

Orchard View Schools

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2007

Orchard View Schools

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**Orchard View School District
Management's Discussion and Analysis
For the Year Ended June 30, 2007**

Orchard View School District's (the District) Management Discussion and Analysis is intended to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position and its ability to address the next and subsequent year challenges. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments" and is intended to provide the financial results for the fiscal year ending June 30, 2007.

District Wide Financial Statements

The District wide statements provide a perspective of the District as a whole. The Statement of Net Assets and the Statement of Activities, which appear first in the financial statements, report information on the School District as a whole and it's activities to indicate the financial condition of the District. These statements are prepared using the full accrual basis of accounting and include all assets and liabilities, which is similar to private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets combines and consolidates governmental funds' current financial resources (short-term expendable resources) with capital assets and long-term obligations, regardless of whether they are currently available or not.

Consistent with the full accrual basis method of accounting the Statement of Activities accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various District services.

Fund Financial Statements

Under this basis of accounting, revenues are recorded when received except where they are not measurable and available and therefore represent resources that may be appropriated. Expenditures are accounted for in the period that goods and services are used in school programs. In addition, capital asset purchases are expensed and not recorded as an asset. Debt payments are recorded as expenditures in the current year and future debt obligations are not recorded.

Fund types include the General Fund, Community Service Fund, School Service Funds, Fiduciary Funds, Capital Projects Fund, and Debt Retirement Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

The Community Service Fund is comprised of some general education requirements for Alternative Education, Adult Education, and Preschool. It also is comprised of Child Care, Head Start, and other community services of which revenue may be provided through grants and self-supporting programs (local revenues). The School Service Fund is used to account for Food Service and Athletics. The Fiduciary Fund accounts for assets held by the District in a trustee capacity or as an agent for various student groups and related activities. The Capital Projects Fund accounts for the 2003 building project. The Debt Retirement Fund accounts for the tax revenues received from taxpayers and the payments for the 2003 building project debt.

**Orchard View School District
Management's Discussion and Analysis
For the Year Ended June 30, 2007**

Financial Analysis of the District as a Whole

	Summary Comparison of Net Assets	
	<u>2005/06</u>	<u>2006/07</u>
Assets		
Current assets	\$22,046,619	\$10,619,398
Non – Current assets	460,229	572,973
Capital assets, net of accumulated depreciation	<u>41,230,063</u>	<u>47,804,309</u>
Total assets	<u>\$63,736,911</u>	<u>\$58,996,680</u>
Liabilities		
Current liabilities	\$8,573,107	\$6,611,677
Long-term liabilities		
Due within 1 year	1,398,869	1,468,420
Due in more than one year		
Bonds, capital leases & contract	<u>46,627,856</u>	<u>46,555,365</u>
Total liabilities	<u>\$56,599,832</u>	<u>\$54,635,462</u>
Net assets		
Total capital assets, net of related debt	\$2,811,425	\$5,251,049
Restricted		
Permanent Funds	35,390	35,806
Unrestricted	<u>4,290,264</u>	<u>(925,637)</u>
Total net assets	<u>\$7,137,079</u>	<u>\$4,361,218</u>
Total liabilities and net assets	<u>\$63,736,911</u>	<u>\$58,996,680</u>

As indicated by the statement above, total net assets are \$4,361,218. Net assets can be separated into three categories: net capital assets net of related debt, restricted assets, and unrestricted assets. Net capital assets are a combination of funds available for capital assets, plus capital assets at original cost less accumulated depreciation and related debt. Funds available for capital assets total \$1,564,783. The original cost of capital assets is \$56,016,555, which is an accumulation of capital assets year after year less any capital disposals. The accumulated depreciation is the accumulation of depreciation expense since acquisition. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less an estimated salvage value, expensed over the estimated useful life of the asset. Total accumulated depreciation is \$8,212,246. Total long-term debt related to capital assets is \$44,402,646.

**Orchard View School District
Management's Discussion and Analysis
For the Year Ended June 30, 2007**

The remaining assets of \$4,361,218 are unrestricted. The unrestricted fund balance is an accumulation of prior years' operating results. This balance is directly affected each year by the District's operating results.

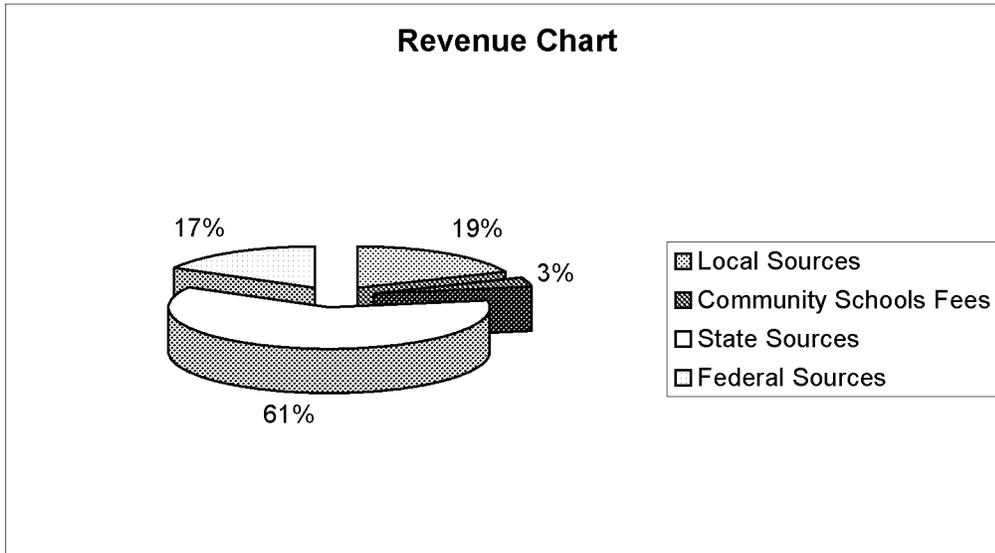
Results of Operations (Comparison)	2005/06 Amounts	2006/07 Amounts	% of Total
Program Revenue			
Charges for services- local and intermediate	\$1,480,875	\$1,558,961	4.7%
Operating grants - federal and state	<u>7,872,423</u>	<u>8,881,351</u>	<u>26.76%</u>
Total program revenue	<u>\$9,353,298</u>	<u>\$10,440,312</u>	<u>31.46%</u>
General Revenue			
Property taxes, levied for general purposes	\$3,088,524	\$3,153,182	9.5%
State of Michigan aid, unrestricted	<u>16,956,703</u>	<u>17,089,297</u>	<u>51.49%</u>
Total foundation allowance	<u>\$20,045,227</u>	<u>\$20,242,479</u>	<u>60.99%</u>
Property taxes, levied for debt services	\$2,029,052	\$2,072,987	6.2%
Unrestricted Investment Earnings	1,180,641	394,369	1.2%
Other	<u>77,669</u>	<u>39,618</u>	<u>0.15%</u>
Total revenues	<u>\$32,685,887</u>	<u>\$33,189,765</u>	<u>100.0%</u>
Expenses			
Instruction	\$15,376,241	\$18,346,701	51.01%
Support Services	8,309,048	8,899,282	24.74%
Community Services	4,409,243	3,774,669	10.5%
Food Services	1,015,983	1,071,806	3.0%
Athletics	611,144	607,155	1.7%
Interest on Long-term debt	2,201,856	2,184,978	6.05%
Unallocated depreciation	<u>522,075</u>	<u>1,081,036</u>	<u>3.0%</u>
Total expenses	<u>\$32,445,590</u>	<u>\$35,965,627</u>	<u>100.0%</u>
Increase (decrease) in net assets	<u>\$240,297</u>	<u>\$(2,775,862)</u>	

As indicated above, net assets decreased \$2,775,862.

**Orchard View School District
Management's Discussion and Analysis
For the Year Ended June 30, 2007**

Revenues

The following chart illustrates the District's sources of revenues by percentage:



- Revenue chart is based on all District Funds combined

Sources of Revenues

Local sources of revenues total \$7,156,365, and include revenues to the General Fund of \$3,225,377, Athletic Fund of \$92,181, Food Service Fund of \$327,761, Community Education of \$21,457, Capital Projects of \$314,827, Debt Service of \$2,091,148, and Student Loan of \$416. In addition, Community School fees total \$1,083,198, and include revenues received by the Community Service Fund for services provided to the community.

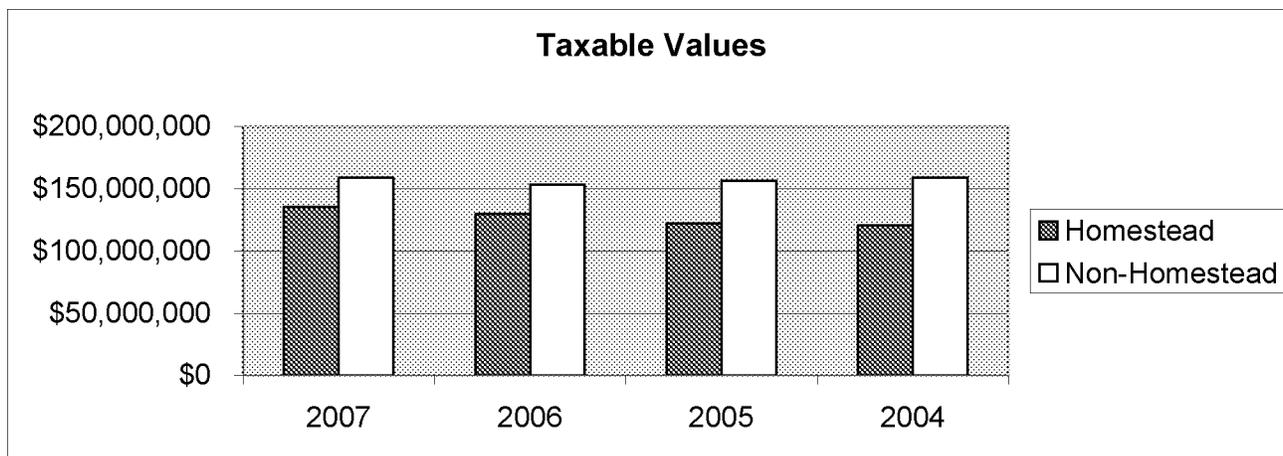
State sources of revenue total \$19,788,101, and include revenues to the General Fund of \$18,041,434, Community Service Fund of \$1,678,136, and Food Service Fund of \$68,531. Included in the state source of revenue is the membership foundation allowance of \$12,185,417. State sources of revenue make up 55% of General Fund revenues. This ties the District directly to the State's overall economy.

Federal sources of revenue total \$5,448,500, and include revenue to the General Fund of \$787,833, Community Service Fund of \$3,926,988 and Food Service Fund of \$733,679.

**Orchard View School District
Management's Discussion and Analysis
For the Year Ended June 30, 2007**

Property Taxes

A significant portion of local revenues is provided from property taxes for the General Fund. Property tax revenue totaled \$3,153,182. This amount is obtained through a voter approved 18-mill levy on the taxable value of non-homestead properties for the District's operations. Over the last 4 years taxable values have increased each year on average 5.5% and 2.86% for homestead and non-homestead properties, respectively. The following graph illustrates this increase:



Unrestricted State Aid Foundation Allowance

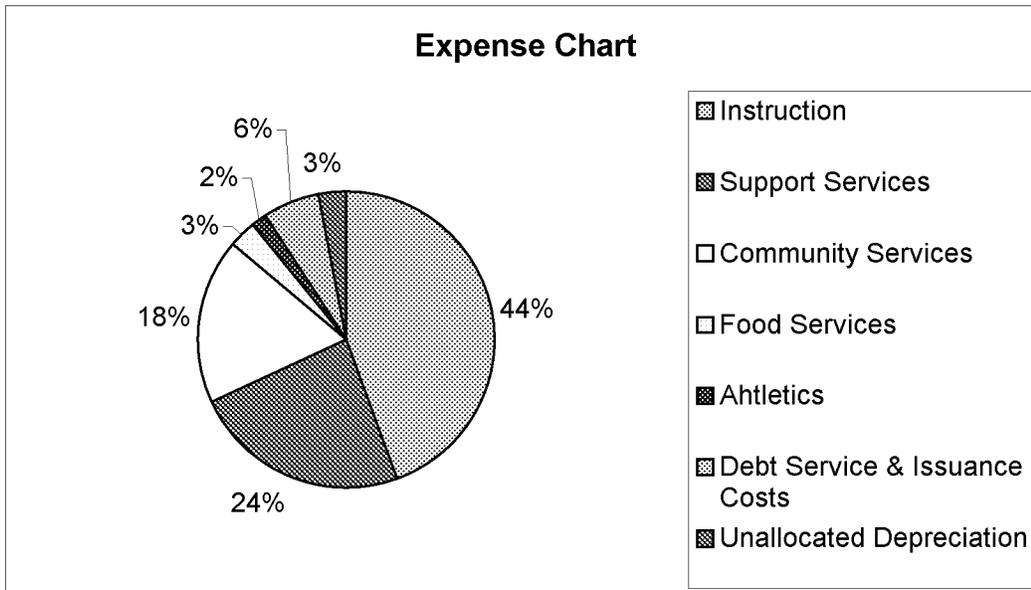
A significant portion of state funding to the District is through the foundation allowance. The foundation allowance is funding from the state for each student, set annually. The District's foundation allowance is \$7,224 per student for the 2006/2007 fiscal year, which is an increase of \$210/pupil from the 2005/06 school year. The number of students to be funded is calculated by student enrollment blended at 75% of current year's September count and 25% of prior year's February count. Total blended student enrollment for this fiscal year is 2,849.97.

Expenses

Expenses include Instruction of \$15,342,807, Support Services of \$8,097,150, Community Services of \$6,169,075, Food Services of \$1,054,938, Athletics of \$593,405, Debt Service Interest of \$2,110,669 and Unallocated Depreciation and Amortization of \$1,048,398. In the District wide statements Instruction includes instructional support and related fringe benefits whereas these expenses are included in Support Services in the fund level statements for budgeting purposes.

**Orchard View School District
Management's Discussion and Analysis
For the Year Ended June 30, 2007**

The following chart illustrates the District's expenses by percentages:



- Expense chart is based on all District Funds combined

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

The significant variances that were noted between the final budget and actual amounts were as follows:

	Final Budget	Actual	Variance
Revenues			
Local Sources	3,162,513	3,225,377	62,864
State Sources	17,987,156	18,041,434	54,278
Expenses			
Instruction			
Basic Programs	12,983,305	13,083,704	100,399
Added Needs	2,115,479	2,259,103	143,624

**Orchard View School District
Management's Discussion and Analysis
For the Year Ended June 30, 2007**

These variances may be significant in some instances due to the decrease in expenditures during the second half of the school year for special education costs that came in after the fiscal year end in excess of appropriated amounts. At this time, given the financial conditions of the school district, the district takes a conservative approach with expenditures. Also, some of the Outgoing Transfers are unknown until the District knows exactly what its final expenditures are for Special Education and Transportation for the school year. These factors are known at fiscal year end, thus making it difficult to budget during the school year.

Capital Assets

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Capital Assets, being depreciated:				
Buildings and improvements	\$15,162,757	\$35,794,022	\$571,511	\$50,385,298
Furniture and equipment	1,823,960	1,088,537	607,659	2,304,838
Vehicles	1,126,253	42,492	787,056	381,689
Total Capital Assets, being depreciated	\$18,113,000	\$36,925,051	\$1,966,226	\$53,071,825
Less Accumulated Depreciation:				
Buildings and improvements	6,574,344	877,242	571,511	6,880,075
Furniture and equipment	1,575,499	157,489	607,659	1,125,329
Vehicles	957,427	36,471	787,056	206,842
Total accumulated depreciation	\$9,107,270	\$1,071,202	\$1,966,226	\$8,212,246
Total Capital Assets being depreciated, net	9,005,730	35,853,849	-	44,859,579
Assets, not being depreciated				
Construction in progress	32,024,333	2,743,642	32,023,245	2,744,730
Land	200,000	-	-	200,000
Capital Assets, net	\$41,230,063	\$38,597,491	\$32,023,245	\$47,804,309

At June 30, 2007, the District had \$47,804,309 invested in a broad range of capital assets, including land, buildings, furniture and equipment. This is an increase in capital assets of \$6,574,246 from last year and includes the construction in progress and building improvements.

**Orchard View School District
Management's Discussion and Analysis
For the Year Ended June 30, 2007**

Economic Factors and Next Year's Budgets and Rates

The Orchard View School District Administration considers many factors when setting the District's 2007/08 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007/08 fiscal year is 25% of the February 2008 and 75% of the September 2007 student count. Approximately 55% of the General Fund revenue is from the foundation allowance. The 2007/08 fiscal year's foundation allowance for the District is expected to increase by \$200 per FTE, for a total of \$7,424. However, for budgeting purposes at this time, we are budgeting conservative and using last year's foundation allowance of \$7,224. The 2007/08 original budgets contain the decrease in retirement cost of 1.02%.

In May 2006, the Orchard View community passed a 20 year - 18 mills Non-Homestead operating tax levy. In prior years, the district was affected by the Headlee Rollback and could only levy 17.7714 for the 2005/06 school years, instead of 18 mills. The difference of approximately \$35,000 was lost due to the Headlee Rollback. This doesn't seem like a substantial amount of money, but this money never returns to the school district and it adds up year after year to be of substantial amounts.

During the 2007/08 school year, the administration entered into negotiations and was able to settle a three year contract with both the support staff and certified staff bargaining units. The current contracts are in effect until June 30, 2010 when they will expire.

The building project at the new Orchard View High School and renovations to the existing high school to be converted into Cardinal Elementary have both been completed. Orchard View Elementary and Jolman Elementary students have merged into this building beginning this school year.

Long – term Debt

In September of 2003, the District passed a bond to build a new high school and remodel/improve existing buildings. Currently, we are levying 7.000 mills on all properties in Orchard View School District to fund this project.

Contacting the School District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administration Office, 35 S. Sheridan Drive, Muskegon, Michigan 49442.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 4, 2007

Board of Education
Orchard View Schools
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orchard View Schools (the 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 Orchard View Schools' management. Our responsibility is to express an opinion of 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 Orchard View Schools, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated October 4, 2007, on our consideration of Orchard View Schools' internal control over financial reporting and 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.

BRICKLEY DELONG

Board of Education
October 4, 2007
Page 2

The management's discussion and analysis and budgetary comparison information on pages i - viii and 28 and 29 are not a required part of the basic financial statement 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Orchard View School's basic financial statements. The combining nonmajor fund financial statements on pages 31 and 32 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

Orchard View Schools
STATEMENT OF NET ASSETS
June 30, 2007

	ASSETS	Governmental activities
CURRENT ASSETS		
Cash and cash equivalents		\$ 3,625,709
Investments		2,022,990
Receivables		7,643
Due from other governmental units		4,951,202
Inventories		9,331
Prepaid items		<u>2,523</u>
Total current assets		10,619,398
NONCURRENT ASSETS		
Capital assets, net		
Nondepreciable		2,944,730
Depreciable		44,859,579
Bond issuance cost, net		284,603
Note and interest receivable		<u>288,370</u>
Total noncurrent assets		<u>48,377,282</u>
Total assets		58,996,680
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
State aid loan		2,965,832
Accounts payable and accrued liabilities		3,425,292
Due to other governmental units		130,892
Deferred revenue		89,661
Bonds and other obligations, due within one year		<u>1,468,420</u>
Total current liabilities		8,080,097
NONCURRENT LIABILITIES		
Bonds and other obligations, less amounts due within one year		<u>46,555,365</u>
Total liabilities		<u>54,635,462</u>
NET ASSETS		
Invested in capital assets, net of related debt		5,251,049
Restricted for:		
Permanent funds		35,806
Unrestricted		<u>(925,637)</u>
Total net assets		<u>\$ 4,361,218</u>

The accompanying notes are an integral part of this statement.

Orchard View Schools
STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

<i>Functions/Programs</i>	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for services	Operating grants and contributions	Governmental activities
Governmental activities				
Instruction	\$ 18,346,701	\$ 62,023	\$ 3,929,367	\$ (14,355,311)
Support services	8,899,282	-	515,526	(8,383,756)
Community services	3,774,669	1,083,198	3,634,248	942,777
Food services	1,071,806	321,559	802,210	51,963
Athletics	607,155	92,181	-	(514,974)
Interest on long-term debt	2,184,978	-	-	(2,184,978)
Unallocated depreciation and amortization	1,081,036	-	-	(1,081,036)
Total governmental activities	<u>\$ 35,965,627</u>	<u>\$ 1,558,961</u>	<u>\$ 8,881,351</u>	(25,525,315)
General revenues				
Property taxes, levied for				
General purposes				3,153,182
Debt service				2,072,987
Grants and contributions not restricted to specific programs				17,089,297
Unrestricted investment earnings				394,369
Miscellaneous				39,618
Total general revenues and special items				<u>22,749,453</u>
Change in net assets				(2,775,862)
Net assets at July 1, 2006				<u>7,137,080</u>
Net assets at June 30, 2007				<u>\$ 4,361,218</u>

The accompanying notes are an integral part of this statement.

Orchard View Schools
BALANCE SHEET
 Governmental Funds
 June 30, 2007

	General Fund	2003 Capital Projects	Community Service	Other governmental funds	Total governmental funds
ASSETS					
Cash and cash equivalents	\$ 2,289,237	\$ 208,914	\$ 830,181	\$ 297,377	\$ 3,625,709
Investments	-	2,022,990	-	-	2,022,990
Receivables	-	-	-	7,643	7,643
Due from other governmental units	3,647,997	-	1,182,052	121,153	4,951,202
Due from other funds	92,433	-	272,847	83,788	449,068
Inventories	-	-	-	9,331	9,331
Prepaid items	2,523	-	-	-	2,523
	<u>\$ 6,032,190</u>	<u>\$ 2,231,904</u>	<u>\$ 2,285,080</u>	<u>\$ 519,292</u>	<u>\$ 11,068,466</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
State aid loan	\$ 2,965,830	\$ -	\$ -	\$ -	\$ 2,965,830
Accounts payable	408,373	648,477	157,743	83,022	1,297,615
Accrued liabilities	1,438,186	-	118,607	-	1,556,793
Due to other governmental units	130,892	-	-	-	130,892
Due to other funds	354,110	18,644	-	76,314	449,068
Deferred revenue	-	-	157,677	-	157,677
	<u>5,297,391</u>	<u>667,121</u>	<u>434,027</u>	<u>159,336</u>	<u>6,557,875</u>
Fund balances					
Reserved for:					
Inventories	-	-	-	9,331	9,331
Prepaid items	2,523	-	-	-	2,523
Permanent funds	-	-	-	35,806	35,806
Capital projects	-	1,564,783	-	56,968	1,621,751
Debt service	-	-	-	10,789	10,789
Unreserved					
Undesignated					
General Fund	732,276	-	-	-	732,276
Community service	-	-	1,851,053	-	1,851,053
School service	-	-	-	247,062	247,062
	<u>734,799</u>	<u>1,564,783</u>	<u>1,851,053</u>	<u>359,956</u>	<u>4,510,591</u>
	<u>\$ 6,032,190</u>	<u>\$ 2,231,904</u>	<u>\$ 2,285,080</u>	<u>\$ 519,292</u>	<u>\$ 11,068,466</u>

The accompanying notes are an integral part of this statement.

Orchard View Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**

June 30, 2007

Total fund balance—governmental funds \$ 4,510,591

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	\$ 56,016,555	
Accumulated depreciation	<u>(8,212,246)</u>	47,804,309

Bond issuance cost are not capitalized and amortized in the governmental funds.

Bond issuance cost	312,829	
Accumulated amortization	<u>(28,226)</u>	284,603

Other long-term note and interest receivable in governmental activities is not reported in the
 governmental funds.

288,370

Revenue is recognized in the governmental activities is not recognized in the
 governmental funds when not collected within 60 days of the year end.

68,020

Accrued interest in government activities is not reported in governmental funds.

(570,890)

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	(47,505,169)	
Early retirement services	(253,825)	
Compensated absences	<u>(264,791)</u>	<u>(48,023,785)</u>

Net assets of governmental activities in the Statement of Net Assets

\$ 4,361,218

The accompanying notes are an integral part of this statement.

Orchard View Schools
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the year ended June 30, 2007

	General Fund	2003 Capital Projects	Community Service	Other governmental funds	Total governmental funds
REVENUES					
Local sources					
Property taxes	\$ 3,153,182	\$ -	\$ -	\$ 2,072,987	\$ 5,226,169
Investment earnings	53,629	314,827	21,457	24,779	414,692
Fees and charges	-	-	1,083,198	413,740	1,496,938
Other	18,566	-	-	-	18,566
Total local sources	<u>3,225,377</u>	<u>314,827</u>	<u>1,104,655</u>	<u>2,511,506</u>	<u>7,156,365</u>
State sources	18,041,434	-	1,678,136	68,531	19,788,101
Federal revenues	787,833	-	3,926,988	733,679	5,448,500
Total revenues	<u>22,054,644</u>	<u>314,827</u>	<u>6,709,779</u>	<u>3,313,716</u>	<u>32,392,966</u>
EXPENDITURES					
Instruction	15,342,807	-	-	-	15,342,807
Support services	8,097,150	-	-	-	8,097,150
Community services	982	-	6,168,093	-	6,169,075
Food services	-	-	-	1,054,938	1,054,938
Athletics	-	-	-	593,405	593,405
Debt service					
Principal	32,697	-	-	1,345,000	1,377,697
Interest and other charges	2,428	-	-	2,108,241	2,110,669
Bond issuance costs	-	-	-	80,787	80,787
Capital projects	-	8,807,817	-	-	8,807,817
Total expenditures	<u>23,476,064</u>	<u>8,807,817</u>	<u>6,168,093</u>	<u>5,182,371</u>	<u>43,634,345</u>
Excess (deficiency) of revenues over (under) expenditures	(1,421,420)	(8,492,990)	541,686	(1,868,655)	(11,241,379)
OTHER FINANCING SOURCES (USES)					
Transfers from other governmental units and other transactions	716,547	-	-	-	716,547
Loan proceeds	-	-	-	1,074,133	1,074,133
Proceeds of refunding bonds	-	-	-	6,910,000	6,910,000
Premium on refunding bonds	-	-	-	(93,757)	(93,757)
Transfers in	-	-	32,227	775,831	808,058
Transfers out	(808,058)	-	-	-	(808,058)
Payment to refunded bond escrow agent	-	-	-	(6,735,456)	(6,735,456)
Transfers to other governmental units and other transactions	(17,000)	-	-	(16,870)	(33,870)
Total other financing sources (uses)	<u>(108,511)</u>	<u>-</u>	<u>32,227</u>	<u>1,913,881</u>	<u>1,837,597</u>
Net change in fund balances	(1,529,931)	(8,492,990)	573,913	45,226	(9,403,782)
Fund balances at July 1, 2006	<u>2,264,730</u>	<u>10,057,773</u>	<u>1,277,140</u>	<u>314,730</u>	<u>13,914,373</u>
Fund balances at June 30, 2007	<u>\$ 734,799</u>	<u>\$ 1,564,783</u>	<u>\$ 1,851,053</u>	<u>\$ 359,956</u>	<u>\$ 4,510,591</u>

The accompanying notes are an integral part of this statement.

Orchard View Schools
**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 balance—total governmental funds	\$	(9,403,782)
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 expense	\$ (1,071,202)	
Capital outlay	<u>7,645,448</u>	6,574,246
Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets.		(7,604,920)
Interest income on long-term notes receivable is recorded in the Statement of Activities when earned, but is not reported in governmental funds until received.		32,964
Amortization of bond issuance costs is not an expense in the governmental funds, while than amortization does reduce non-current assets in the Statement of Net Assets.		(9,834)
Revenue is recognized in the governmental activities when earned, but is not reported in the governmental funds until received.		68,020
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		7,849,569
Bond refinancing costs are an expenditure in the governmental funds, but the payments reduce long-term liabilities in the Statement of Net Assets.		80,787
Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.		(121,203)
Compensated absences are reported on the accrual basis of method in the Statement of Activities and reported as expenditures when the financial resources are used in the governmental funds.		<u>(241,709)</u>
Change in net assets of governmental activities	\$	<u><u>(2,775,862)</u></u>

The accompanying notes are an integral part of this statement.

Orchard View Schools
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

Agency Funds
 June 30, 2007

	Agency Funds		
	Combined	Student activities	Other organizations
ASSETS			
Cash	\$ <u>767,951</u>	\$ <u>173,959</u>	\$ <u>593,992</u>
 LIABILITIES			
Deposits held for others	\$ <u>767,951</u>	\$ <u>173,959</u>	\$ <u>593,992</u>

The accompanying notes are an integral part of this statement.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Orchard View Schools (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.

Orchard View Schools
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 *2003 Capital Projects Fund* accounts for expenditures related to the construction of major capital projects.
- The *Community Service Fund* accounts for expenditures related to community schools services activities.

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 projects funds* account for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the School District’s programs.

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.

Orchard View Schools
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.

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. Pooled investment income from the General Fund and Debt Retirement Fund is generally allocated to each fund using a weighted average of balances for the principal.

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 provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Deposit and Investments—Continued

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
Debt service fund - Homestead and non-homestead	7

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.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

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, except for technology of \$1,000 or more 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, except for technology of \$1,000 or more 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:

Buildings and improvements	50 years
Buses and other vehicles	15 years
Furniture and other equipment	5-20 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 annual and 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.

Early Retirement Incentives

For district-wide financial statements, the liability for early retirement incentives is reported when legally enforceable. For fund financial statements, the liability for early retirement incentives is reported either 1) on the due date when there is a specified due date or 2) on the retirement date if it is before year end, when there is not specified legally enforceable due date.

Deferred Revenue

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

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

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 government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental statement of net assets. Bond premiums and discounts, as well as bond issuance costs are deferred and amortized over the life of the bonds using the straight line 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.

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.

Orchard View Schools
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 budgets 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.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2007, expenditures exceeded appropriations in basic programs by \$100,399 in added needs by \$143,624, pupil services by \$15,894, instructional staff services by \$9,412, business services by \$32,142, pupil transportation services by \$19,570 and outgoing transfers and other transactions by \$33,352. These over expenditures were partially funded by greater than anticipated local, state and federal revenues in the General Fund due to special education costs that came in after the fiscal year end in excess of appropriated amounts. The other part of the over expenditures were funded by the fund balance in the General Fund.

School Bond Construction Compliance

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's School Code.

Following is a summary of the revenue and expenditures in 2003 Capital Projects Fund from the inception of the funds through June 30, 2007.

	2003 Building Capital Projects Fund
Revenue and bond proceeds	\$ 48,494,889
Expenditures	47,790,128

Orchard View Schools
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	<u>Fair value</u>	<u>Weighted average maturity (Days)</u>	<u>Standard & Poor's rating</u>	<u>Percent</u>
Fifth Third Institutional Government Preferred fund - not rated	\$ <u>2,022,990</u>	1	not rated	<u>100%</u>

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 a prime or better rating 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, \$3,425,708 of the School District's bank balance of \$3,625,708 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Custodial credit risk - 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. The School District will minimize custodial credit risk by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, brokers, dealers, intermediaries and advisors with which the School District will do business.

Concentration of credit risk. The School District places no limit on the amount the District may invest with any one issuer. More than 5 percent of the School District's investments are in Fifth Third Institutional Government Preferred fund.

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

Orchard View Schools
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:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 200,000	\$ -	\$ -	\$ 200,000
Construction in progress	32,024,333	2,743,642	32,023,245	2,744,730
Total capital assets, not being depreciated	32,224,333	2,743,642	32,023,245	2,944,730
Capital assets, being depreciated:				
Buildings and improvements	15,162,787	35,794,022	571,511	50,385,298
Furniture and equipment	1,823,960	1,088,537	607,659	2,304,838
Vehicles	1,126,253	42,492	787,056	381,689
Total Capital Assets, being depreciated	18,113,000	36,925,051	1,966,226	53,071,825
Less accumulated depreciation:				
Buildings and improvements	6,574,344	877,242	571,511	6,880,075
Furniture and equipment	1,575,499	157,489	607,659	1,125,329
Vehicles	957,427	36,471	787,056	206,842
Total accumulated depreciation	9,107,270	1,071,202	1,966,226	8,212,246
Total capital assets, being depreciated, net	9,005,730	35,853,849	-	44,859,579
Capital assets, net	\$ <u>41,230,063</u>	\$ <u>38,597,491</u>	\$ <u>32,023,245</u>	\$ <u>47,804,309</u>

Depreciation

Depreciation expense has been charged to functions as follows:

Community services	\$ 9,054
Athletics	13,750
Unallocated depreciation	1,048,398
	<u>\$ 1,071,202</u>

Orchard View Schools
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:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2007</u>
Bond issuance costs:				
2003	\$ 155,616	\$ -	\$ -	\$ 155,616
2006	76,426	-	-	76,426
2007	80,787	-	-	80,787
	<u>312,829</u>	<u>-</u>	<u>-</u>	<u>312,829</u>
Less accumulated amortization				
2003	15,561	7,003	-	22,564
2006	2,831	2,831	-	5,662
	<u>18,392</u>	<u>9,834</u>	<u>-</u>	<u>28,226</u>
Bond issuance costs, net	<u>\$ 294,437</u>	<u>\$ (9,834)</u>	<u>\$ -</u>	<u>\$ 284,603</u>

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:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Athletics	\$ 22,274
General	Building and Site	18,644
General	Debt Retirement	42,846
General	Food Service	8,669
Athletics	General	4,268
Community Ed	General	270,322
Community Ed	Food Service	2,525
Food Service	General	22,552
Building and Site	General	<u>56,968</u>
		<u>\$ 449,068</u>

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 \$501,386 to the Athletics Fund to finance operations and \$274,445 to the Debt Service Fund to finance debt service payments. The General Fund also transferred 32,227 to the Community Service Fund to finance drivers' education.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 June 30, 2007

NOTE G—SHORT-TERM DEBT

The School District issues State of Michigan Municipal Bond Authority notes payable 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:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>
Michigan Municipal Bond Authority note payable at 2.92%; due August 2006	\$ 3,087,357	\$ -	\$ 3,087,357	\$ -
Michigan Municipal Bond Authority note payable at 3.70%; due August 2007	<u>-</u>	<u>2,965,832</u>	<u>-</u>	<u>2,965,832</u>
	<u>\$ 3,087,357</u>	<u>\$ 2,965,832</u>	<u>\$ 3,087,357</u>	<u>\$ 2,965,832</u>

NOTE H—BOND PREMIUM

Bond issuance cost 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>
2003 Bond premium	\$ 665,631	\$ -	\$ -	\$ 665,631
Less accumulated amortization	<u>59,168</u>	<u>30,323</u>	<u>-</u>	<u>89,491</u>
Bond premium, net	<u>\$ 606,463</u>	<u>\$ (30,323)</u>	<u>\$ -</u>	<u>\$ 576,140</u>

Amortization

Amortization expense has been charged as unallocated amortization.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 June 30, 2007

NOTE I—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 include capital leases, compensated absences, termination benefits, School Bond Loan Fund, Energy Installment Purchase, and Land Contract.

Summary of Long-term Obligations

On May 11, 2007, the School District issued \$6.91 million in General Obligation Bonds with interest from 4 percent to 4.2 percent to partially advance refund \$6.45 million of outstanding 2003 School Building and Site Bonds with interest rates of 5. The net proceeds of approximately \$6.816 million (after payment of \$81 thousand in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for principle redemption and interest of 2003 School Building and Site Bonds which are scheduled for maturity May 1, 2027 and beyond. As a result, the 2003 School Building and Site Bonds are considered to be partially defeased and the liability for those bonds has been removed from long-term obligations.

The School District advance refunded the 2003 School Building and Site Bonds to reduce its total debt service payment over the next 25 years by over \$474 thousand and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of over \$313 thousand.

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

	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2007</u>	Due within <u>one year</u>
Governmental activities:					
Bonds	\$ 44,741,579	\$ 6,910,000	\$ 7,550,000	\$ 44,101,579	\$ 1,190,000
Plus bond issuance premium	606,463	-	30,323	576,140	-
Less deferred amount on refunding	<u>(218,572)</u>	<u>(379,213)</u>	<u>(8,451)</u>	<u>(589,334)</u>	<u>-</u>
	45,129,470	6,530,787	7,571,872	44,088,385	1,190,000
Other obligations	<u>2,897,255</u>	<u>1,640,638</u>	<u>602,493</u>	<u>3,935,400</u>	<u>278,420</u>
	<u>\$ 48,026,725</u>	<u>\$ 8,171,425</u>	<u>\$ 8,174,365</u>	<u>\$ 48,023,785</u>	<u>\$ 1,468,420</u>

The additions for other obligations include \$1,074,133 of new draws on the School Bond Loan Fund, \$41,707 of additions to compensated absences, and 533,305 of additions to termination benefits.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 June 30, 2007

NOTE I—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

General obligation bonds consist of the following:

Durant bond obligation, payable in annual installments of up to \$143,123, plus interest at 4.76%. The School District is only obligated to make the annual principal and interest installments to the extent of annual State of Michigan state school aid appropriations for such installments.	\$ 246,579
2003 School Building and Site General Obligation Bond payable in annual installments ranging from \$975,000 to \$1,825,000 due May 2007 to May 2026; plus interest ranging from 2.0% to 5.25%	30,325,000
Plus issuance premium	576,140
2006 School Building and Site General Obligation Bond payable in annual installments ranging from \$25,000 to \$1,850,000 due May 2021 to May 2033; plus interest at 4.5%	6,620,000
Less deferred amount on refunding	(210,121)
2007 School Building and Site General Obligation Bond payable in annual installments ranging from \$40,000 to \$1,870,000 due May 2008 to May 2030; plus interest ranging from 4.0% to 4.2%	6,910,000
Less deferred amount on refunding	<u>(379,213)</u>
Total bonded debt	44,088,385

Other obligations

School Bond Loan Fund payable as soon as annual debt collections exceed annual debt service payment requirements; interest payable of \$10,325 is included at 5%.	2,855,944
Energy installment purchase obligation, payable in annual installments approximating \$275,000 including interest at 4.70%, with final payment in November 2008	504,000

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 June 30, 2007

NOTE I—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

Other obligations—Continued

Equipment purchase obligation payable in annual installments of \$28,420 plus interest at 2.85%, with final payment February 2009	\$ 56,840
Compensated absences and termination benefits	<u>518,616</u>
Total other obligations	<u>3,935,400</u>
	<u>\$ 48,023,785</u>

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 Nets Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

The annual requirements of principal and interest to amortize bonded debt, installment purchases and capital leases outstanding as of June 30, 2007 follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 1,468,420	\$ 2,015,966	\$ 3,484,386
2009	1,545,662	1,981,270	3,526,932
2010	1,433,123	1,981,717	3,414,840
2011	1,365,506	1,867,525	3,233,031
2011	1,416,719	1,812,711	3,229,430
2013-2017	7,777,989	8,118,551	15,896,540
2018-2022	9,050,000	6,023,470	15,073,470
2023-2027	9,450,000	3,735,800	13,185,800
2028-2032	9,325,000	1,638,678	10,963,678
2033-2037	1,830,000	82,350	1,912,350
	<u>\$ 44,662,419</u>	<u>\$ 29,258,038</u>	<u>\$ 73,920,457</u>

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED

June 30, 2007

NOTE J—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

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

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

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 through 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 rates for the year ended June 30, 2007, were 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 and 2005 were approximately \$2,877,000, \$2,533,000, and \$2,227,000, 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.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 June 30, 2007

NOTE K—COMMITMENTS AND CONTINGENCIES

Commitments

- **Construction Commitments** – The School District had an active construction project at year end. At June 30, 2007, the School District’s commitments with contractors are as follows:

	<u>Spent to date</u>	<u>Remaining commitment</u>
2003 Bond Issue	\$ <u>41,211,524</u>	\$ <u>953,965</u>

- **Building Leases** – The School District leases a building from DAGRE Enterprises, Inc. with monthly rentals of \$4,333 through June 2009. The lease also provides for a five-year renewal with monthly rentals of \$4,333.
- **Operating Leases** – The School District is involved in several lease agreements expiring at various dates through January 2012. The following is a schedule of future minimum rental payments required under operating leases for School District office equipment and transportation equipment.

<u>Year ending June 30,</u>	<u>Amount</u>
2008	\$ 269,400
2009	105,900
2010	16,400
2011	6,100
2012	<u>3,100</u>
	<u>\$ 400,900</u>

Contingencies

- **Litigation** – The School District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the School District’s legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the School District.
- **Grant Programs** – The School District participates in 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.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE L—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 82 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 M—SUBSEQUENT EVENT

On August 20, 2007, the School District received the proceeds of a \$4,696,000 Michigan Municipal Bond Authority note payable. The note payable is not subject to redemption prior to its maturity on August 20, 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 September 2007, the School District entered into a contract to remodel a building for an amount not to exceed \$200,000.

REQUIRED SUPPLEMENTARY INFORMATION

Orchard View Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

General Fund
Year ended June 30, 2007

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Local sources	\$ 3,071,498	\$ 3,162,513	\$ 3,225,377	\$ 62,864
State sources	18,310,950	17,987,156	18,041,434	54,278
Federal sources	786,094	749,684	787,833	38,149
Incoming transfers and other transactions	660,000	706,707	716,547	9,840
Total revenues	22,828,542	22,606,060	22,771,191	165,131
EXPENDITURES				
Instruction				
Basic programs	12,583,202	12,983,305	13,083,704	(100,399)
Added needs	1,886,901	2,115,479	2,259,103	(143,624)
Support services				
Pupil	998,963	950,765	966,659	(15,894)
Instructional staff	743,700	461,525	470,937	(9,412)
General administration	496,997	470,410	466,848	3,562
School administration	1,427,379	1,520,918	1,495,339	25,579
Business	351,436	347,585	379,727	(32,142)
Operation and maintenance	2,472,343	2,715,955	2,737,893	(21,938)
Pupil transportation services	1,097,087	1,050,975	1,070,545	(19,570)
Central	454,646	501,942	462,498	39,444
Other	64,600	53,482	46,704	6,778
Community services	-	-	982	(982)
Outgoing transfers and other transactions	1,044,900	826,832	860,184	(33,352)
Total expenditures	23,622,154	23,999,173	24,301,123	(301,950)
Excess (deficiency) or revenues over (under) expenditures	\$ (793,612)	\$ (1,393,113)	(1,529,932)	\$ (136,819)
Fund balances at July 1, 2006			2,264,730	
Fund balances at June 30, 2007			\$ 734,798	

Orchard View Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
Community Services Fund
Year ended June 30, 2006

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Local sources	\$ 1,037,670	\$ 1,013,891	\$ 1,104,655	\$ 90,764
State sources	2,117,436	2,227,667	1,678,136	(549,531)
Federal sources	2,777,738	3,452,413	3,926,988	474,575
Incoming transfers and other transactions	200,000	168,357	32,227	(136,130)
Total revenues	6,132,844	6,862,328	6,742,006	(120,322)
EXPENDITURES				
Instruction				
Basic programs	316,332	605,218	636,728	(31,510)
Pre-School	232,827	-	-	-
Adult and continuing education	1,446,017	1,482,425	984,787	497,638
Support services				
Pupil	21,191	66,073	66,400	(327)
Instructional staff	276,508	343,410	308,132	35,278
General administration	30,517	30,204	16,574	13,630
School administration	123,657	112,394	109,253	3,141
Operations and maintenance	304,929	295,312	254,355	40,957
Pupil transportation services	8,902	9,328	6,258	3,070
Central	5,000	21,000	20,973	27
Other	2,000	-	-	-
Community services	3,364,964	3,896,964	3,764,634	132,330
Total expenditures	6,132,844	6,862,328	6,168,094	694,234
Excess (deficiency) or revenues over (under) expenditures	\$ -	\$ -	573,912	\$ 573,912
Fund balances at July 1, 2006			1,277,140	
Fund balances at June 30, 2007			\$ 1,851,052	

OTHER SUPPLEMENTAL INFORMATION

Orchard View Schools
COMBINING BALANCE SHEET
 Other Governmental Funds
 June 30, 2007

	Total other governmental funds	School Services		Debt Services		Capital Projects	Non-expendable Trust Fund
		Food Service	Athletic	2003 Debt Service	Debt Service	Building and site	
ASSETS							
Cash and cash equivalents	\$ 297,377	\$ 202,555	\$ 18,401	\$ 48,258	\$ -	\$ -	\$ 28,163
Receivables	7,643	-	-	-	-	-	7,643
Due from other governmental units	121,153	115,776	-	5,377	-	-	-
Due from other funds	83,788	22,552	4,268	-	-	56,968	-
Inventories	9,331	9,331	-	-	-	-	-
Total assets	\$ 519,292	\$ 350,214	\$ 22,669	\$ 53,635	\$ -	\$ 56,968	\$ 35,806
LIABILITIES AND FUND BALANCES (DEFICITS)							
Liabilities							
Accounts payable	\$ 83,022	\$ 83,022	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	76,314	11,194	22,274	42,846	-	-	-
Total liabilities	159,336	94,216	22,274	42,846	-	-	-
Fund balances (deficits)							
Reserved for:							
Inventories	9,331	9,331	-	-	-	-	-
Permanent funds	35,806	-	-	-	-	-	35,806
Unreserved							
Undesignated	314,819	246,667	395	10,789	-	56,968	-
Total fund balances	359,956	255,998	395	10,789	-	56,968	35,806
Total liabilities and fund balances	\$ 519,292	\$ 350,214	\$ 22,669	\$ 53,635	\$ -	\$ 56,968	\$ 35,806

Orchard View Schools
**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)**
Other Governmental Funds
For the year ended June 30, 2007

	Total other governmental funds	School Services		Debt Services		Capital Projects	Non-expendable Trust Fund
		Food Service	Athletic	2003 Debt Service	Debt Service	Building and site	
REVENUES							
Local sources							
Property taxes	\$ 2,072,987	\$ -	\$ -	\$ 2,072,987	\$ -	\$ -	\$ -
Investment earnings	24,779	6,202	-	18,161	-	-	416
Fees and charges	413,740	321,559	92,181	-	-	-	-
Total local sources	2,511,506	327,761	92,181	2,091,148	-	-	416
State sources	68,531	68,531	-	-	-	-	-
Federal sources	733,679	733,679	-	-	-	-	-
Total revenues	3,313,716	1,129,971	92,181	2,091,148	-	-	416
EXPENDITURES							
Food services	1,054,938	1,054,938	-	-	-	-	-
Athletics	593,405	-	593,405	-	-	-	-
Debt service							
Principal	1,345,000	-	-	1,100,000	245,000	-	-
Interest and other charges	2,108,241	-	-	2,078,796	29,445	-	-
Advance refunding escrow	-	-	-	-	-	-	-
Bond refunding costs	80,787	-	-	80,787	-	-	-
Total expenditures	5,182,371	1,054,938	593,405	3,259,583	274,445	-	-
Excess (deficiencies) revenues over (under) expenditures	(1,868,655)	75,033	(501,224)	(1,168,435)	(274,445)	-	416
OTHER FINANCING SOURCES (USES)							
Loan proceeds	1,074,133	-	-	1,074,133	-	-	-
Proceeds of refunding bonds	6,910,000	-	-	6,910,000	-	-	-
Discount on refunding bonds	(93,757)	-	-	(93,757)	-	-	-
Transfers in	775,831	-	501,386	-	274,445	-	-
Payment to refunded bond escrow agent	(6,735,456)	-	-	(6,735,456)	-	-	-
Transfers to other governmental units and other transactions	(16,870)	(16,870)	-	-	-	-	-
Total other financing sources	1,913,881	(16,870)	501,386	1,154,920	274,445	-	-
Net change in fund balances	45,226	58,163	162	(13,515)	-	-	416
Fund balances at July 1, 2006	314,730	197,835	233	24,304	-	56,968	35,390
Fund balances (deficit) at June 30, 2007	\$ 359,956	\$ 255,998	\$ 395	\$ 10,789	\$ -	\$ 56,968	\$ 35,806

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

October 4, 2007

Board of Education and
B. Jack Vanderwall
Orchard View Schools
Muskegon, MI

In planning and performing our audit of the financial statements of Orchard View Schools 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 Orchard View School'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

Cash receipts

Recommendation 1: Community Education cash receipt review procedure should be strengthened.

During our year end testing, we noted several Community Education cash receipts that required reclassification because they were recorded in the incorrect account and/or incorrect fiscal year.

The strengthening of review procedures in Community Education cash receipt function would reduce the opportunity for receipts to be recorded in the incorrect fiscal year and/or general ledger account.

Fixed assets

Recommendation 2: School District personnel should consider maintaining the property, plant and equipment records.

Currently, the School District contracts with a company to maintain its property, plant and equipment records. The third party fixed asset inventory report was prepared utilizing a completely new data base that did not reconcile with the prior year report.

The maintenance of these records by School District personnel familiar with the schools assets would increase the accuracy of these records and would provide School District personnel with immediate access to asset information.

Purchase cards

Recommendation 3: Purchase card transactions should have the account distribution clearly identified in the voucher package.

During our audit testing, we noted several purchase card transactions that lacked the general ledger account distribution on the supporting documentation.

The account distribution should be clearly documented for all purchase card transactions to reduce the possibility of purchase card transactions being misclassified.

Cash requests

Recommendation 4: Cash requests and reporting for Head Start and Title I programs should be reviewed and approved.

Cash requests and reporting are prepared based on current expense reports but they are not reviewed and approved by an appropriate official.

The review and approval of cash requests will reduce the risk of non-compliance with federal regulations.

Orchard View Schools
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**
Financial Report and
Independent Auditors' Reports
June 30, 2007

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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***

October 4, 2007

Board of Education
Orchard View Schools
Muskegon, Michigan

We have audited the financial statements of Orchard View Schools as of and for the year ended June 30, 2007 and have issued our report thereon dated October 4, 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 Orchard View Schools' 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 Orchard View Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Orchard View Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified 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 - 4, 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.

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.

Board of Education
October 4, 2007
Page 2

Compliance

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

Orchard View Schools' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Orchard View Schools' responses and, accordingly, we express no opinion on them.

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, PLC

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

October 4, 2007

Board of Education
Orchard View Schools
Muskegon, Michigan

Compliance

We have audited the compliance of Orchard View Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Orchard View Schools' 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 Orchard View Schools' management. Our responsibility is to express an opinion on Orchard View Schools' compliance based on our audit.

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

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

Internal Control Over Compliance

The management of Orchard View Schools 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 Orchard View Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Orchard View Schools' internal control over compliance.

Board of Education
October 4, 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 a deficiency in internal control over compliance that we consider to be a significant deficiency.

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 the deficiency in internal control over compliance described in Part C in the accompanying Schedule of Findings and Responses as Finding 4 to be a significant deficiency.

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.

Orchard View Schools' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Orchard View Schools' response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Orchard View Schools as of and for the year ended June 30, 2007 and have issued our report thereon dated October 4, 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.



Orchard View Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued	Cash or	Expenditures			Accrued
			(deferred) revenue July 1, 2006	payments in kind received (cash basis)	Prior year	Current year	Total	(deferred) revenue June 30, 2007
<i>U.S. Department of Education</i>								
Programs passed through Michigan								
Department of Education:								
Adult Basic Education English Literacy / Civics	84.002							
061120-6500655		\$ 8,600	\$ (849)	\$ 1,305	\$ 6,446	\$ 2,154	\$ 8,600	\$ -
071120-7500657		16,900	-	14,203	-	16,900	16,900	2,697
		<u>25,500</u>	<u>(849)</u>	<u>15,508</u>	<u>6,446</u>	<u>19,054</u>	<u>25,500</u>	<u>2,697</u>
Title I	84.010							
071530-0607		435,463	-	397,225	-	432,027	432,027	34,802
Total		<u>435,463</u>	<u>-</u>	<u>397,225</u>	<u>-</u>	<u>432,027</u>	<u>432,027</u>	<u>34,802</u>
Handicapped Preschool & School Improvement								
070440-0607	84.027	4,500	-	4,500	-	4,500	4,500	-
Even Start	84.213							
060390-C0616CES		225,000	25,201	25,201	225,000	-	225,000	-
070390-C0719CES		225,000	-	185,377	-	225,000	225,000	39,623
		<u>450,000</u>	<u>25,201</u>	<u>210,578</u>	<u>225,000</u>	<u>225,000</u>	<u>450,000</u>	<u>39,623</u>
Title V	84.298							
070250-0607		3,441	-	3,441	-	3,441	3,441	-
		<u>3,441</u>	<u>-</u>	<u>3,441</u>	<u>-</u>	<u>3,441</u>	<u>3,441</u>	<u>-</u>
Hurricane Katrina Relief	84.938C							
64120 1		140	102	140	102	38	140	-
Technology Literacy	84.318							
064290-0506		8,124	927	927	8,124	-	8,124	-
074290-0607		4,470	-	4,470	-	4,470	4,470	-
		<u>12,594</u>	<u>927</u>	<u>5,397</u>	<u>8,124</u>	<u>4,470</u>	<u>12,594</u>	<u>-</u>
Improving Teacher Quality	84.367							
060520-0607		60,511	-	60,511	-	60,511	60,511	-
070520-0607		160,193	-	80,096	-	90,020	90,020	9,924
		<u>220,704</u>	<u>-</u>	<u>140,607</u>	<u>-</u>	<u>150,531</u>	<u>150,531</u>	<u>9,924</u>
Total passed through Michigan Department of Education		1,152,342	25,381	777,396	239,672	839,061	1,078,733	87,046

Orchard View Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2007
					Prior year	Current year	Total	
U.S. Department of Education—Continued								
Programs passed through Muskegon Area Intermediate School District:								
Federal Adult Education ABE Instruction								
610586	84.002	\$ 23,000	\$ 23,000	\$ -	\$ 23,000	\$ -	\$ 23,000	\$ 23,000
061130-710587		34,200	-	17,500	-	34,200	34,200	16,700
071130-710587		133,932	(34,129)	42,600	48,785	85,147	133,932	8,418
		<u>191,132</u>	<u>(11,129)</u>	<u>60,100</u>	<u>71,785</u>	<u>119,347</u>	<u>191,132</u>	<u>48,118</u>
Drug free schools need	84.186	9,833	-	-	-	9,833	9,833	9,833
Total passed through Muskegon Area Intermediate School District		<u>200,965</u>	<u>(11,129)</u>	<u>60,100</u>	<u>71,785</u>	<u>129,180</u>	<u>200,965</u>	<u>57,951</u>
Total U.S. Department of Education		1,353,307	14,252	837,496	311,457	968,241	1,279,698	144,997
U.S. Department of Agriculture								
Programs passed through Michigan Department of Education:								
National School Lunch and Breakfast								
Entitlement commodities	10.550	47,103	-	-	-	47,103	47,103	47,103
Bonus commodities		2,158	-	-	-	2,159	2,159	2,159
		<u>49,261</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,262</u>	<u>49,262</u>	<u>49,262</u>
Nutrition Cluster								
061970 Breakfast	10.553	103,479	17,383	30,273	90,589	12,890	103,479	-
071970 Breakfast		111,779	-	91,827	-	111,779	111,779	19,952
		<u>215,258</u>	<u>17,383</u>	<u>122,100</u>	<u>90,589</u>	<u>124,669</u>	<u>215,258</u>	<u>19,952</u>
061950 All lunches	10.555	64,624	11,096	22,285	22,285	11,189	33,474	-
061960 Free and reduced		125,589	67,011	127,976	64,624	60,965	125,589	-
071950 All lunches		447,111	-	59,901	375,184	71,927	447,111	12,026
071960 Free and reduced		415,402	-	339,224	-	415,402	415,402	76,178
071980 Snack		265	-	265	-	265	265	-
		<u>1,052,991</u>	<u>78,107</u>	<u>549,651</u>	<u>462,093</u>	<u>559,748</u>	<u>1,021,841</u>	<u>88,204</u>
Total nutrition cluster		1,268,249	95,490	671,751	552,682	684,417	1,237,099	108,156
061920 Child Care Food Program	10.558	2,742	-	2,742	-	2,742	2,742	-
071920 Child Care Food Program		9,189	-	9,189	-	9,189	9,189	-
		<u>11,931</u>	<u>-</u>	<u>11,931</u>	<u>-</u>	<u>11,931</u>	<u>11,931</u>	<u>-</u>
Total U.S. Department of Agriculture		1,329,441	95,490	683,682	552,682	745,610	1,298,292	157,418

Orchard View Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2007
					Prior year	Current year	Total	
U.S. Department of Health and Human Services								
Programs passed through Muskegon Area Intermediate School District:								
Medical Assistance Program XIX 393	93.778	\$ 464	\$ -	\$ 464	\$ -	\$ 464	\$ 464	\$ -
Head start program	93.600							
05CH8258/07		789,060	61,278	432,406	417,932	371,128	789,060	-
05CH8258/08		442,369	-	254,069	-	437,762	437,762	183,693
		<u>1,231,429</u>	<u>61,278</u>	<u>686,475</u>	<u>417,932</u>	<u>808,890</u>	<u>1,226,822</u>	<u>183,693</u>
Total U.S. Department of Health and Human Services		1,231,893	61,278	686,939	417,932	809,354	1,227,286	183,693
U.S. Department of Labor								
Programs passed through County of Muskegon:								
Workforce Investment Act	17.258							
409595/WIA-04/05		1,124,505	431,258	565,717	786,594	134,459	921,053	-
409595/WIA-05/06		789,060	-	325,159	-	325,159	325,159	-
409595/WIA-06/07		442,369	-	241,986	-	472,245	472,245	230,259
		<u>2,355,934</u>	<u>431,258</u>	<u>1,132,862</u>	<u>786,594</u>	<u>931,863</u>	<u>1,718,457</u>	<u>230,259</u>
Welfare to Work	17.253							
409595/WP-0608		176,869	-	176,869	-	176,869	176,869	-
601445/WP-0608		58,540	-	58,540	-	58,540	58,540	-
601445/WP-0305		57,006	-	57,006	-	57,006	57,006	-
409595/WR-06		747,382	-	747,382	-	747,382	747,382	-
409595/WR-07		784,626	-	784,626	-	784,626	784,626	-
		<u>1,824,423</u>	<u>-</u>	<u>1,824,423</u>	<u>-</u>	<u>1,824,423</u>	<u>1,824,423</u>	<u>-</u>
Total U.S. Department of Labor		4,180,357	431,258	2,957,285	786,594	2,756,286	3,542,880	230,259
U.S. Department of Home Land Security								
Programs passed through Michigan State Police								
School Initiative Exercise Grant	97.004	11,225	701	701	1,912	-	1,912	-
Federal Communications Commission								
Passed through the Universal Services Administration Company								
1996 Telecommunications Act Snow Rockefeller Amendment	32	794	-	794	-	794	794	-
TOTAL FEDERAL ASSISTANCE		<u>\$ 8,107,017</u>	<u>\$ 602,979</u>	<u>\$ 5,166,897</u>	<u>\$ 2,070,577</u>	<u>\$ 5,280,285</u>	<u>\$ 7,350,862</u>	<u>\$ 716,367</u>

The accompanying notes are an integral part of this schedule.

Orchard View Schools
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2007

1. Please see the financial statements footnotes for the significant accounting policies used in preparing 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 federal awards.

Revenues from federal sources per June 30, 2007 financial statements			
General Fund	\$	787,833	
Other governmental funds (including Food Service Fund)		733,679	
Community Service Fund		3,926,988	\$ 5,448,500
Less local revenues included in Child Care Food Program federal revenues in the financial statements			(641)
Less local revenues included in welfare to work federal revenues in the financial statements			(4,892)
Less local revenues included in Katrina federal revenues in the financial statements			(39)
Plus Adult Education Program federal revenues included in state revenues in the financial statements			19,054
Less state grants for Medicaid included in federal revenues in the financial statements			(181,697)
Expenditures per single audit report			
Schedule of Federal Financial Assistance	\$		5,280,285

Orchard View Schools
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 Orchard View Schools.
2. **Four (4)** 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. **No** instances of noncompliance material to the financial statements of Orchard View Schools were disclosed during the audit as reported in Part B of this schedule.
4. **One (1)** significant deficiency disclosed during the audit of the major federal award programs is 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 is reported in Parts B and C of this schedule. The significant deficiency is not reported as a material weakness.
5. The auditors' report on compliance for the major federal award programs for Orchard View Schools expresses an unqualified 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 Agriculture</i> National School Lunch Cluster	10.553, 10.555, 10.556 and 10.559
<i>U.S. Department of education</i> Title I	84.010
<i>U.S. Department of Health and Human Services</i> Head Start	93.600

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Orchard View Schools was determined to be a low-risk auditee.

Orchard View Schools
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: Purchase Card Documentation Procedures

Criteria: Purchase card transactions should document the account number distribution for all transactions.

Condition: Several purchase card transactions were missing the account distribution to support the posting of the transactions to the general ledger.

Cause: The missing account numbers were due to non-compliance with the School District's established policy regarding coding of account number distributions.

Effect: Inappropriate recording of expenditures could occur if established School District policies are not followed.

Recommendation: Purchase card transactions should have the account distribution clearly identified in the voucher package.

School District Response: The School District agrees with the finding.

Fiscal 2007 Finding No. 2: Community Education Cash Receipt Documentation Procedures

Criteria: The documentation for all cash receipts should clearly identify the account distribution and applicable fiscal year to record the receipt in the proper general ledger account and fiscal year.

Condition: Several Communication Education cash receipts did not include proper account number distributions and date to enable staff to record the cash receipts in the proper general ledger account and/or fiscal year.

Cause: The missing documentation was due to non-compliance with the School District's established policy regarding documentation of Communication Education cash receipts.

Effect: Inappropriate general account numbers were utilized to record Community Education cash receipts in the improper fiscal year.

Recommendation: The School District's established Community Education cash receipt documentation procedures should be followed by employees.

School District Response: The School District agrees with the finding.

Orchard View Schools
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

SIGNIFICANT DEFICIENCIES—Continued

Fiscal 2007 Finding No. 3: Detailed Fixed Asset Record Procedures

Criteria: A detailed inventory of fixed assets should be maintained for both insurance and financial statement purposes.

Condition: An inventory of fixed assets is maintained by a third party inventory company. The inventory report did not reconcile with prior year reports due to the inaccurate preparation of a completely new data base for the inventory.

Cause: The data base used by the third party inventory company is not date sensitive and could not provide for a list of additions and deletions of School District assets.

Effect: The data base caused the reconciling of the fixed assets records with the School District's financial statements to be very difficult.

Recommendation: The School District should consider maintaining its own data base of the physical inventory of fixed assets or seek another third party to maintain such records.

School District Response: The School District agrees with the finding.

U.S. Departments of Health and Human Services and Education

**Fiscal 2007 Finding No. 4: Review and Approval Procedures for Title I and Head Start Programs
Title I, Part A**

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Numbers: 071530 0607

Award Year Ends: September 30, 2007

Head Start

Pass-through entity: Muskegon Area Intermediate School District

CFDA: 93.600

Award Numbers: 05CH82581070 and 05CH8258108

Award Year Ends: November 30, 2007 and November 30, 2008

Specific Requirement: Cash Management and Reporting

Criteria: Per OMB Circular A-133 § ___.105 Definitions, 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 are no internal control procedures in place requiring a review or approval of work performed under Title I and Head Start cash management and reporting functions.

Orchard View Schools
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

SIGNIFICANT DEFICIENCIES—Continued

U.S. Departments of Health and Human Services and Education

**Fiscal 2007 Finding No. 4: Review and Approval Procedures for Title I and Head Start Programs—
*Continued***

Cause: Most of the above functions are performed by management level personnel with few options of available personnel to review and approve their work.

Questioned Costs: None

Context: The above compliance areas did not have review procedures, and there were no compliance findings.

Effect: The lack of a review or approval of the noted compliance areas increases the risk of a material error/misstatement going undetected in the normal course of operations.

Recommendation: Review and approval procedures should be implemented for the Title I Head Start cash management and reporting functions.

School District Response: The School District agrees with the finding.

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

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

See Finding 4 in Part B above.

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

October 4, 2007

Michigan Department of Education
Lansing, Michigan

Orchard View Schools respectfully advises you that there were *no* audit findings or questioned costs reported in our single audit report, dated September 14, 2006, for the year ended June 30, 2006.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Jack Vanderwall", followed by a long horizontal flourish.

B. Jack Vanderwall
Superintendent

CORRECTIVE ACTION PLAN

October 4, 2007

Michigan Department of Education
Lansing, Michigan

Orchard View Schools 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 reported in relation to the financial statement audit.

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 1: Purchase Card Documentation Procedures

Recommendation: Purchase card transactions should have the account distribution clearly identified in the voucher package.

Action Taken: The School District has developed a form that provides documentation for the account distribution and supervisor approval.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

Fiscal 2007 Finding No. 2: Community Education Cash Receipts Documentation Procedures

Recommendation: The School District's established Community Education cash receipts documentation procedures should be followed by employees.

Action Taken: Community Education personnel will provide adequate cash receipt documentation in accordance with School District policies.

Fiscal 2007 Finding No. 3: Detailed Fixed Asset Record Procedures

Recommendation: The School District should consider maintaining its physical inventory of fixed assets or seek another third party to maintain such records.

Action Taken: The School District is considering the purchase of software to maintain fixed asset physical inventories.

U.S. Departments of Health and Human Services and Education

**Fiscal 2007 Finding No. 4: Review and Approval Procedures for Title I and Head Start Programs
Cash requests**

Recommendation: Review and approval procedures should be established for the Title I and Head Start cash management and reporting functions.

Action Taken: Review and approval procedures have been developed for Title I and Head Start cash management and reporting functions.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

There were *no* compliance findings reported in relation to major federal award programs.

SIGNIFICANT DEFICIENCIES

See Finding 4 in Part B above.

If the Michigan Department of Education has questions regarding this plan, please call B. Jack Vanderwall at (231) 760-1300.

Sincerely,



B. Jack Vanderwall, Superintendent