-</u>
	<u>\$ 10,532,687</u>	<u>\$ 105,378</u>	<u>\$ 556,552</u>	<u>\$ 10,081,513</u>	<u>\$ 422,600</u>

General obligation bonds consist of the following:

2003 School Building and Site Bond payable in annual installments ranging from \$405,000 to \$1,440,000 due May 2008 to 2023; plus interest ranging from 3% to 5.25% payable semi-annually

\$ 8,925,000

Durant obligations payable in annual installments ranging from \$19,430 to \$130,544 including interest at 4.76% due May 2009 to 2013. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations.

163,372

Total bonded debt

9,088,372

2003 School Building and Site Bond premium

203,025

Compensated absences

790,116

\$ 10,081,513

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
 June 30, 2007

**NOTE H—LONG-TERM OBLIGATIONS—Continued**

**Summary of Long-term Obligations—Continued**

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligation.

The annual requirements of principal and interest to amortize bonded debt as of June 30, 2007 follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 405,000	\$ 401,889	\$ 806,889
2009	435,400	389,039	824,439
2010	456,131	371,506	827,637
2011	476,899	353,138	830,037
2012	497,703	333,933	831,636
2013-2017	2,802,239	1,376,009	4,178,248
2018-2022	2,575,000	519,190	3,094,190
2023-2024	1,440,000	75,600	1,515,600
	<u>\$ 9,088,372</u>	<u>\$ 3,820,304</u>	<u>\$ 12,908,676</u>

**NOTE I—EMPLOYEE BENEFITS**

*Employee Retirement System – Defined Benefit Plan*

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

Office of Retirement Systems  
 Michigan Public School Employees Retirement System  
 P.O. Box 30171  
 Lansing Michigan 48909  
 1-800-381-5111

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE I—EMPLOYEE BENEFITS—Continued**

*Employee Retirement System – Defined Benefit Plan—Continued*

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

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

The School 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 rate for the year ended June 30, 2007 was 17.74 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the year ended June 30, 2007, 2006, 2005 were approximately \$2,031,000, \$1,961,000, and \$1,811,000, respectively, and were equal to the required contribution for those years.

The School 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 J—CONTINGENCIES**

**Federal Programs** – The School District participates in federally-assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE K—OTHER INFORMATION**

**Economic Dependence** – Prior years' revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 37 percent of General Fund revenues.

**Risk Management** – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School 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 School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. 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 workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School 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, 2007 or any of the prior three years.

**NOTE L—SUBSEQUENT EVENT**

In August 2007, the School District received the proceeds of a \$1,300,000 State of Michigan (state) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity in August 2008 and bears interest at the rate of 3.68 percent per annum. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit and resources of the School District.

In August 2007, the School District awarded construction contracts totaling approximately \$1,800,000. These construction costs will be funded utilizing the Sinking Fund.

**REQUIRED SUPPLEMENTARY INFORMATION**

Ludington Area School District  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**

General Fund  
Year ended June 30, 2007

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 11,470,812	\$ 11,685,110	\$ 11,755,577	\$ 70,467
State sources	7,676,295	7,566,347	7,554,959	(11,388)
Federal sources	1,206,240	1,024,603	1,107,737	83,134
Incoming transfers and other transactions	1,404,050	432,550	369,400	(63,150)
Total revenues	21,757,397	20,708,610	20,787,673	79,063
<b>EXPENDITURES</b>				
Instruction				
Basic programs	11,276,370	11,271,008	11,365,868	(94,860)
Added needs	3,067,006	3,077,109	3,007,057	70,052
Support services				
Pupil	611,901	612,458	605,189	7,269
Instructional staff	472,362	461,624	391,800	69,824
General administration	271,644	273,974	259,433	14,541
School administration	1,247,786	1,249,533	1,207,269	42,264
Business	469,804	497,969	503,650	(5,681)
Operations and maintenance	1,910,473	1,895,792	1,811,965	83,827
Pupil transportation services	930,630	945,579	895,177	50,402
Central	94,600	86,700	47,038	39,662
Community services	74,167	82,075	79,254	2,821
Outgoing transfers and other transactions	1,458,600	452,000	414,560	37,440
Total expenditures	21,885,343	20,905,821	20,588,260	317,561
Excess (deficiency) of revenues over (under) expenditures	\$ (127,946)	\$ (197,211)	199,413	\$ 396,624
Fund balance at July 1, 2006			2,084,809	
Fund balance at June 30, 2007			\$ 2,284,222	

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

August 31, 2007

Board of Education and  
Calvin De Kuiper  
Ludington Area School District  
Ludington, Michigan

In planning and performing our audit of the financial statements of Ludington Area School District as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Ludington Area School 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

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 a combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a 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 entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiencies in internal control that we consider to be significant deficiencies.

This communication is intended solely for the information and use of the Board of Education, management, others within the Organization, 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.



## SIGNIFICANT DEFICIENCIES

### *School Service Funds*

Recommendation 1: The School District should utilize existing procedures for Athletic Fund and Food Service Fund cash disbursements, which require evidence of receipt and of approval for payment prior to the disbursement of funds.

During our detailed testing, we noted that certain Athletic Fund and Food Service Fund cash disbursements were made without proper evidence of receipt or proper approval for payment, which is contrary to School District procedures.

Compliance with the School District's procedures for cash disbursements would reduce the possibility of errors or the misappropriation of funds to go undetected.

### *Federal Award Programs*

Recommendation 2: Review and approval procedures, including documentation of such procedures, should be established for federal award program compliance requirements.

During our review of Child Nutrition Cluster and Title I program internal controls, we noted that review and approval procedures were not established for certain federal cash management, eligibility and reporting compliance requirements.

The establishment of review and approval procedures, including documentation of such procedures, could reduce the possibility of noncompliance with federal award program compliance requirements.

Ludington Area School District  
**SINGLE AUDIT OF FEDERAL  
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and  
Independent Auditors' Reports

June 30, 2007

# CONTENTS

## FINANCIAL REPORT AND INDEPENDENT AUDITORS' REPORTS

### INTERNAL CONTROL AND COMPLIANCE REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	3
---	---

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....	5
--	---

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	7
--	---

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	9
--	---

SCHEDULE OF FINDINGS AND RESPONSES.....	10
---	----

### CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	19
---	----

CORRECTIVE ACTION PLAN.....	21
-----------------------------	----

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' 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***

August 31, 2007

Board of Education  
Ludington Area School District  
Ludington, Michigan

We have audited the financial statements of Ludington Area School District as of and for the year ended June 30, 2007 and have issued our report thereon dated August 31, 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 Ludington Area School District's internal control over financial reporting 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 Ludington Area School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ludington Area 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 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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, as Findings 1, 2 and 3, 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 entity's internal control.

Board of Education  
August 31, 2007  
Page 2

***Internal Control Over Financial Reporting—Continued***

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 that none of the significant deficiencies described above is a material weakness.

***Compliance***

As part of obtaining reasonable assurance about whether Ludington Area 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*.

Ludington Area School District's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Ludington Area School District's 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, 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.

*Brickley DeLong, PLLC*

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

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

August 31, 2007

Board of Education  
Ludington Area School District  
Ludington, Michigan

### **Compliance**

We have audited the compliance of Ludington Area School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Ludington Area School District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Ludington Area School District's management. Our responsibility is to express an opinion on Ludington Area School District's compliance based on our audit.

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

As described in Finding 4 in Part C of the accompanying Schedule of Findings and Responses, Ludington Area School District did not comply with requirements regarding allowable costs/cost principles compliance requirements that are applicable to its U.S. Department of Education Title I, Part A program. Compliance with such requirements is necessary, in our opinion, for Ludington Area School District to comply with requirements applicable to that program.

In our opinion, except for noncompliance described in the preceding paragraph, Ludington Area School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described as Findings 5 and 6 in Part C in the accompanying Schedule of Findings and Responses.

### **Internal Control Over Compliance**

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

Board of Education  
August 31, 2007  
Page 2

***Internal Control Over Compliance—Continued***

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies in internal control over compliance described in Part C in the accompanying Schedule of Findings and Responses as Findings 2 and 3 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses.

Ludington Area School District's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Ludington Area School District's response and, accordingly, we express no opinion on it.

***Schedule of Expenditures of Federal Awards***

We have audited the financial statements of Ludington Area School District as of and for the year ended June 30, 2007 and have issued our report thereon dated August 31, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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



Ludington Area School District  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement Program or award amount	Accrued revenue July 1, 2006	Cash/ payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued revenue June 30, 2007
					Prior year(s)	Current year	Total	
<b>U.S. Department of Education</b>								
Alcohol Abuse Reduction Grant Q184A050316	84.184A	\$ 581,527	\$ 57,660	\$ 271,850	\$ 201,660	\$ 312,128	\$ 513,788	\$ 97,938
Passed through Michigan Department of Education								
Title I	84.010							
615300506		523,436	46,158	46,158	523,436	-	523,436	-
715300607		523,436	-	382,629	-	518,139	518,139	135,510
		<u>1,046,872</u>	<u>46,158</u>	<u>428,787</u>	<u>523,436</u>	<u>518,139</u>	<u>1,041,575</u>	<u>135,510</u>
Handicapped Preschool & School Programs	84.027							
0704400607		4,500	-	1,546	-	4,500	4,500	2,954
Drug Free Schools and Communities Act	84.186							
0528600506		6,192	1,372	1,372	6,192	-	6,192	-
0628600506		17,403	12,596	12,596	12,596	-	12,596	-
0728600607		12,663	-	7,097	-	12,663	12,663	5,566
		<u>36,258</u>	<u>13,968</u>	<u>21,065</u>	<u>18,788</u>	<u>12,663</u>	<u>31,451</u>	<u>5,566</u>
Title V LEA Allocation	84.298							
0702500607		2,133	-	1,515	-	2,133	2,133	618
Technology Literacy Challenge Grants	84.318							
0742900607		5,373	-	2,482	-	5,373	5,373	2,891
		<u>5,373</u>	<u>-</u>	<u>2,482</u>	<u>-</u>	<u>5,373</u>	<u>5,373</u>	<u>2,891</u>
Improving Teacher Quality	84.367							
605200506		158,278	46,314	46,314	158,278	-	158,278	-
070520607		156,527	-	113,974	-	156,527	156,527	42,553
		<u>314,805</u>	<u>46,314</u>	<u>160,288</u>	<u>158,278</u>	<u>156,527</u>	<u>314,805</u>	<u>42,553</u>
Total passed through Michigan Department of Education		<u>1,409,941</u>	<u>106,440</u>	<u>615,683</u>	<u>700,502</u>	<u>699,335</u>	<u>1,399,837</u>	<u>190,092</u>
Total U.S. Department of Education		1,991,468	164,100	887,533	902,162	1,011,463	1,913,625	288,030

Ludington Area School District  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED**  
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement Program or award amount	Accrued revenue July 1, 2006	Cash/ payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued revenue June 30, 2007
					Prior year(s)	Current year	Total	
<i>U.S. Department of Agriculture</i>								
Passed through Michigan Department of Education								
National School Lunch								
Entitlement Commodities	10.550	\$ 36,238	\$ -	\$ 36,238	\$ -	\$ 36,238	\$ 36,238	\$ -
Bonus Commodities		379	-	379	-	379	379	-
		<u>36,617</u>	<u>-</u>	<u>36,617</u>	<u>-</u>	<u>36,617</u>	<u>36,617</u>	<u>-</u>
Child Nutrition Cluster								
Breakfast								
061970	10.553	6,119	-	6,119	-	6,119	6,119	-
071970		59,998	-	59,998	-	59,998	59,998	-
		<u>66,117</u>	<u>-</u>	<u>66,117</u>	<u>-</u>	<u>66,117</u>	<u>66,117</u>	<u>-</u>
All Lunches								
061950	10.555	5,398	-	5,398	-	5,398	5,398	-
071950		43,165	-	43,165	-	43,165	43,165	-
Free and Reduced								
061960		27,914	-	27,914	-	27,914	27,914	-
071960		213,077	-	213,077	-	213,077	213,077	-
		<u>289,554</u>	<u>-</u>	<u>289,554</u>	<u>-</u>	<u>289,554</u>	<u>289,554</u>	<u>-</u>
Total Child Nutrition Cluster		<u>355,671</u>	<u>-</u>	<u>355,671</u>	<u>-</u>	<u>355,671</u>	<u>355,671</u>	<u>-</u>
Total U.S. Department of Agriculture		392,288	-	392,288	-	392,288	392,288	-
<i>U.S. Department of Health and Human Services</i>								
Passed through Mason-Lake Intermediate School District								
Medical Assistance Program Title XIX 393	93.778	9,553	-	9,553	-	9,553	9,553	-
TOTAL FEDERAL ASSISTANCE		<u>\$ 2,393,309</u>	<u>\$ 164,100</u>	<u>\$ 1,289,374</u>	<u>\$ 902,162</u>	<u>\$ 1,413,304</u>	<u>\$ 2,315,466</u>	<u>\$ 288,030</u>

Ludington Area School District  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 For the year ended June 30, 2007

*Notes:*

1. Please see the financial statements footnotes for the significant accounting policies used in the preparation of this schedule.
2. Management has utilized the Grant Section Auditors Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.
3. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2007 governmental funds financial statements

General Fund	\$ 1,107,737	
Other governmental funds (includes Food Service Fund)	<u>392,288</u>	\$ 1,500,025

Less local service fees for medicaid included in federal revenues in the financial statements

(86,721)

Expenditures per single audit report

Schedule of Expenditures of Federal Awards	\$ <u>1,413,304</u>
--	---------------------

Ludington Area School District  
**SCHEDULE OF FINDINGS AND RESPONSES**  
Year ended June 30, 2007

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Ludington Area School District.
2. *Three (3)* significant deficiencies disclosed during the audit of the financial statements are reported in the Independent Auditors' 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 and are reported in Part B of this schedule. These significant deficiencies are not reported as material weaknesses.
3. There were *no* instances of noncompliance material to the financial statements of Ludington Area School District as reported in Part B of this schedule.
4. *Two (2)* significant deficiencies disclosed during the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and are reported in Parts B and C of this schedule. The significant deficiencies are not reported as material weaknesses.
5. The auditors' report on compliance for the major federal award programs for Ludington Area School District expresses a qualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Education</i>	
Title I	84.010
National School Lunch Child Nutrition Cluster	10.553 and 10.555

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Ludington Area School District was not determined to be a low-risk auditee.

Ludington Area School District  
**SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED**  
Year ended June 30, 2007

**B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**COMPLIANCE**

NONE

**SIGNIFICANT DEFICIENCIES**

**Fiscal 2007 Finding No. 1: Cash Disbursement Procedures for School Service Funds**

*Criteria:* Internal controls surrounding cash disbursements for the Athletic Fund and the Food Service Fund should ensure payment is only made for bona fide expenditures.

*Condition:* During our testing, we noted that Athletic Fund and Food Service cash disbursements were made without proper evidence of receipt or of proper approval for payment.

*Cause:* Existing procedures, which require proper evidence of receipt and proper approval, were not followed.

*Effect:* Cash disbursements could have been made for goods or services not received.

*Recommendation:* The School District should utilize existing procedures, which require evidence of receipt and approval for payment prior to disbursement of all funds.

*School District Response:* We agree with the recommendation.

Ludington Area School District  
**SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED**  
Year ended June 30, 2007

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**SIGNIFICANT DEFICIENCIES—Continued**

*U.S. Department of Agriculture*

**Fiscal 2007 Finding No. 2: Child Nutrition Cluster Eligibility and Reporting Review and Approval Procedures**

*Specific Requirement:* Eligibility and Reporting

*Criteria:* Per OMB Circular A-133, internal control is a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1) Effectiveness and efficiency of operations, 2) Reliability of financial reporting, and 3) Compliance with applicable laws and regulations.

*Condition:* There is not an oversight or review internal control procedure in place for the eligibility and reporting compliance requirements.

*Cause:* The eligibility and reporting functions are performed by management level personnel with no review and approval by an appropriate individual.

*Effect:* The lack of internal controls over the above functions could lead to errors going undetected.

*Recommendation:* Internal control procedures should be established to address the current lack of performance and documentation of Child Nutrition Cluster review and approval procedures.

*School District Response:* The records in question were reviewed, but adequate documentation of such review was not completed. The review procedures will be enhanced to require documented review.

**Ludington Area School District**  
**SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED**  
Year ended June 30, 2007

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**SIGNIFICANT DEFICIENCIES—Continued**

*U.S. Department of Education*

**Fiscal 2007 Finding No. 3: Title I, Part A Review and Approval Procedures**

*Specific Requirement:* Cash Management, Eligibility and Reporting

*Criteria:* Per OMB Circular A-133, internal control is a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1) Effectiveness and efficiency of operations, 2) Reliability of financial reporting, and 3) Compliance with applicable laws and regulations.

*Condition:* There is not an oversight or review internal control procedure in place for the cash management, eligibility and reporting compliance requirements.

*Cause:* The cash management, eligibility and reporting functions are performed by management level personnel with no review and approval by an appropriate individual.

*Effect:* The lack of internal controls over the above functions could lead to errors going undetected.

*Recommendation:* Internal control procedures should be established to address the current lack of performance and documentation of Title I, Part A review and approval procedures.

*School District Response:* Internal control procedures will be implemented to include documented review procedures.

**Ludington Area School District**  
**SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED**  
Year ended June 30, 2007

**C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133**

**COMPLIANCE**

*U.S. Department of Education*

**Fiscal 2007 Finding No. 4: Title I, Part A**

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Numbers: 71530 0607 and 61530 0506

Award Year End: September 30, 2007

*Specific Requirement:* Allowable Costs/Cost Principles

*Criteria:* The cost principle of OMB Circular A-87 requires, "...Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee."

*Condition:* We noted one salaried employee who completed the semi-annual time certification. However, the employee did not work solely for the Title I program. Therefore, the employee was not eligible to utilize semi-annual time certification.

*Cause:* The employee's duties included providing services to programs other than Title I. Payroll certifications are only available to positions entirely devoted to a single federal program.

*Questioned Costs:* \$73,824

*Context:* Only 1 of 9 employees, for which Title I time certification or time card documents were required had improper documentation.

*Effect:* The salaries and benefits charged to the grant for the employee could be disallowed.

*Recommendation:* The School District should require all employees, who fall under OMB Circular A-87 requirements for documenting time charged to federal award programs, to prepare the required documentation.

*School District Response:* The employee in question spent 90 percent of her time working at a Title I elementary school providing Title I services, and the balance of her time at another building providing non-title services. In the future, personnel activity report records will be maintained for this employee to document actual time spent providing Title I services or the employee's teaching duties will be adjusted to provide only Title I services.

**Ludington Area School District**  
**SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED**  
Year ended June 30, 2007

**C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133**

*U.S. Department of Education*

**Fiscal 2007 Finding No. 5: Title I, Part A**

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Numbers: 71530 0607 and 61530 0506

Award Year End: September 30, 2007

*Specific Requirement:* Allowable Costs/Cost Principles

*Criteria:* The cost principle of OMB Circular A-87 requires the allocation of expenditures based upon time worked on a program.

*Condition:* We noted one salaried employee who was charged improperly to the Title I program. Time records indicated that the program should have been only charged for 30% of the employee's costs. The program was charged for 70% of the employee's costs.

*Cause:* The employee's wages and associated fringe benefits were misallocated by the payroll department.

*Questioned Costs:* None. The expenditure amount was corrected prior to requesting the final cash draw down.

*Context:* Only 1 of 9 employees tested, including all salaried employees, was incorrectly charged to the Title I program.

*Effect:* The salaries and benefits charged to the grant for the employee could be disallowed.

*Recommendation:* The School District should require all employees, who fall under OMB Circular A-87 requirements for documenting time charged to federal award programs, to prepare the required time allocation documentation. In addition, an appropriate individual should be responsible for reviewing the wage allocation of Title I employees to ensure that wages and benefits are properly allocated in postings to the general ledger.

*School District Response:* The finding is a result of a clerical error. The error has been rectified, and the employee's time is being charged to the appropriate expense account.

**Ludington Area School District**  
**SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED**  
Year ended June 30, 2007

**C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133**

*U.S. Department of Agriculture*

**Fiscal 2007 Finding No. 6: Child Nutrition Cluster**

Pass-through entity: Michigan Department of Education

CFDA: 10.553 and 10.555

Award Numbers:

Award Year Ends: September 30, 2006 and September 30, 2007

*Specific Requirement:* Eligibility

*Criteria:* The School Food Authorities (SFA) must establish eligibility for free or reduced price benefits based on a completed application or other categorical qualifiers per Circular A-133 Compliance Supplement and USDA Eligibility Guidance for School Meals Manual. The determining official should sign or initial the application.

*Condition:* We noted during our testing that two applications for eligibility were not signed or initialed by the determining official.

*Cause:* Internal controls over eligibility determination review and approval were not operating effectively.

*Questioned Costs:* None, since the applicants received the appropriate benefits.

*Context:* Two of the forty children selected for eligibility testing had applications that were not signed or initialed by the determining official.

*Effect:* No effect as the two applications in question received the appropriate benefits.

*Recommendation:* The School District should review its eligibility determination procedures to ensure that the determining official's signature or initials with date are documented on the application, as documentation of review and approval.

*School District Response:* The applications in question were reviewed and a determination made, but adequate documentation of such review was not completed (initials or signature of the reviewer). We will redouble our efforts in the future to document our work completed.

Ludington Area School District  
**SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED**  
Year ended June 30, 2007

**C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH  
ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133**

**SIGNIFICANT DEFICIENCIES**

See Findings 2 and 3 in Part B above.

**CLIENT DOCUMENTS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

August 31, 2007

U.S. Department of Education  
Washington, D.C.

Ludington Area School District respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2006 dated September 18, 2006.

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**COMPLIANCE**

There were *no* compliance findings in relation to the financial statements.

**REPORTABLE CONDITIONS**

**Fiscal 2006 Finding No. 1: Property Tax Depositing Procedures**

*Condition:* Numerous property tax receipts aggregating approximately \$1,100,000 for the debt service funds and the sinking fund were improperly deposited into the General Fund investment account. The property taxes were later transferred back at various dates during the fiscal year ended June 30, 2006 to the respective debt service fund and bond sinking fund, however, no investment income earned thereon was transferred to such funds.

*Recommendation:* Property tax revenues should be deposited into the appropriate bank accounts when received.

*Current Status:* This recommendation was adopted in fiscal 2007. *No* similar finding was noted in the fiscal 2007 audit.

**Fiscal 2006 Finding No. 2: Cash Disbursement Approval Procedures**

*Condition:* Cash disbursements are not approved by the Board of Education prior to the release of the cash disbursement checks.

*Recommendation:* The Board of Education should approve expenditures prior to the release of the cash disbursement checks.

*Current Status:* The School District is not required to have approval by the Board of Education prior to the release of cash disbursement checks in the State of Michigan. The School District has elected not to implement this recommendation.

## C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

### COMPLIANCE

#### *U.S. Department of Education*

#### **Fiscal 2006 Finding No. 3: Title I, Part A**

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Numbers: 51530 0506 and 61530 0506

Award Year End: September 30, 2006

*Specific Requirement:* Allowable Costs/Cost Principles

*Condition:* We noted three salaried employees, whose semi-annual time certification records did not agree with actual time and services provided. The employees' time certification documents indicated that the employees provided Title I services at a different building than the actual services and service location. Upon further review of other administration records, it appears the employees completed the semi-annual time certifications using the prior year certification form, and the form was not updated to agree with the current year Title I services and location.

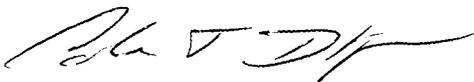
*Recommendation:* The School District should require all employees who fall under OMB Circular A-87 requirements for documenting time charged to federal award programs to prepare the required documentation.

*Current Status:* See Fiscal 2007 Finding No. 4 in the Schedule of Findings and Responses for the year ended June 30, 2007 for a similar finding reported.

### REPORTABLE CONDITIONS

There were *no* reportable conditions reported in relation to the major federal award programs.

Sincerely,



Calvin De Kuiper  
Superintendent

**CORRECTIVE ACTION PLAN**

August 31, 2007

U.S. Department of Education  
Washington, D.C.

Ludington Area School District respectfully submits the following Corrective Action Plan for the year ended June 30, 2007.

Name and address of independent public accounting firm:

Brickley DeLong, PLC  
P.O. Box 999  
Muskegon, Michigan 49443

Audit period: June 30, 2007

The findings from the Schedule of Findings and Responses for the year ended June 30, 2007 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT**

**COMPLIANCE**

There were *no* compliance findings in relation to the financial statements.

**SIGNIFICANT DEFICIENCIES**

**Fiscal 2007 Finding No. 1: Cash Disbursement Procedures for School Service Funds**

*Recommendation:* The School District should utilize existing procedures, which require evidence of receipt and approval for payment prior to disbursement of all funds.

*Action Taken:* We will utilize existing procedures and emphasize with staff the importance of following existing procedures.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT**

**SIGNIFICANT DEFICIENCIES—Continued**

*U.S. Department of Agriculture*

**Fiscal 2007 Finding No. 2: Child Nutrition Cluster Eligibility and Reporting Review and Approval Procedures**

*Recommendation:* Internal controls procedures should be established to address the current lack of performance and documentation of Child Nutrition Cluster review and approval procedures.

*Action Taken:* The review and approval procedures will be enhanced to require documented review procedures by business manager or general accountant.

*U.S. Department of Education*

**Fiscal 2007 Finding No. 3: Title I, Part A Review and Approval Procedures**

*Recommendation:* Internal controls procedures should be established to address the current lack of performance and documentation of Title I, Part A review and approval procedures.

*Action Taken:* Internal control procedures will be implemented to include documented review procedures by the business manager.

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**COMPLIANCE**

*U.S. Department of Education*

**Fiscal 2007 Finding No. 4: Title I, Part A – Allowable Costs/Cost Principles**

*Recommendation:* The School District should require all employees who fall under OMB Circular A-87 requirements for documenting time charged to federal award programs to prepare the required documentation.

*Action Taken:* The School District will require all employees performing services to more than one federal grant to complete personnel activity reports to document actual time spent on federal grants.

## C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

### COMPLIANCE—Continued

#### *U.S. Department of Education*

#### **Fiscal 2007 Finding No. 5: Title I, Part A – Allowable Costs/Cost Principles**

*Recommendation:* The School District should require all employees, who fall under OMB Circular A-87 requirements for documenting time charged to federal award programs, to prepare the required time allocation documentation. In addition, an appropriate individual should be responsible for reviewing the wage allocation of Title I employees to ensure that wages and benefits are properly allocated in postings to the general ledger.

*Action Taken:* We continue to utilize existing procedures and emphasize to staff the importance of properly allocating employee wages.

#### *U.S. Department of Agriculture*

#### **Fiscal 2007 Finding No. 6: Child Nutrition Cluster – Allowable Costs/Cost Principles**

*Recommendation:* The School District should review its eligibility determination procedures to ensure that the determining official's signature or initials with date are documented on the application, as documentation of review and approval.

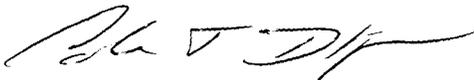
*Action Taken:* The School District will continue to use existing procedures and emphasize the importance of documenting actual work completed.

### SIGNIFICANT DEFICIENCIES

See Fiscal 2007 Findings 2 and 3 in Part B above.

If the U.S. Department of Education has questions regarding this plan, please call Calvin De Kuiper at (231) 845-7303.

Sincerely,



Calvin De Kuiper  
Superintendent