

South Lyon Community Schools

**Financial Report
with Supplemental Information
June 30, 2007**

**Comprehensive
Annual Financial Report
of
South Lyon Community
Schools
345 South Warren
South Lyon, Michigan 48178**

For the Fiscal Year Ended
June 30, 2007
Dr. William A. Pearson
Superintendent of Schools

Board of Education

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South Lyon Community Schools

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Issued Under
Separate
Cover

October 17, 2007

To Citizens and Board Members:

The Comprehensive Annual Financial Report of South Lyon Community Schools for the fiscal year ended June 30, 2007 is submitted herewith. This report was prepared by the business department and contains all activities under the control of the Board of Education. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the School District. We believe that the data as presented is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and results of operations of the School District as measured by the financial activity of its various funds with all disclosures necessary to enable the reader to gain the maximum understanding of the School District's financial affairs.

Reporting Entity and Services

The South Lyon Community School District is an independent reporting entity fully meeting the criteria established by the Governmental Accounting Standards Board. All funds of the School District are included in this report. The School District does not have component units.

The financial section reports separately the governmental fund types, proprietary fund type, and the fiduciary fund type administered by the board.

Report Organization

This Comprehensive Annual Financial Report was prepared to provide important information, both financial and nonfinancial in nature, to be used not only by the Board of Education and other administrative officers of the School District, but also by many other groups including taxpayers and patrons of the School District, investors and creditors, grantor agencies, the State of Michigan and other oversight entities, consumer groups, and School District employees.

This report is divided into the following major sections:

Introductory Section

This section introduces the reader to the South Lyon Community School District and to this report. Included are facts about the School District, this transmittal letter, the School District's organization chart, and the Association of School Business Officials Certificate of Excellence in Financial Reporting for the year ended June 30, 2006.

Financial Section

The financial section includes the independent auditor's report on the financial statements and schedules, management's discussion and analysis, government-wide financial statements, the fund financial statements, notes to the financial statements, and required and other supplemental information.

Management is responsible for the financial information and representations contained in the financial statements and other sections of the annual report. In preparing the financial statements, it is necessary that management make informed estimates and judgments based on currently available information of the effects of certain events and transactions.

The management's discussion and analysis, which includes an analysis of the School District's financial position and results of operations, government-wide financial statements, fund financial statements, and supplemental statements and schedules presented in the financial section of this report, presents fairly and with full disclosure the financial position and results of the financial operation at the fund and government-wide levels in conformity with accounting principles generally accepted in the United States of America and demonstrate compliance with finance-related legal and contractual provisions.

The basis of accounting for each fund is consistent with the activities and objectives of the fund as a fiscal and accounting entity.

The supplemental statements and schedules contain a more detailed analysis of revenues and expenditures that are compared to the 2006-2007 budget for the General Fund. Other supplemental information includes the balance sheet and statement of revenue, expenditures, and changes in fund balances as well as statements and schedules containing a more detailed analysis of revenues and expenditures that are compared to the 2006-2007 budget for nonmajor governmental funds as well as the schedule of bonded indebtedness detailing interest rates and annual maturities, schedules of capital assets by building and by source, schedules of long-term debt, and schedules of cash, cash equivalents, and investments.

Statistical Section

Although this section contains substantial financial information, these tables differ from financial statements in that they present some nonaccounting data, compare 10 years of data, and are intended to reflect economic data, financial trends, and the fiscal capabilities of the School District.

About South Lyon Community School District

The Community

The South Lyon Community School District is located in a suburban/rural area of the southeastern section of Michigan, with close proximity to Detroit, Lansing, Ann Arbor, and Flint. The School District encompasses nearly 83 square miles and includes portions of Oakland, Washtenaw, and Livingston Counties. Included in Oakland County are all of the City of South Lyon and a portion of Lyon Township, Milford Township, the City of Novi, and the City of Wixom. In Washtenaw County, included is a portion of Salem Township and Northfield Township. In Livingston County, the School District includes a portion of Green Oak Township.

The School District continues to be a desirable area, and is one of the fastest growing in Michigan. Of the total taxable value of the School District, over 70 percent is considered the primary residence or agricultural property of the taxpayer. Although there is not a number for the district, the median household income for the City of South Lyon and Lyon Township was \$53,395 and \$67,288, respectively, according to the 2000 census.

With the proximity to major cities in Michigan, residents of the School District have many job opportunities. For example, compared to a state unemployment average of 7.4 percent for June 2007, Oakland County enjoyed an average unemployment rate of 6.7 percent.

The School Program

The South Lyon Community School District is a leader in curriculum, instruction, assessments, and technology. Student scores on the state assessment test (MEAP) exceed the state averages and all schools are accredited by the North Central Association of Colleges and Schools (NCA).

The School District has a comprehensive and model core curriculum in the areas of language arts, mathematics, social studies, science, music, physical education, visual and performing arts, technology, and health. All curriculums are aligned with the state standards and benchmarks. A five-year plan guides the School District through a five-phase cycle of curriculum renewal: review/revise, installation, implementation, institutionalization, and evaluation. This process involves teachers from all levels and schools in a constant upgrading of curriculum, instruction, assessments, and technology. Technology is viewed as a tool to facilitate learning in any subject area and is integrated into the K-12 curriculum. All students and staff have use of the wide area network for teaching and learning purposes.

The School District also offers programs for students with special interest and learning needs. These include advanced placement opportunities, school to work programs, a variety of languages in the middle and high schools (German, Spanish, French, and Japanese), reading recovery/title I support, essential skills support for at-risk students, tutorial services, and programs for special education and academically talented students.

The School District participates in the county-wide Schools of Choice option and also offers internal choice options where families may choose to attend any elementary school. In addition, to increase continuity of learning experiences, kindergarten students attend school all day, every other day. The School District also offers adult education, senior citizen opportunities, Kids Club for latch key students, and both state and tuition-based preschool programs.

The South Lyon Community School District is proud of the rich and varied educational opportunities we provide. While the School District population continues to grow each year, it continues to enjoy strong parent and community support for its students and programs.

The School District has a preschool program, seven kindergarten through grade 5 elementary schools, two grade 6 through 8 middle schools, and two grade 9 through 12 high schools. Also, there is an Alternative Education Program and Senior Citizen Program. In addition, there are two support facilities. The actual 2006-2007 full-time equivalent fall student count was 7,004.66; however, the official state count was 6,972.67. The official count is calculated by taking 75 percent of the current year fall count and adding it to 25 percent of the previous school year winter count.

Service Efforts and Accomplishments

Board Goals

In August 2003, a new strategic planning session of 60 community members comprised of board members, administrators, teachers, support staff, and parents was held to adopt goals for the next five years. These goals are meant to address the needs of the School District through the 2007-2008 fiscal year:

- **Curriculum** - To continue regular curriculum review, ensuring that the designed and implemented curriculum is meeting the School District's stated educational purpose
- **Instruction K-8** - To create an environment that incorporates a variety of educational models and instructional strategies that result in the student being an active learner and producer of knowledge
- **Technology** - To implement a plan where appropriate technology is integrated into and utilized in the learning community
- **Assessments** - To interpret and utilize a variety of assessment data to improve instruction and achievement
- **Staff Development** - To provide learning opportunities for all members of the learning community in line with research and best practices
- **Growth** - To develop and implement a plan to accommodate the growth of the student population and its impact on the entire School District for the next five years

- **Operational Systems** - To identify and prioritize the operational systems of the School District, implementing the processes, and allocating the resources necessary to continually improve the effectiveness and efficiency of those systems
- **Healthy Learning Community** - To establish and maintain a positive environment where effective relationships among all participants include: respectful, cooperative interactions, open communication, an environment of trust, attention to student and staff well-being, a safe, secure environment, and pride in the school community

Accreditation

All of the School District's high schools, middle schools, and elementary schools are accredited by the North Central Association of Colleges and Schools (NCA). In addition, Michigan's Summary Accreditation Standards continue to be applied to all schools in Michigan. A school's Summary Accreditation status is primarily based on the results from the Michigan Educational Assessment Program (MEAP) and/or High School Proficiency Test.

Education Yes!

To comply with the federal "No Child Left Behind" legislation, Michigan has created Education Yes! Under this program, all Michigan schools will be graded annually by considering MEAP scores, a comparison of scores over time, and other factors such as parent involvement. For 2006-2007, all schools received a grade of "A," except South Lyon High School, which received a "B."

MEAP

The South Lyon Community Schools' three-year trend MEAP results show an overall upward trend across a five-year span. At the elementary level, in terms of meeting or exceeding the test standards, there was a rise in math, science, and social studies. At the middle school level, scores rose in reading, English language arts (ELA), math, and social studies. All test scores at the elementary and middle school grades exceeded the state averages.

The high school MEAP scores were increased in social studies, and were greater than the state average in all subject areas in terms of meeting or exceeding the test standards.

2006-2007 School Improvement Goals

In 1990, the State of Michigan Legislature passed Public Act 25. This act addressed a number of issues, one being school improvement. The act requires that each school building submit an annual school improvement plan. This plan must identify goals, procedures, assessment, cost, resources required, and staff development needs. All of our building plans met the state requirements and the results of each buildings plan were presented in June 2007.

Employee Contracts

The teacher's union, the SLEA, has a contract that runs through the 2007-2008 fiscal year. The custodial, maintenance, food service, and transportation union (SLESPA) contract runs through the 2009-2010 fiscal year. The secretary's union (MESPA) contract runs through the 2010-2011 fiscal year.

New Facilities and Expansions

In 1999, the School District's facilities and growth committee presented a report to the Board of Education. This report detailed the committee's recommendation for a \$67 million bond issue to deal with the continued growth of the School District. The major components of this recommendation were for two new elementary schools, conversion of Centennial Elementary to a middle school, and the purchase of land for future buildings. The ballot question was overwhelmingly approved by School District voters.

In August 2001, both Kent Lake Elementary and the new Early Childhood Center opened. In addition, the expansion of the Center for Active Adults was accomplished during the summer of 2001. In August 2003, the remodeling and expansion of Centennial Middle School was accomplished and the school opened as the second middle school for the School District. In August 2004, the final building of the bond issue, Hardy Elementary, was completed.

In 2002, voters approved a \$98,850,000 bond issue, which resulted from a bond facility committee report to the Board of Education entitled, *Justified by Growth and Paid for By Growth*, which recommended the bond issue for the primary purpose of building a second high school for the School District (South Lyon East High School opened in August 2007). In addition, the report recommended dollars for a special education wing for Hardy Elementary (completed in August 2004), projects at Bartlett and Salem Elementary, Millennium Middle School and South Lyon High School, construction of a new transportation/maintenance facility (the Griswold Operations Center is expected to open in winter 2007), land purchases, and other various capital projects.

Eight-year Financial Forecast

To assist the School District in providing for financial stability, the School District utilizes an eight-year rolling financial forecast. This forecast takes into account such areas as projected student enrollment, employee compensation, and future facility operating costs to ensure that the School District has a sound long-term financial plan. This forecast includes the operating costs associated with all bond projects, including South Lyon East High School.

Financial Stability

The 2006-2007 fiscal year marks the fourteenth consecutive year that the School District's General Fund has finished the year with a surplus of revenues over expenditures as well as an overall positive fund balance.

Bus Fleet Rated Excellent

For the 2006-2007 fiscal year, the School District received an "excellent" rating from the Michigan state police in its required annual inspection of buses.

Budget Award

The South Lyon Community School District continues to be one of only three school districts in Michigan that has been awarded the Meritorious Budget Award from the Association of School Business Officials International (ASBO). The School District has submitted budgets for the 1995-1996 through the 2006-2007 fiscal years and received the award for all 12 years.

The Meritorious Budget Awards Program is a voluntary program sponsored by ASBO International. It was designed by school business management professionals to enable school business administrators to achieve a standard of excellence in budget presentation. The program helps school systems build a solid foundation in the skills of developing, analyzing, and presenting a budget.

The Meritorious Budget Award is only conferred to school systems that have met or exceeded the Meritorious Budget Award Program criteria. No other organization or award program is specifically designed to enhance school budgeting and honor a school system for achieving excellence in budget presentation. South Lyon Community Schools is one of only three Michigan school districts to receive this award.

Economic Outlook

With the passage of Proposal A in early 1994, the funding of school districts in Michigan was drastically changed. The previous reliance on property taxes as the main revenue source for school districts was changed to a system that added heavy reliance on sales and income taxes. With this shift in funding, school districts are more likely to be impacted by changes in the State's economy.

In addition, the control of revenues has shifted to the state level. The state legislature sets the dollar amount increase each school district will receive annually. Since the State uses its General Fund dollars to supplement the cost of K-12 education, the legislature has no legal responsibility to increase funding to school districts. Therefore, local school districts are dependent on the state legislature for not only the majority of revenues, but also the funding level.

Increases in the allocation (foundation grant) per student had increased at a rate near inflation for South Lyon Community Schools for the years 1995-1996 through 1997-1998. For the 1998-1999 fiscal year, there was no increase in the foundation grant. From 1999-2000 to 2001-2002, there was a foundation grant increase greater than inflation, while the 2002-2003 increase was lower than inflation.

Due to the poor economy, the State of Michigan froze the per pupil funding for 2003-2004 at the 2002-2003 level. This freeze had a major impact on school districts throughout Michigan, many of which have already made program cuts or plan on using fund balance dollars. For South Lyon Community Schools, no cuts were made. For 2004-2005, the situation was the same. The per pupil funding continued to be frozen at the 2002-2003 level. Again, many districts made significant budget reductions. South Lyon is only one of a handful of districts in the five-county area that balanced the budget without cuts or use of fund balance.

For 2005-2006, there was an increase in the per pupil foundation allowance of 2.59 percent. However, due to the impact of the two previous years of no increase in the foundation allowance and lower than expected enrollment increases, the School District's budget for 2005-2006 included about \$800,000 in budget reductions, primarily in the support areas of the district.

For 2006-2007, there was an increase of 3.36 percent, which was close to the inflation rate. While there were no budget reductions, staffing levels were essentially frozen at the 2005-2006 levels.

For 2007-2008, the budget assumes a 2.59 percent increase in the foundation, but due to lower than expected enrollment increases for the next few years, as well as the new costs associated with South Lyon East High School, the budget was reduced by another \$1,300,000. These reductions again impacted mostly support areas, but are anticipated to result in a slightly higher class size for the next few years.

Based on our future forecast, these budget reductions are expected to provide enough stability to respond to the lower student enrollments (which we believe are a direct result of the Michigan economy) and the substantial costs associated with a second high school.

Also, we continue to safeguard against future state funding issues, since per contract the wages and retirement contributions of all School District employees are tied to the state increase in funding each year. In addition, the School District continues to spend a portion of General Fund dollars each year to maintain and improve our facilities through the usage of capital improvement programs. Since these dollars are spent on one-time projects, in a lean year these projects could be reduced to balance the budget.

Accounting System, Budgetary, and Internal Controls

The School District maintains a system of budgetary and accounting controls designed to provide reasonable assurance that assets are safeguarded and transactions are recorded and executed with management's authorization. Also, internal controls have been established to supervise the compliance with resource spending and allocation. Management believes that these controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period. The budget is prepared in accordance with guidelines set forth in the State Financial Reporting Manual and state law.

During the fiscal year, financial reports are available online to each budget administrator that identifies the budget, current year-to-date revenues, expenditures and encumbrances, and available balances. The Board of Education receives a financial report on a monthly basis.

The report of the School District's independent certified public accountants, Plante & Moran, PLLC, appears on pages 1 and 2 of this report. Their audit of the basic financial statements was performed in accordance with generally accepted auditing standards and *Government Auditing Standards*.

Cash Management

The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the School District evaluates each financial institution with which it deposits School District funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The School District follows the investment authorization of Michigan Public Act 132 of 1986. The School District invests all possible balances on a daily basis in legally approved investments. Total interest earned in the General Fund was \$439,803 for the year ended June 30, 2007.

Risk Management

The School District participates in the SET-SEG workers' compensation insurance program. This is a pooled arrangement whereby the participating entities pay annual premiums that are designated to pay claims and build sufficient reserves so that the fund will be able to protect the participating entities. Total premiums for the year ended June 30, 2007 were \$219,516.

The School District participates in the SET-SEG property and casualty insurance program. This is also a pooled arrangement. These premiums totaled \$233,436 for the year ended June 30, 2007.

The School District is in compliance with the Right-to-Know legislation including preparation of a hazard communication manual, establishment of directories for all material safety data sheets, employee training, and the use of labels on all hazardous materials used by the School District.

Independent Audit

As required by Michigan State law, an annual audit of the financial records of the South Lyon Community School District has been made by an independent auditor. The School District's financial statements were audited by Plante & Moran, PLLC as of June 30, 2007. Their audit was made in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. The financial statements present fairly the financial position of South Lyon Community Schools at June 30, 2007. Their audit also included the single audit on federal financial assistance programs.

Excellence in Financial Reporting

The School District is committed to providing its citizens and other users with comprehensive financial reporting. For school districts meeting the requirements of a comprehensive annual report, the Association of School Business Officials International (ASBO) awards a Certificate of Excellence in Financial Reporting. This is the School District's eleventh submission to obtain this certificate. The School District was awarded the Certificate of Excellence in Financial Reporting on its previous 10 submissions for the fiscal years ended June 30, 1997 through 2006.

In order to be awarded a Certificate of Excellence, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report whose contents conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Excellence is valid for a period of one year only. The School District believes our current report conforms to program standards and we are submitting our report to ASBO for consideration for the certificate.

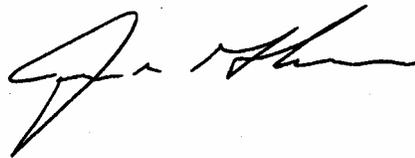
Acknowledgements

The preparation of this report on a timely basis could not have been performed without the efficient and dedicated employees of the business office. We would also like to express our appreciation to other departments and individuals who assisted in the preparation of this report. In addition, we would like to thank the members of the Board of Education for their interest and support in conducting the financial affairs of this School District.

Respectfully submitted,



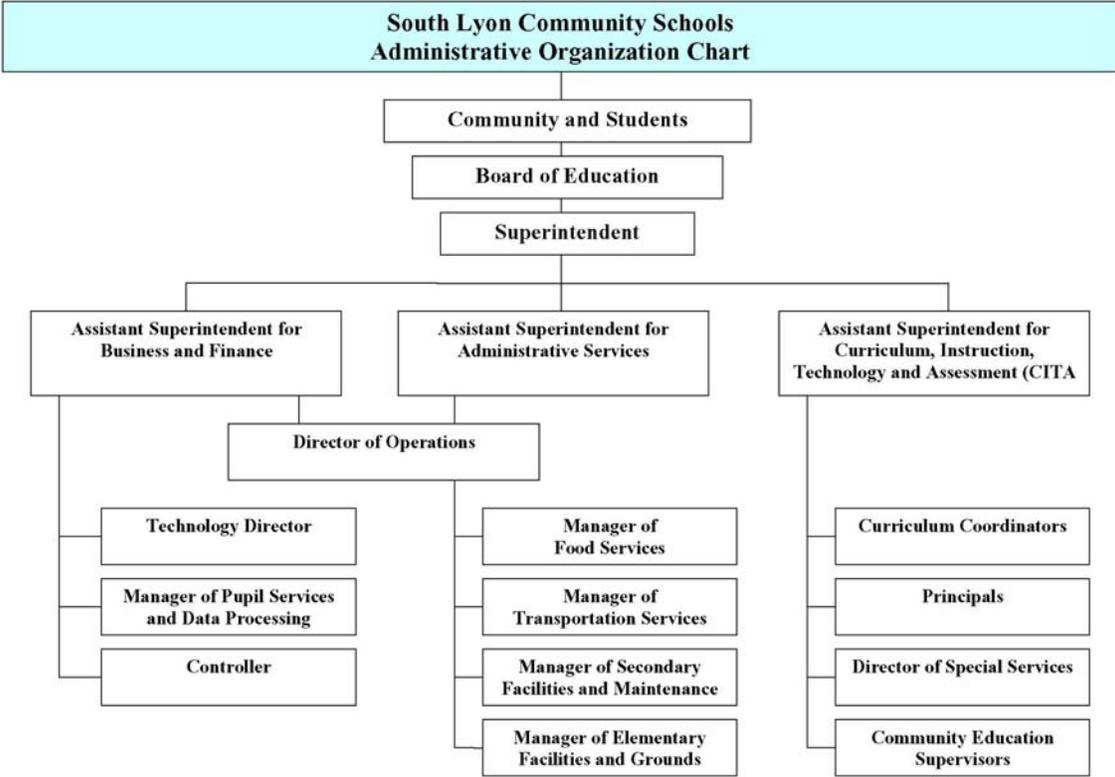
William A. Pearson, Ed. D.
Superintendent of Schools



James R. Graham
Assistant Superintendent for Business and Finance



Amy Dagenhardt
Controller



**ASSOCIATION OF SCHOOL BUSINESS OFFICIALS
INTERNATIONAL**



This Certificate of Excellence in Financial Reporting is presented to

SOUTH LYON COMMUNITY SCHOOLS

For its Comprehensive Annual Financial Report (CAFR)

For the Fiscal Year Ended June 30, 2006

Upon recommendation of the Association's Panel of Review which has judged that the Report substantially conforms to principles and standards of ASBO's Certificate of Excellence Program

President

Executive Director

Financial Section



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Independent Auditor's Report

To the Board of Education
South Lyon Community Schools

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of South Lyon Community Schools (the "School District") as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of South Lyon Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of South Lyon Community Schools as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

To the Board of Education
South Lyon Community Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Lyon Community Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory section and statistical tables, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated October 17, 2007 on our consideration of South Lyon Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 opinions 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.

Plante & Moran, PLLC

October 17, 2007

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Management's Discussion and Analysis

This section of South Lyon Community Schools' (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand South Lyon Community Schools financially as a whole. The government-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds - the General Fund, 2003 Series I Capital Projects Fund, and the 2003 Series II Capital Projects Fund, with all other funds presented in one column as nonmajor funds. The proprietary fund statements offer short- and long-term financial information about activities the School District operates like a business, such as community education. Community education is presented as a nonmajor proprietary fund. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The basic financial statements are comprised of the following elements:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements Fund Financial Statements

Notes to the Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

Other Supplemental Information

In addition, the School District has added the introductory section and the statistical section to complete its Comprehensive Annual Financial Report.

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Management's Discussion and Analysis (Continued)

Reporting the School District as a Whole - Government-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities and business-type activities for the School District. Governmental activities encompass most of the School District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities. Business-type activities include community education, which is financed through charges for services and user fees.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Services and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds and proprietary fund of the School District use the following accounting approach:

South Lyon Community Schools

Management's Discussion and Analysis (Continued)

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

Proprietary Funds - Services for which the School District charges a fee intended to cover the entire cost of those services are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

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

South Lyon Community Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2007 and 2006:

TABLE I - Condensed Statement of Net Assets	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
	(in millions)		(in millions)	
Assets				
Current and other assets	\$ 34.1	\$ 60.0	\$ 0.4	\$ 0.4
Capital assets	207.1	181.6	-	-
Total assets	241.2	241.6	0.4	0.4
Liabilities				
Current liabilities	22.4	19.4	0.1	0.1
Long-term liabilities	205.2	213.3	-	-
Total liabilities	227.6	232.7	0.1	0.1
Net Assets				
Invested in property and equipment - Net of related debt	3.3	(0.8)	-	-
Restricted	4.2	4.8	-	-
Unrestricted	6.1	4.9	0.3	0.3
Total net assets	<u>\$ 13.6</u>	<u>\$ 8.9</u>	<u>\$ 0.3</u>	<u>\$ 0.3</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental and business-type activities is discussed below. The School District's governmental activities net assets were \$13.6 million at June 30, 2007. The School District's business-type net assets were \$0.3 million at June 30, 2007. Capital assets, net of related debt totaling \$3.3 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets was unrestricted.

South Lyon Community Schools

Management's Discussion and Analysis (Continued)

The unrestricted net assets of governmental and business-type activities represent the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2007 and 2006:

TABLE 2 - Condensed Statement of Activities	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
	(in millions)		(in millions)	
Revenue				
Program revenue:				
Charges for services	\$ 1.3	\$ 1.3	\$ 1.4	\$ 1.4
Operating grants	5.9	5.6	-	-
General revenue:				
Property taxes	25.4	23.3	-	-
State foundation allowance	40.0	38.6	-	-
Other	3.2	3.2	-	-
Total revenue	75.8	72.0	1.4	1.4
Functions/Program Expenses				
Instruction	37.0	34.3	-	-
Support services	25.6	24.4	-	-
Community services	0.2	0.2	1.4	1.4
Food services	1.4	1.4	-	-
Athletics	0.3	0.2	-	-
Interest on long-term debt	6.6	10.2	-	-
Total functions/program expenses	71.1	70.7	1.4	1.4
Increase in Net Assets	4.7	1.3	-	-
Net Assets - Beginning of year	8.9	7.6	0.3	0.3
Net Assets - End of year	<u>\$ 13.6</u>	<u>\$ 8.9</u>	<u>\$ 0.3</u>	<u>\$ 0.3</u>

South Lyon Community Schools

Management's Discussion and Analysis (Continued)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$71.1 million. Certain activities were partially funded from those who benefited from the programs (\$1.3 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5.9 million). We paid for the remaining "public benefit" portion of our governmental activities with \$25.4 million in taxes, \$40.0 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

During 2006-2007, the School District's overall financial position improved, with the School District experiencing an increase in net assets of \$4.7 million. The key reason for the change in net assets was an increase in underwriter's premium and deferred charges related to the 2007 bond refunding.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of School District operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$20.8 million, which is a decrease of \$28.0 million from last year. The primary reasons for the decrease are as follows:

- The 2003 Series I Capital Projects Fund fund balance decreased \$11.3 million in the current year. This fund balance reduction will continue until the construction projects are completed and all bond proceeds are expended. These bonds were issued in accordance with state law and are used for construction related to erecting, furnishing, and equipping various school buildings.
- The 2003 Series II Capital Projects Fund fund balance decreased \$17.9 million in the current year. This fund balance reduction will continue until the construction projects are completed and all bond proceeds are expended. These bonds were issued in accordance with state law and are used for construction related to erecting, furnishing, and equipping various school buildings.
- In the General Fund, our principal operating fund, the fund balance increased approximately \$1,911,000 to \$5.6 million. General Fund fund balance is available to fund costs related to allowable school operating purposes.

South Lyon Community Schools

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

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

There were no significant revisions to the 2006-2007 General Fund original budget.

There were no significant variances between the final budget and actual amounts.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2007, the School District had \$207.1 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$25.5 million, or 14 percent, from last year.

	2007	2006
Land	\$ 10,141,706	\$ 10,141,706
Construction in progress	62,186,676	35,161,128
Land improvements	1,359,839	1,359,839
Buildings and building improvements	164,875,948	163,794,010
Buses and other vehicles	4,921,993	4,043,752
Furniture and equipment	2,340,835	2,340,835
Total capital assets	245,826,997	216,841,270
Less accumulated depreciation	38,733,847	35,241,360
Net capital assets	<u>\$ 207,093,150</u>	<u>\$ 181,599,910</u>

This year's additions of \$29.9 million included building renovations and new school construction. New debt was issued to fund substantially all of these additions.

Several major capital projects are planned for the 2007-2008 fiscal year. However, we anticipate 2007-2008 capital additions will be less than 2006-2007 fiscal year capital additions. We present more detailed information about our capital assets in the notes to the financial statements.

South Lyon Community Schools

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the School District had \$211,795,000 in bonds outstanding versus \$214,290,000 in the previous year - a decrease of 1.2 percent. Those bonds consisted of the following:

	<u>2007</u>	<u>2006</u>
General obligation bonds	<u>\$ 211,795,000</u>	<u>\$ 214,290,000</u>

The School District's general obligation bond rating is AAA by Standard & Poor's and Aaa by Moody's. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$101,575,000 as of June 30, 2007 is below this statutorily imposed limit.

Other obligations include accrued vacation pay, sick leave, and capital leases. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2008 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 2008 fiscal year is budgeted at 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The 2008 budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 90 percent of total General Fund revenue is a result of the foundation allowance. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2008 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2008 budget. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Contacting the School District's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the business office.

South Lyon Community Schools

Statement of Net Assets June 30, 2007

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments (Note 3)	\$ 8,397,006	\$ 6,050	\$ 8,403,056
Receivables:			
Taxes	51,697	-	51,697
Accounts	1,746,833	-	1,746,833
Due from other governmental units	6,863,277	-	6,863,277
Internal balances (Note 6)	-	429,453	429,453
Inventories	36,056	-	36,056
Prepaid costs and other assets	148,046	-	148,046
Restricted cash and investments (Notes 1 and 3)	16,910,964	-	16,910,964
Capital assets - Less accumulated depreciation of \$38,733,847 (Note 5)	<u>207,093,150</u>	<u>-</u>	<u>207,093,150</u>
Total assets	241,247,029	435,503	241,682,532
Liabilities			
Accounts payable	3,966,927	7,830	3,974,757
Internal balances (Note 6)	429,453	-	429,453
Accrued payroll and other liabilities	10,518,987	32,390	10,551,377
Deferred revenue (Note 4)	67,003	87,699	154,702
Long-term liabilities (Note 7):			
Due within one year	7,402,754	-	7,402,754
Due in more than one year	<u>205,206,549</u>	<u>-</u>	<u>205,206,549</u>
Total liabilities	<u>227,591,673</u>	<u>127,919</u>	<u>227,719,592</u>
Net Assets			
Investment in capital assets - Net of related debt	3,268,835	-	3,268,835
Restricted:			
Debt service	2,421,070	-	2,421,070
Capital projects	1,826,946	-	1,826,946
Unrestricted	<u>6,138,505</u>	<u>307,584</u>	<u>6,446,089</u>
Total net assets	<u>\$ 13,655,356</u>	<u>\$ 307,584</u>	<u>\$ 13,962,940</u>

South Lyon Community Schools

Statement of Activities Year Ended June 30, 2007

	Program Revenues			Governmental Activities	Business-type Activities	Total
	Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets	
Functions/Programs						
Primary government - Governmental activities:						
Instruction	\$ 36,986,181	\$ -	\$ 5,366,175	\$ (31,620,006)	\$ -	\$ (31,620,006)
Support services	25,633,887	-	-	(25,633,887)	-	(25,633,887)
Food services	1,415,829	989,871	515,139	89,181	-	89,181
Athletics	256,696	315,033	-	58,337	-	58,337
Community services	159,140	-	-	(159,140)	-	(159,140)
Interest on long-term debt	6,600,907	-	-	(6,600,907)	-	(6,600,907)
Total governmental activities	71,052,640	1,304,904	5,881,314	(63,866,422)	-	(63,866,422)
Business-type activities - Community education						
	1,422,588	1,425,748	-	-	3,160	3,160
Total	\$ 72,475,228	\$ 2,730,652	\$ 5,881,314	(63,866,422)	3,160	(63,863,262)
General revenues:						
Taxes:						
Property taxes, levied for general purposes				9,854,064	-	9,854,064
Property taxes, levied for debt services				15,513,562	-	15,513,562
State aid not restricted to specific purposes				40,028,828	-	40,028,828
Interest and investment earnings				2,617,194	-	2,617,194
Other				576,875	-	576,875
Total general revenues				68,590,523	-	68,590,523
Change in Net Assets				4,724,101	3,160	4,727,261
Net Assets - Beginning of year				8,931,255	304,424	9,235,679
Net Assets - End of year				\$ 13,655,356	\$ 307,584	\$ 13,962,940

South Lyon Community Schools

Governmental Funds Balance Sheet June 30, 2007

	General Fund	2003 Series I Capital Projects Fund	2003 Series II Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 5,497,506	\$ -	\$ -	\$ 2,899,500	\$ 8,397,006
Receivables:					
Taxes	17,490	-	-	34,207	51,697
Accounts	1,746,833	-	-	-	1,746,833
Due from other governmental units	6,835,358	-	-	27,919	6,863,277
Due from other funds (Note 6)	-	661,799	-	2,430,675	3,092,474
Inventories	19,040	-	-	17,016	36,056
Prepaid costs and other assets	97,265	-	-	50,781	148,046
Restricted cash and investments (Notes 1 and 3)	-	3,843,565	13,067,399	-	16,910,964
Total assets	\$ 14,213,492	\$ 4,505,364	\$ 13,067,399	\$ 5,460,098	\$ 37,246,353
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 731,680	\$ 1,499,847	\$ 1,761,675	\$ 32,880	\$ 4,026,082
Accrued payroll and other liabilities	4,952,240	1,011,526	2,944,140	1,187	8,909,093
Due to other funds (Note 6)	2,928,908	49,446	-	484,418	3,462,772
Deferred revenue (Note 4)	64,835	-	-	2,168	67,003
Total liabilities	8,677,663	2,560,819	4,705,815	520,653	16,464,950
Fund Balances					
Reserved:					
Commitments (Note 5)	-	4,052,141	6,356,115	-	10,408,256
Inventories	19,040	-	-	17,016	36,056
Prepaid costs	97,265	-	-	-	97,265
Capital projects	-	(2,107,596)	2,005,469	1,956,342	1,854,215
Debt service	-	-	-	2,421,070	2,421,070
Unreserved:					
Designated for compensated absences	1,915,699	-	-	-	1,915,699
Designated for subsequent years' building allocations	273,672	-	-	-	273,672
Undesignated, reported in:					
General Fund	3,230,153	-	-	-	3,230,153
Special Revenue Funds	-	-	-	545,017	545,017
Total fund balances	5,535,829	1,944,545	8,361,584	4,939,445	20,781,403
Total liabilities and fund balances	\$ 14,213,492	\$ 4,505,364	\$ 13,067,399	\$ 5,460,098	\$ 37,246,353

South Lyon Community Schools

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2007

Fund Balance - Total Governmental Funds \$ 20,781,403

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

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds:

Cost of capital assets	\$ 245,826,997	
Accumulated depreciation	<u>(38,733,847)</u>	207,093,150

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Bonds, notes, and capital lease payable	(210,693,604)
Compensated absences	(1,915,699)

Accrued interest payable is not included as a liability in governmental funds

(1,609,894)

Net Assets - Governmental Activities **\$ 13,655,356**

South Lyon Community Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	General Fund	2003 Series I Capital Projects Fund	2003 Series II Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Local sources	\$ 10,867,000	\$ 556,766	\$ 1,334,576	\$ 17,108,257	\$ 29,866,599
State sources	41,374,515	-	-	85,215	41,459,730
Federal sources	1,556,567	-	-	429,924	1,986,491
Interdistrict sources	2,463,921	-	-	-	2,463,921
Total revenue	56,262,003	556,766	1,334,576	17,623,396	75,776,741
Expenditures					
Current:					
Instruction	30,393,826	-	-	-	30,393,826
Support services	21,671,466	-	-	-	21,671,466
Community services	159,140	-	-	-	159,140
Food service	-	-	-	1,415,829	1,415,829
Athletics	-	-	-	256,696	256,696
Other	987,867	-	-	-	987,867
Debt service:					
Principal	-	-	-	6,315,660	6,315,660
Interest	-	-	-	9,938,501	9,938,501
Other	-	-	-	796,222	796,222
Capital outlay	263,769	11,901,902	19,276,886	1,829,486	33,272,043
Total expenditures	53,476,068	11,901,902	19,276,886	20,552,394	105,207,250
Excess (Deficiency) of Revenue Over Expenditures	2,785,935	(11,345,136)	(17,942,310)	(2,928,998)	(29,430,509)
Other Financing Sources (Uses)					
Transfers in	74,955	-	-	1,349,937	1,424,892
Transfers out	(950,000)	-	-	(442,834)	(1,392,834)
Long-term debt issued	-	-	-	100,543,436	100,543,436
Premium on long-term debt issued	-	-	-	684,256	684,256
Payment to refunded bond escrow agent	-	-	-	(99,859,456)	(99,859,456)
Total other financing sources (uses)	(875,045)	-	-	2,275,339	1,400,294
Net Change in Fund Balances	1,910,890	(11,345,136)	(17,942,310)	(653,659)	(28,030,215)
Fund Balances - Beginning of year	3,624,939	13,289,681	26,303,894	5,593,104	48,811,618
Fund Balances - End of year	\$ 5,535,829	\$ 1,944,545	\$ 8,361,584	\$ 4,939,445	\$ 20,781,403

South Lyon Community Schools

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds \$ (28,030,215)

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

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (3,492,487)	
Capitalized capital outlay	<u>28,985,727</u>	25,493,240

Note and bond issuance is not reported as financing sources on the statement of activities (100,543,436)

Underwriter's premiums and deferred charges reported as revenues and expenditures in the funds and amortized in the statement of activities 6,439,965

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until due:

Accrued interest at July 1, 2006		1,612,723
Accrued interest at July 1, 2007		(1,609,894)

Repayment of bond and note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 102,385,658

Compensated absences and certain other liabilities are recorded when earned in the statement of activities. In the current year, more was earned than paid out (1,023,940)

Change in Net Assets of Governmental Activities **\$ 4,724,101**

South Lyon Community Schools

Proprietary Fund Statement of Net Assets June 30, 2007

	Community Education Fund
Assets	
Cash and cash equivalents (Note 3)	\$ 6,050
Due from other funds (Note 6)	<u>429,453</u>
Total assets	435,503
Liabilities	
Accounts payable	7,830
Accrued salaries and other liabilities	32,390
Deferred revenue (Note 4)	<u>87,699</u>
Total liabilities	<u>127,919</u>
Net Assets - Unrestricted	<u><u>\$ 307,584</u></u>

South Lyon Community Schools

Proprietary Fund Statement of Revenue, Expenses, and Changes in Fund Net Assets Year Ended June 30, 2007

	Community Education Fund
Operating Revenue - Charges for services	\$ 1,425,748
Operating Expenses - Community services	<u>1,390,530</u>
Operating Income	35,218
Transfer to Other Funds	<u>(32,058)</u>
Change in Net Assets	3,160
Net Assets - Beginning of year	<u>304,424</u>
Net Assets - End of year	<u><u>\$ 307,584</u></u>

South Lyon Community Schools

Proprietary Fund Statement of Cash Flows Year Ended June 30, 2007

	Community Education Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 1,428,351
Payments for services	<u>(1,429,009)</u>
Net Decrease in Cash and Cash Equivalents	(658)
Cash and Cash Equivalents - Beginning of year	<u>6,708</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 6,050</u></u>
Reconciliation of change in net assets to net cash from operating activities:	
Change in net assets	\$ 3,160
Adjustments to reconcile change in net assets to net cash from operating activities - Changes in assets and liabilities:	
Due from other funds	(11,384)
Accounts payable	2,986
Accrued salaries and other liabilities	1,977
Deferred revenue	<u>2,603</u>
Net cash used in operating activities	<u><u>\$ (658)</u></u>

South Lyon Community Schools

Fiduciary Fund Statement of Fiduciary Assets and Liabilities June 30, 2007

	<u>Student Activities Fund</u>
Assets - Cash and investments (Note 3)	<u>\$ 710,179</u>
Liabilities	
Due to other funds (Note 6)	\$ 59,155
Due to student groups	<u>651,024</u>
 Total liabilities	 <u>\$ 710,179</u>

South Lyon Community Schools

**Notes to Financial Statements
June 30, 2007**

Note I - Summary of Significant Accounting Policies

The accounting policies of South Lyon Community Schools (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

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

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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 revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting issued prior to November 30, 1989 generally are followed to the extent that those standards do not conflict with guidance of the Governmental Accounting Standards Board. The School District has elected to also follow private sector guidance issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between business-type and governmental activities, where eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected 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 expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Note I - Summary of Significant Accounting Policies (Continued)

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 revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

Proprietary fund and fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. As discussed above, this means that private sector standards of accounting issued prior to November 30, 1989 generally are followed to the extent that those standards do not conflict with guidance of the Governmental Accounting Standards Board. The School District has elected to also follow private sector guidance issued after November 30, 1989 for its Enterprise Funds. Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal revenue of our proprietary funds relates to charges to customers for services. Operating expenses for proprietary funds include the cost of sales and services and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The School District reports the following major governmental funds:

General Fund - 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.

2003 Series I Capital Projects Fund - The 2003 Series I Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of funds specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The fund operates until the purpose for which it was created is accomplished.

2003 Series II Capital Projects Fund - The 2003 Series II Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of funds specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The fund operates until the purpose for which it was created is accomplished.

South Lyon Community Schools

**Notes to Financial Statements
June 30, 2007**

Note I - Summary of Significant Accounting Policies (Continued)

Additionally, the School District reports the following nonmajor funds:

Food Services Fund - The Food Services Fund is a Special Revenue Fund and is used to record all transactions of food sales to pupils at all district school buildings.

Athletics Fund - The Athletics Fund is a Special Revenue Fund that is subsidized by the General Fund and is used to record all transactions associated with the athletic programs offered by the School District.

1997, 1998, 2000 Series I, 2000 Series II, 2000 Series III, 2001 Refunding, 2003 Series I, 2003 Series II, 2005 Refunding Series I, 2005 Refunding Series II, 2006 Refunding, and 2007 Refunding Debt Service Funds - Debt Service Funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on bonded debt issues.

Bus Purchases, Site Projects, and Capital Improvements Capital Projects Funds - The Bus Purchases, Site Projects and Capital Improvements Capital Projects Funds are financed by support of the General Fund and are used for acquiring new school sites, equipment, and major repairs. The fund operates until the purpose for which it was created is accomplished.

Proprietary Fund - The School District's proprietary fund is comprised of the Community Education Fund. The Community Education Fund is supported by user fees and provides community recreation programs.

Student Activities Agency Fund - The School District presently maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments. Investments are stated at fair value. Pooled investment income from the Debt Service Funds is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

South Lyon Community Schools

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on July 1. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

The due from other governmental units account consists of state aid payments not received until July and August 2007 that are recorded as a receivable as of June 30.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Restricted Assets - The unspent bond proceeds and related interest of the Capital Projects Funds require amounts to be set aside for construction. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$19,211 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences - The liability for compensated absences reported in the government-wide statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. 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.

Long-term Obligations - In the government-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 costs, 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 are amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The School District generally first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Comparative Data - Comparative data is not included in the School District's basic financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General, Special Revenue, Debt Service, and Capital Projects Funds. The annual budget for the Debt Service Funds is adopted in the aggregate, not for each fund individually. All annual appropriations lapse at fiscal year end.

South Lyon Community Schools

Notes to Financial Statements June 30, 2007

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted for the General and Special Revenue Funds are a violation of Michigan law. State law permits districts to amend their budgets during the year. There were no significant amendments during the year.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant expenditure budget variances.

Capital Projects Funds 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 §1351a of the State of Michigan's School Code.

Beginning with the year of bond issuance, the School District has reported the annual construction activity in the 2003 Series II Capital Projects Fund. The project for which the 2003 Series II bonds were issued was considered complete subsequent to year end on August 10, 2007 and the cumulative expenditures recognized for the construction period were \$55,085,676.

Note 3 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated I I banks for the deposit of its funds.

Note 3 - Deposits and Investments (Continued)

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$1,656,090 had \$1,456,090 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk 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's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law, and by board pre-approval, the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. The School District does not have investments with custodial credit risk.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by requiring structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools; and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

South Lyon Community Schools

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

At year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Rating Organization</u>
Comerica Governmental Cash Investment Fund	\$ 447,878	Varies	A1/P1/F1	N/A
Michigan Liquid Asset Fund	6,493,009	Varies	AAAm	Standard & Poor's
Fifth Third Money Market	9,915,777	Varies	Not rated	Not rated
Federal Home Loan Mortgage Corp. Bonds	5,194,191	Varies	AAA	Standard & Poor's
Federal National Mortgage Association Bonds	1,127,546	Varies	AAA	Standard & Poor's
Government National Mortgage Association Bonds	346,276	2/16/2028	AAA	Standard & Poor's
Federal Home Loan Bank Bonds	<u>1,395,708</u>	Varies	Aaa	Moody's
Total investments	<u>\$24,920,385</u>			

Concentration of Credit Risk - The School District places no limit on the amount the School District may invest in any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds and the proprietary fund also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue in the governmental funds includes unearned grant and categorical aid payments received prior to meeting all eligibility requirements in the amount of \$13,791 and the remaining \$53,212 of deferred revenue is unavailable, as it has not been received within 60 days of year end. At the end of the current fiscal year, deferred revenue in the proprietary fund includes resources that have been received but not yet earned in the amount of \$87,699.

South Lyon Community Schools

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 10,141,706	\$ -	\$ -	\$ 10,141,706
Construction in progress	35,161,128	27,025,548	-	62,186,676
Capital assets being depreciated:				
Land improvements	1,359,839	-	-	1,359,839
Building and building improvements	163,794,010	1,081,938	-	164,875,948
Buses and other vehicles	4,043,752	878,241	-	4,921,993
Furniture and equipment	<u>2,340,835</u>	-	-	<u>2,340,835</u>
Subtotal	171,538,436	1,960,179	-	173,498,615
Accumulated depreciation:				
Land improvements	563,070	66,005	-	629,075
Building and building improvements	29,404,578	3,064,881	-	32,469,459
Buses and other vehicles	3,083,766	286,339	-	3,370,105
Furniture and equipment	<u>2,189,946</u>	<u>75,262</u>	-	<u>2,265,208</u>
Subtotal	<u>35,241,360</u>	<u>3,492,487</u>	-	<u>38,733,847</u>
Net capital assets being depreciated	<u>136,297,076</u>	<u>(1,532,308)</u>	-	<u>134,764,768</u>
Net governmental capital assets	<u>\$ 181,599,910</u>	<u>\$ 25,493,240</u>	<u>\$ -</u>	<u>\$ 207,093,150</u>

Business-type activities do not maintain capital assets but instead pay a fee to the governmental funds for use of capital assets.

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:	
Instruction	\$ 2,095,492
Support services	<u>1,396,995</u>
Total governmental activities	<u>\$ 3,492,487</u>

South Lyon Community Schools

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

Construction Commitments - The School District has active construction projects at year end. The projects include the 2000 Series II, 2000 Series III, 2003 Series I, and 2003 Series II Capital Projects Funds. At year end, the School District's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
2000 Series II	\$ 15,273,233	\$ -
2000 Series III	42,166,809	-
2003 Series I	43,741,524	4,052,141
2003 Series II	<u>55,085,676</u>	<u>6,356,115</u>
Total	<u>\$ 156,267,242</u>	<u>\$ 10,408,256</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	<u>Fund Due From</u>				Total
	General Fund	2003 Series I Capital Projects Fund	Nonmajor Governmental Funds	Fiduciary Fund	
2003 Series I Capital Projects Fund	\$ 661,799	\$ -	\$ -	\$ -	\$ 661,799
Nonmajor governmental funds	1,837,656	49,446	484,418	59,155	2,430,675
Nonmajor Enterprise Fund	<u>429,453</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>429,453</u>
Total	<u>\$ 2,928,908</u>	<u>\$ 49,446</u>	<u>\$ 484,418</u>	<u>\$ 59,155</u>	<u>\$ 3,521,927</u>

Interfund balances represent routine and temporary cash flow assistance until amounts are transferred from fund investment accounts.

South Lyon Community Schools

Notes to Financial Statements June 30, 2007

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

The composition of interfund transfers is as follows:

Transfers In	Transfers Out			Total
	General Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Fund	
General Fund	\$ -	\$ 42,897	\$ 32,058	\$ 74,955
Nonmajor governmental funds	<u>950,000</u>	<u>399,937</u>	<u>-</u>	<u>1,349,937</u>
Total	<u>\$ 950,000</u>	<u>\$ 442,834</u>	<u>\$ 32,058</u>	<u>\$ 1,424,892</u>

General Fund interfund transfers represent routine, recurring transfers to other governmental funds. Other governmental funds transfers mostly represent a transfer related to the refunding of the 1997 Series I Debt Service Fund.

Note 7 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Notes and installment purchase agreements are also general obligations of the School District. Other long-term obligations include capital lease obligations and compensated absences. Capital lease obligations are liquidated using assets from the General Fund. Compensated absences are also liquidated using assets from the General Fund.

South Lyon Community Schools

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds	\$ 214,290,000	\$ 99,665,000	\$ 102,160,000	\$ 211,795,000	\$ 6,990,000
Issuance premium	8,078,071	684,256	3,787,915	4,974,412	307,540
Less deferred charges	(4,526,336)	(3,789,456)	(453,150)	(7,862,642)	(453,150)
Total bonds payable	217,841,735	96,559,800	105,494,765	208,906,770	6,844,390
Bus installment obligation	599,996	878,436	225,658	1,252,774	329,756
Capital leases	650,160	-	116,100	534,060	148,608
Compensated absences	775,659	1,140,040	-	1,915,699	80,000
Total governmental activities	<u>\$ 219,867,550</u>	<u>\$ 98,578,276</u>	<u>\$ 105,836,523</u>	<u>\$ 212,609,303</u>	<u>\$ 7,402,754</u>

The Enterprise Fund has no long-term debt as of June 30, 2007.

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2008	\$ 7,174,146	\$ 9,645,054	\$ 16,819,200
2009	7,658,051	9,234,638	16,892,689
2010	8,216,377	8,927,764	17,144,141
2011	9,296,889	8,586,952	17,883,841
2012	10,249,261	8,172,091	18,421,352
2013-2017	57,221,950	33,358,042	90,579,992
2018-2022	62,927,494	19,634,308	82,561,802
2023-2027	40,652,699	6,339,652	46,992,351
2028	6,762,677	293,676	7,056,353
Total	<u>\$ 210,159,544</u>	<u>\$ 104,192,177</u>	<u>\$ 314,351,721</u>

South Lyon Community Schools

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

Governmental Activities

General obligation bonds consist of the following:

\$39,900,000 serial and term bonds due in one remaining installment of \$1,825,000 on May 1, 2008; interest at 5.375%	\$ 1,825,000
\$14,570,000 serial and term bonds due in annual installments of \$410,000 to \$735,000 through May 1, 2010; interest at 5.25% to 5.40%	1,730,000
\$15,145,000 serial and term bonds due in annual installments of \$775,000 to \$800,000 through May 1, 2010; interest at 5.125% to 5.25%	2,350,000
\$38,230,000 serial and term bonds due in one remaining installment of \$1,000,000 on May 1, 2008; interest at 4.5%	1,000,000
\$20,815,000 serial and term bonds due in annual installments of \$825,000 to \$1,515,000 through May 1, 2014; interest at 4.05% to 5.25%	9,690,000
\$43,120,000 serial and term bonds due in annual installments of \$570,000 to \$1,150,000 through May 1, 2012; interest at 3.0% to 4.0%	4,895,000
\$55,730,000 serial and term bonds due in annual installments of \$25,000 to \$1,850,000 through May 1, 2014; interest at 3.25% to 5.5%	5,275,000
\$55,420,000 serial and term bonds due in annual installments of \$650,000 to \$4,395,000 through May 1, 2023; interest at 3.25% to 5.0%	55,420,000
\$30,025,000 serial and term bonds due in annual installments of \$1,935,000 to \$2,090,000 through May 1, 2023; interest at 3.25% to 5.0%	30,025,000
\$92,405,000 serial and term bonds due in annual installments of \$150,000 to \$7,035,000 through May 1, 2028; interest at 4.0% to 5.0%	92,405,000
\$7,180,000 serial and term bonds due in annual installments of \$100,000 to \$700,000 through May 1, 2020; interest at 4.0% to 5.0%	<u>7,180,000</u>
Total bonded debt	<u>\$ 211,795,000</u>

South Lyon Community Schools

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

Notes consist of the following:

Date	Original Amount	Due Date	Interest Rate (Percent)	Remaining to Maturity	
				Interest	Principal
07/03/03	\$ 230,000	07/03/08	3.39	\$ 4,941	\$ 96,624
06/30/04	438,024	06/30/09	4.72	13,371	187,412
06/15/05	143,590	06/15/10	4.98	9,139	90,302
02/28/07	<u>878,436</u>	02/28/12	4.04	<u>109,276</u>	<u>878,436</u>
Total	<u>\$ 1,690,050</u>			<u>\$ 136,727</u>	<u>\$ 1,252,774</u>

Capital Leases - The School District has entered into a lease agreement as lessee for financing the purchase of a portion of the city administration building. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. Required payments under the full term of the lease total \$2,204,805. The remaining future minimum lease obligations and the net present value are as follows:

2008	\$ 148,608
2009	151,220
2010	150,495
2011	<u>152,381</u>

Total minimum lease payments	602,704
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Less amount representing interest	<u>68,644</u>
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Present value of minimum lease payments	<u>\$ 534,060</u>
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Note 7 - Long-term Debt (Continued)

Advance and Current Refundings - During the year, the School District issued \$99,665,000 in general obligation bonds with an average interest rate of 4.5 percent. The proceeds of these bonds were used to refund \$96,070,000 of outstanding 1997 and 2003 bonds with an average interest rate of 4.74 percent. The net proceeds of \$99,859,456 (after payment of \$789,800 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The advance refunding reduced total debt service payments by \$4,178,131, which represents an economic gain of \$3,007,420.

In prior years, the School District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2007, \$194,785,000 of total bonds outstanding are considered defeased.

Note 8 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical benefit claims and for claims subsequent to August 30, 1992 relating to workers' compensation and participates in the SET-SEG risk pool for claims relating to property and casualty. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. There have been no significant changes in insurance coverage in the current year.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Defined Benefit Pension Plan

Plan Description - As required by the Michigan Public School Retirement Act of 1979, as amended, the School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPSERS provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MPSERS. That report may be obtained by writing to the MPSERS at P.O. Box 30171, Lansing, MI 48909-7671.

Funding Policy - Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each 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 pension benefit rate totals 16.34 percent and 17.74 percent of the covered payroll to the plan for the periods from July 1, 2006 through September 30, 2006 and October 1, 2006 through June 30, 2007, respectively. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS plan for the years ended June 30, 2007, 2006, and 2005 were \$5,732,928, \$5,119,584, and \$4,611,208, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

Required Supplemental Information

South Lyon Community Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 9,970,504	\$ 10,592,394	\$ 10,867,000	\$ 274,606
State sources	41,441,512	41,004,243	41,374,515	370,272
Federal sources	1,594,327	1,644,785	1,556,567	(88,218)
Interdistrict sources	2,348,498	2,400,851	2,463,921	63,070
Total revenue	55,354,841	55,642,273	56,262,003	619,730
Expenditures - Current				
Instruction:				
Basic programs	26,706,985	25,814,064	25,512,032	(302,032)
Added needs	4,528,895	4,943,305	4,881,794	(61,511)
Support services:				
Pupil	2,657,996	2,536,002	2,584,494	48,492
Instructional staff	3,640,967	3,632,761	3,318,419	(314,342)
General administration	1,054,967	1,001,914	988,774	(13,140)
School administration	3,561,411	3,487,030	3,559,994	72,964
Business services	915,352	878,906	854,102	(24,804)
Transportation and maintenance	9,948,300	10,001,486	9,591,766	(409,720)
Central services and other support services	160,499	597,465	773,917	176,452
Community services	171,530	166,830	159,140	(7,690)
Other	989,809	1,002,349	987,867	(14,482)
Capital outlay	116,728	203,832	263,769	59,937
Total expenditures	54,453,439	54,265,944	53,476,068	(789,876)
Other Financing Sources (Uses)				
Transfers in	84,252	151,855	74,955	(76,900)
Transfers out	(700,000)	(767,603)	(950,000)	(182,397)
Total other financing uses	(615,748)	(615,748)	(875,045)	(259,297)
Net Change in Fund Balance	285,654	760,581	1,910,890	1,150,309
Fund Balance - July 1, 2006	3,624,939	3,624,939	3,624,939	-
Fund Balance - June 30, 2007	<u>\$ 3,910,593</u>	<u>\$ 4,385,520</u>	<u>\$ 5,535,829</u>	<u>\$ 1,150,309</u>

Other Supplemental Information

South Lyon Community Schools

	Special Revenue Funds		Debt Service Funds				
	Food Services	Athletics	1997 Series I	1998 Series I	2000 Series I	2000 Series II	2000 Series III
Assets							
Cash and investments	\$ 505,845	\$ 8,013	\$ 43,261	\$ 305,882	\$ 88,394	\$ 128,427	\$ 133,355
Taxes receivable	-	-	1,972	3,783	966	1,851	2,173
Due from other funds	-	289,904	-	-	-	-	-
Due from other governments	27,919	-	-	-	-	-	-
Inventories	17,016	-	-	-	-	-	-
Prepaid costs and other assets	-	-	-	-	-	-	-
Total assets	<u>\$ 550,780</u>	<u>\$ 297,917</u>	<u>\$ 45,233</u>	<u>\$ 309,665</u>	<u>\$ 89,360</u>	<u>\$ 130,278</u>	<u>\$ 135,528</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 1,286	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Salaries and other accrued liabilities	1,187	-	-	-	-	-	-
Due to other funds	282,023	-	-	-	-	-	-
Deferred revenue	2,168	-	-	-	-	-	-
Total liabilities	286,664	-	-	-	-	-	-
Fund Balances							
Reserved:							
Inventories	17,016	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-
Debt service	-	-	45,233	309,665	89,360	130,278	135,528
Unreserved - Undesignated, reported in Special Revenue Funds	247,100	297,917	-	-	-	-	-
Total fund balances	<u>264,116</u>	<u>297,917</u>	<u>45,233</u>	<u>309,665</u>	<u>89,360</u>	<u>130,278</u>	<u>135,528</u>
Total liabilities and fund balances	<u>\$ 550,780</u>	<u>\$ 297,917</u>	<u>\$ 45,233</u>	<u>\$ 309,665</u>	<u>\$ 89,360</u>	<u>\$ 130,278</u>	<u>\$ 135,528</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

Debt Service Funds							Capital Projects Funds
2001 Refunding	2003 Series I	2003 Series II	2005 Refunding, Series I	2005 Refunding, Series II	2006 Refunding	2007 Refunding	Bus Purchases
\$ 270,484	\$ 152,107	\$ 120,521	\$ 391,658	\$ 166,174	\$ 585,379	\$ -	\$ -
4,588	4,749	5,835	5,634	2,656	-	-	-
-	-	-	-	-	-	3,742	754,716
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	50,781
\$ 275,072	\$ 156,856	\$ 126,356	\$ 397,292	\$ 168,830	\$ 585,379	\$ 3,742	\$ 805,497
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	2,521	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	2,521	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	805,497
275,072	156,856	126,356	397,292	166,309	585,379	3,742	-
-	-	-	-	-	-	-	-
275,072	156,856	126,356	397,292	166,309	585,379	3,742	805,497
\$ 275,072	\$ 156,856	\$ 126,356	\$ 397,292	\$ 168,830	\$ 585,379	\$ 3,742	\$ 805,497

South Lyon Community Schools

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds (Continued) June 30, 2007

	Capital Projects Funds				
	Site Projects	2000 Series II	2000 Series III	Capital Improvements	Total
Assets					
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ 2,899,500
Taxes receivable	-	-	-	-	34,207
Due from other funds	99,647	99,937	99,937	1,082,792	2,430,675
Due from other governments	-	-	-	-	27,919
Inventories	-	-	-	-	17,016
Prepaid costs and other assets	-	-	-	-	50,781
Total assets	\$ 99,647	\$ 99,937	\$ 99,937	\$ 1,082,792	\$ 5,460,098
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 17,914	\$ -	\$ -	\$ 13,680	\$ 32,880
Salaries and other accrued liabilities	-	-	-	-	1,187
Due to other funds	-	99,937	99,937	-	484,418
Deferred revenue	-	-	-	-	2,168
Total liabilities	17,914	99,937	99,937	13,680	520,653
Fund Balances					
Reserved:					
Inventories	-	-	-	-	17,016
Capital projects	81,733	-	-	1,069,112	1,956,342
Debt service	-	-	-	-	2,421,070
Unreserved - Undesignated, reported in Special Revenue Funds	-	-	-	-	545,017
Total fund balances	81,733	-	-	1,069,112	4,939,445
Total liabilities and fund balances	\$ 99,647	\$ 99,937	\$ 99,937	\$ 1,082,792	\$ 5,460,098

South Lyon Community Schools

	Special Revenue Funds		Debt Service Funds				
	Food Services	Athletics	1997 Series I	1998 Series I	2000 Series I	2000 Series II	2000 Series III
Revenue							
Local	\$ 989,871	\$ 315,033	\$ 906,029	\$ 1,753,370	\$ 467,639	\$ 860,064	\$ 990,581
State	85,215	-	-	-	-	-	-
Federal	429,924	-	-	-	-	-	-
Total revenue	1,505,010	315,033	906,029	1,753,370	467,639	860,064	990,581
Expenditures							
Current:							
Food services	1,415,829	-	-	-	-	-	-
Athletics	-	256,696	-	-	-	-	-
Debt service:							
Principal	-	-	530,000	1,580,000	335,000	750,000	1,000,000
Interest	-	-	213,646	183,019	110,246	159,875	89,800
Other	-	-	441	568	320	375	418
Capital outlay	-	-	-	-	-	-	-
Total expenditures	1,415,829	256,696	744,087	1,763,587	445,566	910,250	1,090,218
Excess of Revenue Over (Under) Expenditures	89,181	58,337	161,942	(10,217)	22,073	(50,186)	(99,637)
Other Financing Sources (Uses)							
Transfers in	-	-	-	-	-	-	-
Transfers out	(42,897)	-	(300,000)	-	-	-	-
Long-term debt issued	-	-	-	-	-	-	-
Premium on long-term debt issued	-	-	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-	-	-
Total other financing sources (uses)	(42,897)	-	(300,000)	-	-	-	-
Net Change in Fund Balances	46,284	58,337	(138,058)	(10,217)	22,073	(50,186)	(99,637)
Fund Balances (Deficit) - Beginning of year	217,832	239,580	183,291	319,882	67,287	180,464	235,165
Fund Balances - End of year	\$ 264,116	\$ 297,917	\$ 45,233	\$ 309,665	\$ 89,360	\$ 130,278	\$ 135,528

**Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances (Deficit)
Nonmajor Governmental Funds
Year Ended June 30, 2007**

Debt Service Funds						
2001 Refunding	2003 Series I	2003 Series II	2005 Refunding, Series I	2005 Refunding, Series II	2006 Refunding	2007 Refunding
\$ 2,119,822	\$ 1,013,034	\$ 1,184,780	\$ 2,584,842	\$ 1,224,535	\$ 2,669,750	\$ 3,742
-	-	-	-	-	-	-
-	-	-	-	-	-	-
2,119,822	1,013,034	1,184,780	2,584,842	1,224,535	2,669,750	3,742
-	-	-	-	-	-	-
-	-	-	-	-	-	-
1,690,000	125,000	-	-	-	80,000	-
523,270	1,147,681	1,523,325	2,709,345	1,248,150	2,004,371	-
516	488	600	2,107	589	688,684	101,116
-	-	-	-	-	-	-
<u>2,213,786</u>	<u>1,273,169</u>	<u>1,523,925</u>	<u>2,711,452</u>	<u>1,248,739</u>	<u>2,773,055</u>	<u>101,116</u>
(93,964)	(260,135)	(339,145)	(126,610)	(24,204)	(103,305)	(97,374)
-	-	-	-	-	-	300,000
-	-	-	-	-	-	-
-	-	-	-	-	92,485,000	7,180,000
-	-	-	-	-	453,844	230,412
-	-	-	-	-	<u>(92,250,160)</u>	<u>(7,609,296)</u>
-	-	-	-	-	688,684	101,116
(93,964)	(260,135)	(339,145)	(126,610)	(24,204)	585,379	3,742
<u>369,036</u>	<u>416,991</u>	<u>465,501</u>	<u>523,902</u>	<u>190,513</u>	-	-
<u>\$ 275,072</u>	<u>\$ 156,856</u>	<u>\$ 126,356</u>	<u>\$ 397,292</u>	<u>\$ 166,309</u>	<u>\$ 585,379</u>	<u>\$ 3,742</u>

South Lyon Community Schools

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Nonmajor Governmental Funds (Continued) Year Ended June 30, 2007

	Capital Projects Funds						Total
	Bus Purchases	Site Projects	2000 Series I	2000 Series II	2000 Series III	Capital Improvements	
Revenue							
Local	\$ -	\$ -	\$ 4,472	\$ 20,690	\$ 3	\$ -	\$ 17,108,257
State	-	-	-	-	-	-	85,215
Federal	-	-	-	-	-	-	429,924
Total revenue	-	-	4,472	20,690	3	-	17,623,396
Expenditures							
Current:							
Food services	-	-	-	-	-	-	1,415,829
Athletics	-	-	-	-	-	-	256,696
Debt service:							
Principal	225,660	-	-	-	-	-	6,315,660
Interest	25,773	-	-	-	-	-	9,938,501
Other	-	-	-	-	-	-	796,222
Capital outlay	880,686	62,520	102,407	422,868	84,002	277,003	1,829,486
Total expenditures	1,132,119	62,520	102,407	422,868	84,002	277,003	20,552,394
Excess of Revenue Over (Under) Expenditures	(1,132,119)	(62,520)	(97,935)	(402,178)	(83,999)	(277,003)	(2,928,998)
Other Financing Sources (Uses)							
Transfers in	500,000	100,000	-	-	99,937	350,000	1,349,937
Transfers out	-	-	-	(99,937)	-	-	(442,834)
Long-term debt issued	878,436	-	-	-	-	-	100,543,436
Premium on long-term debt issued	-	-	-	-	-	-	684,256
Payment to refunded bond escrow agent	-	-	-	-	-	-	(99,859,456)
Total other financing sources (uses)	1,378,436	100,000	-	(99,937)	99,937	350,000	2,275,339
Net Change in Fund Balances	246,317	37,480	(97,935)	(502,115)	15,938	72,997	(653,659)
Fund Balances (Deficit) - Beginning of year	559,180	44,253	97,935	502,115	(15,938)	996,115	5,593,104
Fund Balances - End of year	\$ 805,497	\$ 81,733	\$ -	\$ -	\$ -	\$ 1,069,112	\$ 4,939,445

South Lyon Community Schools

	Year Ended					
	Food Services			Athletics		
	Budget	Actual	Over (Under) Budget	Budget	Actual	Over (Under) Budget
Revenues						
Local sources	\$ 1,003,250	\$ 989,871	\$ (13,379)	\$ 310,700	\$ 315,033	\$ 4,333
State sources	53,200	85,215	32,015	-	-	-
Federal sources	316,684	429,924	113,240	-	-	-
Total revenues	1,373,134	1,505,010	131,876	310,700	315,033	4,333
Expenditures						
Food services	1,323,633	1,415,829	92,196	-	-	-
Athletics	-	-	-	406,540	256,696	(149,844)
Total expenditures	1,323,633	1,415,829	92,196	406,540	256,696	(149,844)
Excess of Revenues Over (Under) Expenditures	49,501	89,181	39,680	(95,840)	58,337	154,177
Other Financing Uses - Transfers out	(41,194)	(42,897)	(1,703)	-	-	-
Net Change in Fund Balances	8,307	46,284	37,977	(95,840)	58,337	154,177
Fund Balances - Beginning of year	217,832	217,832	-	239,580	239,580	-
Fund Balances - End of year	<u>\$ 226,139</u>	<u>\$ 264,116</u>	<u>\$ 37,977</u>	<u>\$ 143,740</u>	<u>\$ 297,917</u>	<u>\$ 154,177</u>

Other Supplemental Information
Special Revenue Funds
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2007

June 30			
2007		2006	
Total Special Revenue Funds		Total Special Revenue Funds	
Budget	Actual	Over (Under)	Actual
		Budget	
\$ 1,313,950	\$ 1,304,904	\$ (9,046)	\$ 1,281,405
53,200	85,215	32,015	69,408
<u>316,684</u>	<u>429,924</u>	<u>113,240</u>	<u>369,424</u>
1,683,834	1,820,043	136,209	1,720,237
1,323,633	1,415,829	92,196	1,414,557
<u>406,540</u>	<u>256,696</u>	<u>(149,844)</u>	<u>229,045</u>
<u>1,730,173</u>	<u>1,672,525</u>	<u>(57,648)</u>	<u>1,643,602</u>
(46,339)	147,518	193,857	76,635
<u>(41,194)</u>	<u>(42,897)</u>	<u>(1,703)</u>	<u>(41,254)</u>
(87,533)	104,621	192,154	35,381
<u>457,412</u>	<u>457,412</u>	<u>-</u>	<u>422,031</u>
<u>\$ 369,879</u>	<u>\$ 562,033</u>	<u>\$ 192,154</u>	<u>\$ 457,412</u>

South Lyon Community Schools

Bond

	1997 Series I Actual	1998 Series I Actual	2000 Series I Actual	2000 Series II Actual	2000 Series III Actual
Revenues - Local sources	\$ 906,029	\$ 1,753,370	\$ 467,639	\$ 860,064	\$ 990,581
Expenditures					
Debt service principal	530,000	1,580,000	335,000	750,000	1,000,000
Debt service interest and other	<u>214,087</u>	<u>183,587</u>	<u>110,566</u>	<u>160,250</u>	<u>90,218</u>
Total expenditures	<u>744,087</u>	<u>1,763,587</u>	<u>445,566</u>	<u>910,250</u>	<u>1,090,218</u>
Excess of Revenues Over (Under) Expenditures	161,942	(10,217)	22,073	(50,186)	(99,637)
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	-
Transfers out	(300,000)	-	-	-	-
Long-term debt issued	-	-	-	-	-
Premium on long-term debt issued	-	-	-	-	-
Payment to refunded bond escrow agent	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(138,058)	(10,217)	22,073	(50,186)	(99,637)
Fund Balances - Beginning of year	<u>183,291</u>	<u>319,882</u>	<u>67,287</u>	<u>180,464</u>	<u>235,165</u>
Fund Balances - End of year	<u>\$ 45,233</u>	<u>\$ 309,665</u>	<u>\$ 89,360</u>	<u>\$ 130,278</u>	<u>\$ 135,528</u>

**Other Supplemental Information
Debt Service Funds
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2007**

Issues

2001 Refunding Actual	2003 Series I Actual	2003 Series II Actual	2005 Refunding, Series I Actual	2005 Refunding, Series II Actual	2006 Refunding Actual	2007 Refunding Actual
\$ 2,119,822	\$ 1,013,034	\$ 1,184,780	\$ 2,584,842	\$ 1,224,535	\$ 2,669,750	\$ 3,742
1,690,000	125,000	-	-	-	80,000	-
<u>523,786</u>	<u>1,148,169</u>	<u>1,523,925</u>	<u>2,711,452</u>	<u>1,248,739</u>	<u>2,693,055</u>	<u>101,116</u>
<u>2,213,786</u>	<u>1,273,169</u>	<u>1,523,925</u>	<u>2,711,452</u>	<u>1,248,739</u>	<u>2,773,055</u>	<u>101,116</u>
(93,964)	(260,135)	(339,145)	(126,610)	(24,204)	(103,305)	(97,374)
-	-	-	-	-	-	300,000
-	-	-	-	-	-	-
-	-	-	-	-	92,485,000	7,180,000
-	-	-	-	-	453,844	230,412
-	-	-	-	-	<u>(92,250,160)</u>	<u>(7,609,296)</u>
(93,964)	(260,135)	(339,145)	(126,610)	(24,204)	585,379	3,742
<u>369,036</u>	<u>416,991</u>	<u>465,501</u>	<u>523,902</u>	<u>190,513</u>	<u>-</u>	<u>-</u>
<u>\$ 275,072</u>	<u>\$ 156,856</u>	<u>\$ 126,356</u>	<u>\$ 397,292</u>	<u>\$ 166,309</u>	<u>\$ 585,379</u>	<u>\$ 3,742</u>

South Lyon Community Schools

Other Supplemental Information Debt Service Funds Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual (Continued) Year Ended June 30, 2007

	Total 2007		Total 2006
	Total Debt Service Funds Actual	Total Debt Service Funds Budget	Total Debt Service Funds Actual
Revenues - Local sources	\$ 15,778,188	\$ 15,603,549	\$ 14,685,789
Expenditures			
Debt service principal	6,090,000	6,090,000	5,340,000
Debt service interest and other	10,708,950	10,253,028	10,504,607
Total expenditures	16,798,950	16,343,028	15,844,607
Excess of Revenues Over (Under) Expenditures	(1,020,762)	(739,479)	(1,158,818)
Other Financing Sources (Uses)			
Transfers in	300,000	-	812,000
Transfers out	(300,000)	-	(812,000)
Long-term debt issued	99,665,000	-	30,025,000
Premium on long-term debt issued	684,256	-	905,357
Payment to refunded bond escrow agent	(99,859,456)	-	(31,484,529)
Net Change in Fund Balances	(530,962)	(739,479)	(1,712,990)
Fund Balances - Beginning of year	2,952,032	2,952,032	4,665,022
Fund Balances - End of year	\$ 2,421,070	\$ 2,212,553	\$ 2,952,032

South Lyon Community Schools

	Bus Purchases			Site Projects		
	Budget	Actual	Over (Under) Budget	Budget	Actual	Over (Under) Budget
Revenue - Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures						
Debt service:						
Note redemption	298,223	225,660	(72,563)	-	-	-
Note interest	43,446	25,773	(17,673)	-	-	-
Capital outlay	878,000	880,686	2,686	50,000	62,520	12,520
Total expenditures	<u>1,219,669</u>	<u>1,132,119</u>	<u>(87,550)</u>	<u>50,000</u>	<u>62,520</u>	<u>12,520</u>
Excess of Expenditures Over Revenue	(1,219,669)	(1,132,119)	87,550	(50,000)	(62,520)	(12,520)
Other Financing Sources (Uses)						
Transfers in (out)	400,000	500,000	100,000	50,000	100,000	50,000
Long-term debt issued	878,000	878,436	436	-	-	-
Total other financing sources (uses)	<u>1,278,000</u>	<u>1,378,436</u>	<u>100,436</u>	<u>50,000</u>	<u>100,000</u>	<u>50,000</u>
Net Change in Fund Balances	58,331	246,317	187,986	-	37,480	37,480
Fund Balances (Deficit) - Beginning of year	<u>559,180</u>	<u>559,180</u>	<u>-</u>	<u>44,253</u>	<u>44,253</u>	<u>-</u>
Fund Balances (Deficit) - End of year	<u>\$ 617,511</u>	<u>\$ 805,497</u>	<u>\$ 187,986</u>	<u>\$ 44,253</u>	<u>\$ 81,733</u>	<u>\$ 37,480</u>

**Other Supplemental Information
Capital Projects Funds
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances (Deficit) - Budget and Actual
Year Ended June 30, 2007**

2000 Series I			2000 Series II			2000 Series III		
Budget	Actual	Over (Under) Budget	Budget	Actual	Over (Under) Budget	Budget	Actual	Over (Under) Budget
\$ -	\$ 4,472	\$ 4,472	\$ -	\$ 20,690	\$ 20,690	\$ -	\$ 3	\$ 3
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	102,407	102,407	500,000	422,868	(77,132)	-	84,002	84,002
-	102,407	102,407	500,000	422,868	(77,132)	-	84,002	84,002
-	(97,935)	(97,935)	(500,000)	(402,178)	97,822	-	(83,999)	(83,999)
-	-	-	-	(99,937)	(99,937)	-	99,937	99,937
-	-	-	-	-	-	-	-	-
-	-	-	-	(99,937)	(99,937)	-	99,937	99,937
-	(97,935)	(97,935)	(500,000)	(502,115)	(2,115)	-	15,938	15,938
97,935	97,935	-	502,115	502,115	-	(15,938)	(15,938)	-
\$ 97,935	\$ -	\$ (97,935)	\$ 2,115	\$ -	\$ (2,115)	\$ (15,938)	\$ -	\$ 15,938

South Lyon Community Schools

	2003 Series I			2003 Series II		
	Budget	Actual	Over (Under) Budget	Budget	Actual	Over (Under) Budget
Revenue - Interest	\$ 50,000	\$ 556,766	\$ 506,766	\$ 100,000	\$ 1,334,576	\$ 1,234,576
Expenditures						
Debt service:						
Note redemption	-	-	-	-	-	-
Note interest	-	-	-	-	-	-
Capital outlay	<u>11,000,000</u>	<u>11,901,902</u>	<u>901,902</u>	<u>16,000,000</u>	<u>19,276,886</u>	<u>3,276,886</u>
Total expenditures	<u>11,000,000</u>	<u>11,901,902</u>	<u>901,902</u>	<u>16,000,000</u>	<u>19,276,886</u>	<u>3,276,886</u>
Excess of Expenditures Over Revenue	(10,950,000)	(11,345,136)	(395,136)	(15,900,000)	(17,942,310)	(2,042,310)
Other Financing Sources (Uses)						
Transfers in (out)	-	-	-	-	-	-
Long-term debt issued	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(10,950,000)	(11,345,136)	(395,136)	(15,900,000)	(17,942,310)	(2,042,310)
Fund Balances (Deficit) - Beginning of year	<u>13,289,681</u>	<u>13,289,681</u>	<u>-</u>	<u>26,303,894</u>	<u>26,303,894</u>	<u>-</u>
Fund Balances (Deficit) - End of year	<u>\$ 2,339,681</u>	<u>\$ 1,944,545</u>	<u>\$ (395,136)</u>	<u>\$ 10,403,894</u>	<u>\$ 8,361,584</u>	<u>\$ (2,042,310)</u>

**Other Supplemental Information
Capital Projects Funds
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances (Deficit) - Budget and Actual (Continued)
Year Ended June 30, 2007**

Capital Improvements			Total 2007			Total 2006	
			Total Capital Projects Funds			Total Capital Projects Funds	
Budget	Actual	Over (Under) Budget	Budget	Actual	Over (Under) Budget	Actual	
\$ -	\$ -	\$ -	\$ 150,000	\$ 1,916,507	\$ 1,766,507	\$ 2,160,323	
-	-	-	298,223	225,660	(72,563)	278,917	
-	-	-	43,446	25,773	(17,673)	36,884	
<u>304,607</u>	<u>277,003</u>	<u>(27,604)</u>	<u>28,732,607</u>	<u>33,008,274</u>	<u>4,275,667</u>	<u>29,626,404</u>	
<u>304,607</u>	<u>277,003</u>	<u>(27,604)</u>	<u>29,074,276</u>	<u>33,259,707</u>	<u>4,185,431</u>	<u>29,942,205</u>	
(304,607)	(277,003)	27,604	(28,924,276)	(31,343,200)	(2,418,924)	(27,781,882)	
250,000	350,000	100,000	700,000	950,000	250,000	900,000	
-	-	-	878,000	878,436	436	-	
<u>250,000</u>	<u>350,000</u>	<u>100,000</u>	<u>1,578,000</u>	<u>1,828,436</u>	<u>250,436</u>	<u>900,000</u>	
(54,607)	72,997	127,604	(27,346,276)	(29,514,764)	(2,168,488)	(26,881,882)	
<u>996,115</u>	<u>996,115</u>	<u>-</u>	<u>41,777,235</u>	<u>41,777,235</u>	<u>-</u>	<u>68,659,117</u>	
<u>\$ 941,508</u>	<u>\$ 1,069,112</u>	<u>\$ 127,604</u>	<u>\$ 14,430,959</u>	<u>\$ 12,262,471</u>	<u>\$ (2,168,488)</u>	<u>\$ 41,777,235</u>	

South Lyon Community Schools

Other Supplemental Information Schedule of Cash, Cash Equivalents, and Investments Year Ended June 30, 2007

Fund	Type of Investment	Interest Rate (Percent)	Date of Maturity	Carrying Value
General	Checking account	Variable	-	\$ 321,505
	Petty cash	Variable	-	100
	Cash management fund - Michigan School District Liquid Asset Fund	Variable	-	1,166,024
	Fifth Third Money Market Fund	Variable	-	<u>4,009,877</u>
	Total General Fund			5,497,506
Special Revenue	Checking account	-	-	513,858
Debt Service	Cash management fund - Michigan School District Liquid Asset Fund	Variable	-	1,483,420
	Fifth Third Money Market Fund	Variable	-	<u>902,222</u>
	Total Debt Fund			2,385,642
Capital Projects	Fifth Third Money Market Fund	Variable	-	5,003,678
	Cash management fund - Michigan School District Liquid Asset Fund	Variable	-	3,843,565
	FHLMC Bonds	Variable	Various	5,194,191
	FNMA Bonds	Variable	Various	1,127,546
	Gov't National Mortgage Assoc. Bonds	4.00	2/16/2028	346,276
	Federal Home Loan Bank Bonds	Variable	Various	<u>1,395,708</u>
Total Capital Projects Funds			16,910,964	
Enterprise	Checking account	-	-	6,050
Agency	Checking account	-	-	262,301
	Comerica Governmental Cash Investment Fund	Variable	-	<u>447,878</u>
	Total Agency Fund			<u>710,179</u>
	Total cash, cash equivalents, and investments			<u><u>\$ 26,024,199</u></u>

South Lyon Community Schools

	1998 Debt	2000 Series I	2000 Series II	2000 Series III	2001 Refunding
June 30	Principal	Principal	Principal	Principal	Principal
2008	\$ 1,825,000	\$ 410,000	\$ 775,000	\$ 1,000,000	\$ 1,515,000
2009	-	585,000	775,000	-	1,475,000
2010	-	735,000	800,000	-	1,475,000
2011	-	-	-	-	1,475,000
2012	-	-	-	-	1,475,000
2013	-	-	-	-	1,450,000
2014	-	-	-	-	825,000
2015	-	-	-	-	-
2016	-	-	-	-	-
2017	-	-	-	-	-
2018	-	-	-	-	-
2019	-	-	-	-	-
2020	-	-	-	-	-
2021	-	-	-	-	-
2022	-	-	-	-	-
2023	-	-	-	-	-
2024	-	-	-	-	-
2025	-	-	-	-	-
2026	-	-	-	-	-
2027	-	-	-	-	-
2028	-	-	-	-	-
	<u>\$ 1,825,000</u>	<u>\$ 1,730,000</u>	<u>\$ 2,350,000</u>	<u>\$ 1,000,000</u>	<u>\$ 9,690,000</u>
Principal payments due	May 1				
Interest payments due	May 1 and November 1				
Interest rate	5.375%	5.25% to 5.40%	5.125% to 5.25%	4.5%	4.05% to 5.25%
Original issue	<u>\$ 39,900,000</u>	<u>\$ 14,570,000</u>	<u>\$ 15,145,000</u>	<u>\$ 38,230,000</u>	<u>\$ 20,815,000</u>

**Other Supplemental Information
Schedule of Bonded Indebtedness
Year Ended June 30, 2007**

2003 Series I	2003 Series II	2005 Refunding, Series I	2005 Refunding, Series II	2006 Refunding	2007 Refunding
Principal	Principal	Principal	Principal	Principal	Principal
\$ 570,000	\$ -	\$ -	\$ -	\$ 285,000	\$ 610,000
875,000	25,000	650,000	2,075,000	300,000	700,000
1,150,000	400,000	870,000	2,075,000	-	650,000
1,150,000	800,000	3,110,000	2,090,000	-	635,000
1,150,000	1,200,000	3,540,000	2,070,000	150,000	620,000
-	1,000,000	3,995,000	2,050,000	1,790,000	660,000
-	1,850,000	4,025,000	2,035,000	2,080,000	630,000
-	-	4,330,000	2,010,000	4,375,000	635,000
-	-	4,395,000	2,000,000	4,890,000	625,000
-	-	4,385,000	1,980,000	5,320,000	615,000
-	-	4,380,000	1,955,000	5,755,000	600,000
-	-	4,355,000	1,935,000	6,070,000	100,000
-	-	4,365,000	1,935,000	6,290,000	100,000
-	-	4,355,000	1,935,000	6,500,000	-
-	-	4,340,000	1,940,000	6,765,000	-
-	-	4,325,000	1,940,000	6,935,000	-
-	-	-	-	7,035,000	-
-	-	-	-	7,010,000	-
-	-	-	-	6,985,000	-
-	-	-	-	6,960,000	-
-	-	-	-	6,910,000	-
<u>\$ 4,895,000</u>	<u>\$ 5,275,000</u>	<u>\$ 55,420,000</u>	<u>\$ 30,025,000</u>	<u>\$ 92,405,000</u>	<u>\$ 7,180,000</u>
May 1	May 1	May 1	May 1	May 1	May 1
May 1 and November 1	May 1 and November 1	May 1 and November 1			
3.00% to 4.00%	3.25% to 5.50%	3.25% to 5.00%	3.25% to 5.00%	4.00% to 5.00%	4.00% to 5.00%
<u>\$ 43,120,000</u>	<u>\$ 55,730,000</u>	<u>\$ 55,420,000</u>	<u>\$ 30,025,000</u>	<u>\$ 92,485,000</u>	<u>\$ 7,180,000</u>

Capital Assets

South Lyon Community Schools

Capital Assets Schedule of Investment in Capital Assets - By Building June 30, 2007

	Land and Improvements	Building and Improvements	Furniture and Equipment	Buses and Other Vehicles	Construction in Progress	Total
Elementary schools:						
Bartlett	\$ 45,276	\$ 5,367,655	\$ 90,000	\$ -	\$ -	\$ 5,502,931
Dolsen	189,874	6,049,024	65,000	-	-	6,303,898
Salem	138,307	6,545,161	30,000	-	-	6,713,468
Sayre	47,853	6,489,183	89,040	-	-	6,626,076
Brummer	590,292	9,187,419	69,806	-	-	9,847,517
Kent Lake	524,514	11,838,970	69,972	-	-	12,433,456
Hardy	481,683	11,397,494	78,786	-	-	11,957,963
Secondary schools:						
Centennial Middle School	212,745	22,239,298	124,013	-	-	22,576,056
Millennium Middle School	635,237	21,399,118	578,000	-	-	22,612,355
High school	1,513,199	58,736,910	833,056	-	-	61,083,165
Early Childhood Center	-	2,585,724	-	-	-	2,585,724
Administration building	165,565	2,133,000	274,240	-	-	2,572,805
Transportation facility	481,061	837,148	21,214	-	-	1,339,423
Warehouse	-	69,844	17,708	-	-	87,552
Land	6,475,939	-	-	-	-	6,475,939
Construction in progress	-	-	-	-	62,186,676	62,186,676
Vehicles	-	-	-	4,921,993	-	4,921,993
Total	<u>\$ 11,501,545</u>	<u>\$ 164,875,948</u>	<u>\$ 2,340,835</u>	<u>\$ 4,921,993</u>	<u>\$ 62,186,676</u>	<u>\$ 245,826,997</u>

South Lyon Community Schools

Capital Assets Schedule of Capital Assets by Source June 30, 2007

Capital Assets

Land	\$ 10,141,706
Construction in progress	62,186,676
Land improvements	1,359,839
Buildings and building improvements	164,875,948
Buses and other vehicles	4,921,993
Furniture and equipment	<u>2,340,835</u>

Total \$ 245,826,997

Investment in Capital Assets

All assets acquired prior to July 1, 1995	\$ 47,891,780
General Fund	1,909,911
Capital Projects Funds	<u>196,025,306</u>

Total \$ 245,826,997

Long-term Debt

South Lyon Community Schools

	<u>1997 Series I</u>	<u>1998 Series I</u>	<u>2000 Series I</u>	<u>2000 Series II</u>
Amount Available and to be Provided				
Debt Service Funds:				
Amount available in Debt Service Funds	\$ 45,233	\$ 309,665	\$ 89,360	\$ 130,278
Amount to be provided for payment of bonds payable	<u>(45,233)</u>	<u>1,515,335</u>	<u>1,640,640</u>	<u>2,219,722</u>
Total amount available and to be provided for payment of bonds payable	-	1,825,000	1,730,000	2,350,000
General Fund - Amount to be provided for payment of other obligations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total amount available and to be provided	<u>\$ -</u>	<u>\$ 1,825,000</u>	<u>\$ 1,730,000</u>	<u>\$ 2,350,000</u>
Long-term Debt Payable				
Bonds payable	\$ -	\$ 1,825,000	\$ 1,730,000	\$ 2,350,000
Other long-term obligations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ -</u>	<u>\$ 1,825,000</u>	<u>\$ 1,730,000</u>	<u>\$ 2,350,000</u>

Note: The above schedule excludes bond premiums and discounts and other bond issuance costs.

**Long-term Debt
Schedule of Long-term Debt
June 30, 2007**

<u>2000 Series III</u>	<u>2001 Refunding</u>	<u>2003 Series I</u>	<u>2003 Series II</u>	<u>2005 Refunding, Series I</u>	<u>2005 Refunding, Series II</u>	<u>2006 Refunding</u>
\$ 135,528	\$ 275,072	\$ 156,856	\$ 126,356	\$ 397,292	\$ 166,309	\$ 585,379
<u>864,472</u>	<u>9,414,928</u>	<u>4,738,144</u>	<u>5,148,644</u>	<u>55,022,708</u>	<u>29,858,691</u>	<u>91,819,621</u>
1,000,000	9,690,000	4,895,000	5,275,000	55,420,000	30,025,000	92,405,000
-	-	-	-	-	-	-
<u>\$ 1,000,000</u>	<u>\$ 9,690,000</u>	<u>\$ 4,895,000</u>	<u>\$ 5,275,000</u>	<u>\$55,420,000</u>	<u>\$30,025,000</u>	<u>\$92,405,000</u>
\$ 1,000,000	\$ 9,690,000	\$ 4,895,000	\$ 5,275,000	\$ 55,420,000	\$ 30,025,000	\$ 92,405,000
-	-	-	-	-	-	-
<u>\$ 1,000,000</u>	<u>\$ 9,690,000</u>	<u>\$ 4,895,000</u>	<u>\$ 5,275,000</u>	<u>\$55,420,000</u>	<u>\$30,025,000</u>	<u>\$92,405,000</u>

South Lyon Community Schools

Long-term Debt Schedule of Long-term Debt (Continued) June 30, 2007

	2007 Refunding	Other Obligations	Total Obligations
Amount Available and to be Provided			
Debt Service Funds:			
Amount available in Debt Service Funds	\$ 3,742	\$ -	\$ 2,421,070
Amount to be provided for payment of bonds payable	7,176,258	-	209,373,930
Total amount available and to be provided for payment of bonds payable	7,180,000	-	211,795,000
General Fund - Amount to be provided for payment of other obligations	-	3,702,533	3,702,533
Total amount available and to be provided	\$ 7,180,000	\$ 3,702,533	\$ 215,497,533
Long-term Debt Payable			
Bonds payable	\$ 7,180,000	\$ -	\$ 211,795,000
Other long-term obligations	-	3,702,533	3,702,533
Total	\$ 7,180,000	\$ 3,702,533	\$ 215,497,533

South Lyon Community Schools

Bond

	<u>1997 Series I</u>	<u>1998 Series I</u>	<u>2000 Series I</u>	<u>2000 Series II</u>	<u>2000 Series III</u>
Long-term Debt Outstanding - July 1, 2006	\$ 8,045,000	\$ 3,405,000	\$ 2,065,000	\$ 3,100,000	\$ 2,000,000
Additions					
Issuance of other obligations	-	-	-	-	-
Long-term debt issued	-	-	-	-	-
Reductions					
Decrease in other obligations	-	-	-	-	-
Retirements and payments	<u>(8,045,000)</u>	<u>(1,580,000)</u>	<u>(335,000)</u>	<u>(750,000)</u>	<u>(1,000,000)</u>
Long-term Debt Outstanding - June 30, 2007	<u>\$ -</u>	<u>\$ 1,825,000</u>	<u>\$ 1,730,000</u>	<u>\$ 2,350,000</u>	<u>\$ 1,000,000</u>

Note: The above schedule excludes bond premiums and discounts and other bond issuance costs.

Long-term Debt
Schedule of Changes in Long-term Debt
Year Ended June 30, 2007

Issues

2001 Refunding	2003 Series I	2003 Series II	2005 Refunding, Series I	2005 Refunding, Series II	2006 Refunding	2007 Refunding
\$ 11,380,000	\$ 43,120,000	\$ 55,730,000	\$ 55,420,000	\$ 30,025,000	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	92,485,000	7,180,000
-	-	-	-	-	-	-
(1,690,000)	(38,225,000)	(50,455,000)	-	-	(80,000)	-
<u>\$ 9,690,000</u>	<u>\$ 4,895,000</u>	<u>\$ 5,275,000</u>	<u>\$ 55,420,000</u>	<u>\$ 30,025,000</u>	<u>\$ 92,405,000</u>	<u>\$ 7,180,000</u>

South Lyon Community Schools

Long-term Debt Schedule of Changes in Long-term Debt (Continued) Year Ended June 30, 2007

	<u>Other Obligations</u>	<u>Total Obligations</u>
Long-term Debt Outstanding - July 1, 2006	\$ 2,025,815	\$ 216,315,815
Additions		
Issuance of other obligations	2,018,476	2,018,476
Long-term debt issued	-	99,665,000
Reductions		
Decrease in other obligations	(341,758)	(341,758)
Retirements and payments	<u>-</u>	<u>(102,160,000)</u>
Long-term Debt Outstanding - June 30, 2007	<u>\$3,702,533</u>	<u>\$215,497,533</u>

**Statistical and Other Information
(Unaudited)**

South Lyon Community Schools

Net Assets by Component Fiscal Year Ended June 30 (Unaudited)

	June 30				
	2003	2004	2005	2006	2007
Governmental Activities					
Invested in capital assets - Net of related debt	\$ (1,607,765)	\$ 3,174,987	\$ (1,973,595)	\$ (788,026)	\$ 3,268,835
Restricted	3,113,049	2,077,130	5,023,280	4,813,041	4,248,016
Unrestricted	<u>1,945,040</u>	<u>3,462,035</u>	<u>4,597,571</u>	<u>4,906,240</u>	<u>6,138,505</u>
Total net assets	3,450,324	8,714,152	7,647,256	8,931,255	13,655,356
Business-type Activities - Unrestricted	206,991	306,250	320,743	304,424	307,584
Private Governmental in Total					
Invested in capital assets - Net of related debt	(1,607,765)	3,174,987	(1,973,595)	(788,026)	3,268,835
Restricted	3,113,049	2,077,130	5,023,280	4,813,041	4,248,016
Unrestricted	<u>2,152,031</u>	<u>3,768,285</u>	<u>4,918,314</u>	<u>5,210,664</u>	<u>6,446,089</u>
Total net assets	<u>\$ 3,657,315</u>	<u>\$ 9,020,402</u>	<u>\$ 7,967,999</u>	<u>\$ 9,235,679</u>	<u>\$ 13,962,940</u>

Note: This schedule includes all periods subsequent to the adoption of GASB No. 34.

Source: South Lyon Community Schools audited financial statements

South Lyon Community Schools

Changes in Governmental Net Assets Fiscal Year Ended June 30 (Unaudited)

	June 30				
	2003	2004	2005	2006	2007
Expenses - Governmental activities					
Instruction	\$ 32,710,292	\$ 30,559,944	\$ 34,908,527	\$ 34,309,523	\$ 36,986,181
Support services	18,715,473	20,528,263	22,794,525	24,404,209	25,633,887
Food services	1,328,562	1,418,475	1,468,043	1,414,557	1,415,829
Athletics	208,735	216,990	209,215	229,045	256,696
Community services	146,635	145,680	154,516	165,735	159,140
Interest on long-term debt	7,307,713	8,518,621	9,594,366	10,139,352	6,600,907
Depreciation (unallocated)	3,153,807	-	-	-	-
Total expenses	63,571,217	61,387,973	69,129,192	70,662,421	71,052,640
Program Revenues					
Charges for services:					
Food services	1,018,463	1,036,732	1,002,099	977,434	989,871
Athletics	204,862	232,866	236,013	303,971	315,033
Community services	6,700	6,755	6,756	20,793	-
Operating grants and contributions	5,055,763	4,992,877	5,797,250	5,640,185	5,881,314
Total program revenue	6,285,788	6,269,230	7,042,118	6,942,383	7,186,218
Net Expense	(57,285,429)	(55,118,743)	(62,087,074)	(63,720,038)	(63,866,422)
General Revenues					
Property taxes	18,147,387	19,229,965	21,837,189	23,269,685	25,367,626
State aid not restricted to specific purposes	35,641,597	36,077,565	37,153,120	38,585,528	40,028,828
Investment earnings	1,387,322	497,323	1,223,136	2,690,581	2,617,194
Other	307,784	797,641	806,733	458,243	576,875
Total general revenues	55,484,090	56,602,494	61,020,178	65,004,037	68,590,523
Change in Net Assets	<u>\$(1,801,339)</u>	<u>\$ 1,483,751</u>	<u>\$(1,066,896)</u>	<u>\$ 1,283,999</u>	<u>\$ 4,724,101</u>

Note: This schedule includes all periods subsequent to the adoption of GASB No. 34.

Source: South Lyon Community Schools audited financial statements

South Lyon Community Schools

Changes in Business-type Net Assets Fiscal Year Ended June 30 (Unaudited)

	June 30				
	2003	2004	2005	2006	2007
Operating Revenue	\$1,038,107	\$1,206,151	\$1,275,575	\$1,368,287	\$1,425,748
Operating Expenses - Community education	<u>988,951</u>	<u>1,106,892</u>	<u>1,261,082</u>	<u>1,384,606</u>	<u>1,422,588</u>
Change in Net Assets	<u>\$ 49,156</u>	<u>\$ 99,259</u>	<u>\$ 14,493</u>	<u>\$ (16,319)</u>	<u>\$ 3,160</u>

Note: This schedule includes all periods subsequent to the adoption of GASB No. 34.

Source: South Lyon Community Schools audited financial statements

South Lyon Community Schools

	June 30			
	1998	1999	2000	2001
General Fund				
Reserved	\$ 81,325	\$ 83,564	\$ 89,008	\$ 92,275
Unreserved	<u>2,606,667</u>	<u>2,672,720</u>	<u>2,704,859</u>	<u>2,736,192</u>
Total General Fund	2,687,992	2,756,284	2,793,867	2,828,467
All Other Governmental Funds				
Reserved:				
Capital Project Funds	39,654,640	4,739,599	14,390,583	7,826,119
Debt Service Funds	481,720	638,411	965,499	856,927
Other	29,539	15,127,506	720,212	39,970,609
Unreserved - Special Revenue Funds	<u>59,285</u>	<u>116,489</u>	<u>288,134</u>	<u>436,335</u>
Total all other governmental funds	<u>\$ 40,225,184</u>	<u>\$ 20,622,005</u>	<u>\$ 16,364,428</u>	<u>\$ 49,089,990</u>

Source: South Lyon Community Schools audited financial statements

Fund Balances - Governmental Funds
Last Ten Fiscal Years
(Unaudited)

June 30					
2002	2003	2004	2005	2006	2007
\$ 86,351	\$ 96,889	\$ 255,581	\$ 201,685	\$ 168,477	\$ 116,305
<u>3,017,409</u>	<u>3,194,250</u>	<u>3,092,263</u>	<u>3,196,493</u>	<u>3,456,462</u>	<u>5,419,524</u>
3,103,760	3,291,139	3,347,844	3,398,178	3,624,939	5,535,829
5,944,627	4,092,779	3,291,570	2,060,387	2,183,660	1,854,215
1,066,064	1,873,316	919,564	4,665,022	2,952,032	2,421,070
18,696,925	49,315,495	29,260,067	66,627,407	39,616,687	10,425,272
<u>64,010</u>	<u>405,094</u>	<u>412,921</u>	<u>393,354</u>	<u>434,300</u>	<u>545,017</u>
<u>\$ 25,771,626</u>	<u>\$ 55,686,684</u>	<u>\$ 33,884,122</u>	<u>\$ 73,746,170</u>	<u>\$ 45,186,679</u>	<u>\$ 15,245,574</u>

South Lyon Community Schools

	Year Ended June 30			
	1998	1999	2000	2001
Revenue				
Local revenue	\$ 12,771,839	\$ 16,647,536	\$ 17,165,443	\$ 19,949,121
State revenue	28,835,134	28,501,957	30,950,073	33,382,469
Federal revenue	915,523	962,773	989,640	1,029,576
Interdistrict revenue	495,355	690,629	589,270	335,971
Total revenue	43,017,851	46,802,895	49,694,426	54,697,137
Expenditures				
Current:				
Instruction	17,034,130	18,856,051	20,482,216	21,698,606
Support services	12,192,598	13,409,406	15,588,157	16,221,285
Food services	946,787	913,683	1,076,462	1,208,957
Athletics	382,399	514,918	575,098	569,007
Community services	86,021	163,022	162,382	178,881
Other	4,043,301	5,303,471	3,687,168	2,166,647
Debt service:				
Principal	2,934,970	3,505,093	4,487,877	7,384,931
Interest	2,351,800	4,761,302	4,092,913	5,379,326
Other	50,566	20,850	49,574	231,754
Capital outlay	6,973,429	21,749,473	19,023,411	19,883,877
Total expenditures	46,996,001	69,197,269	69,225,258	74,923,271
Excess of Expenditures Over Revenue	(3,978,150)	(22,394,374)	(19,530,832)	(20,226,134)
Other Finance Sources (Uses)				
Debt issuance	50,207,072	2,859,487	15,310,838	74,670,471
Debt premium or discount	-	-	-	-
Transfers in	3,010,785	1,160,286	663,696	2,502,905
Transfers out	(3,010,785)	(1,160,286)	(663,696)	(2,502,905)
Debt defeasance	(9,247,693)	-	-	(21,684,175)
Total other financing sources (uses)	40,959,379	2,859,487	15,310,838	52,986,296
Net Change in Fund Balances	36,981,229	(19,534,887)	(4,219,994)	32,760,162
Fund Balances - Beginning of year	5,931,947	42,913,176	23,378,289	19,158,295
Fund Balances - End of year	\$ 42,913,176	\$ 23,378,289	\$ 19,158,295	\$ 51,918,457
Debt Service as a Percentage of Noncapital Expenditures	15.39%	21.16%	20.76%	30.91%

Source: South Lyon Community Schools audited financial statements

**Changes in Fund Balances - Governmental Funds
Last Ten Fiscal Years
(Unaudited)**

		Year Ended June 30									
		2002	2003	2004	2005	2006	2007				
\$	22,302,596	\$	21,072,518	\$	21,501,634	\$	24,731,373	\$	27,720,707	\$	29,866,599
	35,645,127		37,416,134		37,354,536		38,406,714		39,913,326		41,459,730
	877,640		1,911,217		1,500,356		2,131,275		1,913,743		1,986,491
	<u>1,345,232</u>		<u>1,321,646</u>		<u>2,007,019</u>		<u>2,620,912</u>		<u>2,398,644</u>		<u>2,463,921</u>
	60,170,595		61,721,515		62,363,545		67,890,274		71,946,420		75,776,741
	24,176,052		25,058,436		27,353,993		28,497,026		29,963,954		30,393,826
	16,864,802		19,074,236		19,989,712		21,591,937		21,796,906		21,671,466
	1,230,313		1,328,562		1,418,475		1,468,043		1,414,557		1,415,829
	637,864		208,735		216,990		209,215		229,045		256,696
	142,800		146,635		145,680		154,516		165,735		159,140
	3,172,920		1,538,020		277,965		499,760		-		987,867
	3,317,047		3,986,555		4,210,838		4,751,004		5,729,212		6,315,660
	6,897,216		7,109,722		8,542,447		9,141,896		10,279,213		9,938,501
	32,925		310,469		33,444		790,107		262,278		796,222
	<u>27,043,282</u>		<u>17,186,776</u>		<u>22,587,882</u>		<u>19,007,126</u>		<u>29,908,408</u>		<u>33,272,043</u>
	<u>83,515,221</u>		<u>75,948,146</u>		<u>84,777,426</u>		<u>86,110,630</u>		<u>99,749,308</u>		<u>105,207,250</u>
	(23,344,626)		(14,226,631)		(22,413,881)		(18,220,356)		(27,802,888)		(29,430,509)
	301,555		43,120,000		668,024		111,293,590		30,025,000		100,543,436
	-		1,209,068		-		6,871,776		905,357		684,256
	2,232,508		5,755,766		866,473		7,649,917		1,777,584		1,424,892
	(2,232,508)		(5,755,766)		(866,473)		(7,649,917)		(1,753,254)		(1,392,834)
	<u>-</u>		<u>-</u>		<u>-</u>		<u>(60,032,628)</u>		<u>(31,484,529)</u>		<u>(99,859,456)</u>
	<u>301,555</u>		<u>44,329,068</u>		<u>668,024</u>		<u>58,132,738</u>		<u>(529,842)</u>		<u>1,400,294</u>
	(23,043,071)		30,102,437		(21,745,857)		39,912,382		(28,332,730)		(28,030,215)
	<u>51,918,457</u>		<u>28,875,386</u>		<u>58,977,823</u>		<u>37,231,966</u>		<u>77,144,348</u>		<u>48,811,618</u>
\$	<u>28,875,386</u>	\$	<u>58,977,823</u>	\$	<u>37,231,966</u>	\$	<u>77,144,348</u>	\$	<u>48,811,618</u>	\$	<u>20,781,403</u>
	22.17%		24.09%		25.88%		28.01%		30.37%		31.07%

South Lyon Community Schools

Tax Year	Taxable Value by			
	Real Property			Agricultural and Other
	Residential	Commercial	Industrial	
1997	\$ 583,065,303	\$ 73,893,194	\$ 52,939,038	\$ 33,256,537
1998	655,657,338	77,339,957	59,204,108	30,475,217
1999	746,469,297	80,113,905	66,253,563	29,657,965
2000	815,259,922	82,561,721	86,679,966	29,343,125
2001	891,842,926	100,648,891	101,180,152	36,875,907
2002	982,805,011	117,160,724	108,040,821	31,670,317
2003	1,055,862,601	137,475,194	116,536,583	30,047,524
2004	1,157,794,901	146,441,764	117,565,512	30,840,782
2005	1,257,737,513	161,821,875	139,398,952	11,063,986
2006	1,370,379,988	166,178,023	147,681,126	10,623,437

* Under Michigan law, the revenue base is taxable value. Taxes levied in a particular “tax year” become revenue of the subsequent fiscal year.

Source: South Lyon Community School District financial reports

**Taxable Value and Actual Value of Taxable Property
Last Ten Fiscal Years
(Unaudited)**

Property Type				Taxable Value as a Percentage of Actual
Personal Property	Total Value	Tax Rate (Mills)	Estimated Actual Value	
\$ 77,248,816	\$ 820,402,888	6.25	\$ 1,640,805,776	50.00
84,500,110	907,176,730	8.15	1,905,071,133	47.62
94,201,921	1,016,696,651	8.00	2,304,688,044	44.11
109,652,156	1,123,496,890	8.00	2,667,844,866	42.11
117,068,010	1,247,615,886	8.00	3,106,563,556	40.16
118,723,100	1,358,399,973	8.00	3,521,226,944	38.58
117,094,512	1,457,016,414	8.00	3,850,727,856	37.84
119,776,757	1,572,419,716	8.50	4,116,633,110	38.20
114,786,500	1,684,808,826	8.50	4,384,375,548	38.43
117,986,180	1,812,848,754	8.50	4,757,153,580	38.11

South Lyon Community Schools

Tax Year	Year Ended June 30	Operating			Total Direct Taxes			Overlapping			
		Homestead	Non-homestead	Debt*	Homestead	Non-homestead	Oakland County	Washtenaw County	Livingston County	Oakland Community College	Washtenaw Community College
1997	1998	-	18.00	6.25	6.25	24.25	4.59	5.50	4.76	1.65	3.90
1998	1999	-	17.83	8.15	8.15	25.98	4.19	5.50	4.73	1.65	4.10
1999	2000	-	17.85	8.00	8.00	25.85	4.19	5.52	4.47	1.63	4.03
2000	2001	-	17.85	8.00	8.00	25.85	4.19	5.48	4.38	1.61	3.99
2001	2002	-	18.00	8.00	8.00	26.00	4.64	5.68	4.33	1.60	3.97
2002	2003	-	18.00	8.00	8.00	26.00	4.19	5.62	4.22	1.61	3.86
2003	2004	-	18.00	8.00	8.00	26.00	4.19	5.58	4.15	1.61	3.83
2004	2005	-	18.00	8.50	8.50	26.50	4.19	5.55	3.92	1.59	3.77
2005	2006	-	18.00	8.50	8.50	26.50	4.19	5.50	3.90	1.59	3.72
2006	2007	-	18.00	8.50	8.50	26.50	4.19	5.68	3.39	1.59	3.71

* Debt fund millages apply to homestead and nonhomestead property

Source: Assessment and tax roll certificates and warrants

Direct and Overlapping Property Tax Rates
Year Ended June 30, 2007
(Unaudited)

Taxes

Oakland Intermediate School District	Washtenaw Intermediate School District	Livingston Intermediate School District	State Education	City of South Lyon	City of Novi	City of Wixom	Township of Lyon	Township of Milford	Township of Salem	Township of Northfield	Township of Green Oak
2.13	3.32	2.65	6.00	16.48	10.93	11.26	4.42	6.06	-	8.63	2.46
2.12	3.16	2.62	6.00	15.80	10.76	11.08	4.87	6.19	-	8.45	2.46
2.10	3.16	2.57	6.00	14.79	10.53	10.53	5.56	6.14	-	8.42	2.93
2.08	3.13	2.52	6.00	13.75	10.42	10.90	5.43	7.48	-	8.66	2.90
3.45	3.45	2.49	6.00	14.79	10.54	11.46	4.99	7.17	-	9.46	2.86
3.42	3.07	2.45	6.00	13.75	10.54	10.69	4.78	7.12	-	9.56	3.63
3.40	3.06	2.41	5.00	14.72	10.54	11.14	4.30	7.05	-	9.68	3.97
3.38	4.04	2.38	6.00	14.75	10.54	11.74	4.20	7.19	-	9.70	3.95
3.37	4.00	2.35	6.00	15.11	10.54	11.64	4.20	7.14	-	9.68	3.89
3.37	3.97	2.34	6.00	15.11	10.54	11.52	4.12	7.08	-	9.42	3.88

South Lyon Community Schools

Principal Property Taxpayers Year Ended June 30, 2007 (Unaudited)

Taxpayer	2006 Taxable Value	Percentage of Total	Taxpayer	1996 Taxable Value	Percentage of Total
1 Colonial Acres Development Co.	\$ 31,331,590	1.73	Detroit Edison	\$ 19,535,703	2.59
2 Detroit Edison	18,913,921	1.04	Consumers Energy	14,417,040	1.91
3 Consumers Energy	14,089,478	0.78	Colonial Hunt Club	8,956,755	1.19
4 Rushton-Green Oak Land Co.	11,437,623	0.63	Colonial Acres Development Co.	8,399,021	1.11
5 Wal-Mart	8,922,080	0.49	Rushton-Green Oak Land Co.	8,174,800	1.08
6 Legacy Park - Singh LLC	8,693,080	0.48	Jarvis B. Webb Co.	6,895,200	0.91
7 PM First Management	8,378,240	0.46	Quanex Corp.	6,138,350	0.81
8 Cummins Bridgeway	7,306,760	0.40	Kensington Place MHC	4,053,170	0.54
9 Alliant Food Service	6,395,670	0.35	Centennial Farms Co-Op Phase 2	3,622,484	0.48
10 Northville Crossing Venture	5,663,582	0.31	Walnut Creek Country Club	3,255,780	0.43
Total	\$ 121,132,024	6.67		\$ 83,448,303	11.05
Total district taxable value	\$ 1,812,848,754			\$ 755,459,844	

Source: Cities of Novi, Wixom, and South Lyon and Townships of Green Oak, Lyon, Milford, Northfield, and Salem

South Lyon Community Schools

Property Tax Levies and Collections Last Ten Fiscal Years (Unaudited)

Tax Year	Year Ended June 30	Total Levy	Current Collections	Percent Collected	Delinquent Collections	Total Tax Collections	Percent of Levy Collected
1997	1998	\$ 9,594,117	\$ 8,700,905	90.69	\$ 713,964	\$ 9,414,869	98.13
1998	1999	12,413,620	11,735,836	94.54	500,814	12,236,650	98.57
1999	2000	13,632,554	12,933,204	94.87	545,721	13,478,925	98.87
2000	2001	15,078,629	13,674,809	90.69	1,277,131	14,951,940	99.16
2001	2002	16,710,893	16,154,420	96.67	528,126	16,682,546	99.83
2002	2003	18,095,330	16,837,705	93.05	1,133,853	17,971,558	99.32
2003	2004	19,640,068	17,731,053	90.28	1,900,009	19,631,062	99.95
2004	2005	22,063,741	20,731,091	93.96	1,307,375	22,038,466	99.89
2005	2006	23,295,376	22,297,891	95.72	934,868	23,232,759	99.73
2006	2007	25,060,930	23,569,922	94.05	1,339,080	24,909,002	99.39

Source: South Lyon Community School District financial reports

South Lyon Community Schools

	1998	1999	2000	2001
Governmental Activities				
General obligation bonds	\$ 80,030,000	\$ 76,925,000	\$ 87,700,000	\$ 136,995,000
Less pledged debt service funds	<u>481,720</u>	<u>638,411</u>	<u>965,499</u>	<u>856,927</u>
Net general bonded debt	79,548,280	76,286,589	86,734,501	136,138,073
Installment purchase agreements	1,337,116	3,796,510	3,925,741	1,122,885
Capital leases	<u>1,396,102</u>	<u>1,317,733</u>	<u>1,236,465</u>	<u>1,149,390</u>
Total debt of the School District	<u>\$ 82,281,498</u>	<u>\$ 81,400,832</u>	<u>\$ 91,896,707</u>	<u>\$ 138,410,348</u>
Taxable Value	\$ 820,402,888	\$ 907,176,730	\$ 1,016,696,651	\$ 1,123,496,890
Net General Bonded Obligation Debt as a Percentage of Taxable Value	10%	8%	9%	12%
Total Population	29,458	31,125	33,205	34,834
Total Debt per Capita	\$ 2,793	\$ 2,615	\$ 2,768	\$ 3,973

**Ratios of Bonded Debt Outstanding
Last Ten Fiscal Years
(Unaudited)**

2002	2003	2004	2005	2006	2007
\$ 134,120,000	\$ 173,610,000	\$ 169,670,000	\$ 219,810,000	\$ 214,290,000	\$ 211,795,000
<u>1,066,064</u>	<u>1,873,316</u>	<u>919,564</u>	<u>4,665,022</u>	<u>2,952,032</u>	<u>2,421,070</u>
133,053,936	171,736,684	168,750,436	215,144,978	211,337,968	209,373,930
982,393	625,838	1,023,024	878,913	599,996	1,252,774
<u>1,059,413</u>	<u>963,630</u>	<u>864,945</u>	<u>760,455</u>	<u>650,160</u>	<u>534,060</u>
<u>\$ 135,095,742</u>	<u>\$ 173,326,152</u>	<u>\$ 170,638,405</u>	<u>\$ 216,784,346</u>	<u>\$ 212,588,124</u>	<u>\$ 211,160,764</u>
\$ 1,247,615,886	\$ 1,358,399,973	\$ 1,457,016,414	\$ 1,572,419,716	\$ 1,684,808,826	\$ 1,812,848,754
11%	13%	12%	14%	13%	12%
35,595	35,922	36,906	36,948	37,137	37,188
\$ 3,795	\$ 4,825	\$ 4,624	\$ 5,867	\$ 5,724	\$ 5,678

South Lyon Community Schools

Fiscal Year	General Obligation Bonds	Less Pledged Debt Service Funds	Net General Bonded Debt	Other General Obligation Debt	Total General Obligation Debt
1998	\$ 80,030,000	\$ 481,720	\$ 79,548,280	\$ 3,269,747	\$ 82,818,027
1999	76,925,000	638,411	76,286,589	5,579,404	81,865,993
2000	87,700,000	965,499	86,734,501	5,162,206	91,896,707
2001	136,995,000	856,927	136,138,073	2,272,275	138,410,348
2002	134,120,000	1,066,064	133,053,936	2,041,806	135,095,742
2003	173,610,000	1,873,316	171,736,684	1,589,468	173,326,152
2004	169,670,000	919,564	168,750,436	1,887,969	170,638,405
2005	223,888,305	4,665,022	219,223,283	1,639,368	220,862,651
2006	217,841,735	2,952,032	214,889,703	1,250,156	216,139,859
2007	208,906,770	2,421,070	206,485,700	1,786,834	208,272,534

Source: South Lyon Community Schools audited financial statements and municipalities

**General Obligation Bonds Outstanding
Last Ten Fiscal Year
(Unaudited)**

Taxable Value	Net General Bonded Debt as a Percentage of Taxable Value	Total Debt as a Percentage of Taxable Value	Population	Net General Bonded Debt per Capita	Total Debt per Capita
\$ 820,402,888	9.70	10.09	29,458	\$ 2,700	\$ 2,811
907,176,730	8.41	9.02	31,125	2,451	2,630
1,016,696,651	8.53	9.04	33,205	2,612	2,768
1,123,496,890	12.12	12.32	34,834	3,908	3,973
1,247,615,886	10.66	10.83	35,595	3,738	3,795
1,358,399,973	12.64	12.76	35,922	4,781	4,825
1,457,016,414	11.58	11.71	36,906	4,572	4,624
1,572,419,716	13.94	14.05	36,948	5,933	5,978
1,684,808,826	12.75	12.83	37,137	5,786	5,820
1,812,848,754	11.39	11.49	37,188	5,552	5,601

South Lyon Community Schools

Direct and Overlapping Governmental Activities Debt June 30, 2007 (Unaudited)

Governmental Unit	Debt Outstanding	Estimated Percent Applicable*	Estimated Share of Overlapping Debt
Novi, City of	\$ 76,650,000	0.77%	\$ 590,205
South Lyon, City of	3,170,000	100.00%	3,170,000
Wixom, City of	29,345,000	5.87%	1,722,552
Green Oak Township	32,235,000	33.97%	10,950,230
Lyon Township	67,175,000	98.15%	65,932,263
Milford Township	14,615,000	3.00%	438,450
Northfield Township	12,440,000	19.10%	2,376,040
Salem Township	1,960,000	58.79%	1,152,284
Livingston County	18,950,052	3.67%	695,467
Oakland County	681,047,871	1.99%	13,552,853
Washtenaw County	82,172,138	1.82%	1,495,533
Oakland ISD	55,185,000	2.93%	1,616,921
Oakland Community College	8,995,000	2.94%	264,453
Salem-South Lyon District Library	1,545,000	82.70%	1,277,715
Total overlapping debt			105,234,963
Direct district debt			<u>211,795,000</u>
Total direct and overlapping debt			<u>\$ 317,029,963</u>

* Based on portion of taxable value within School District boundaries

South Lyon Community Schools

	1998	1999	2000	2001
Calculation of Debt Limit				
Taxable value	\$ 820,402,888	\$ 907,176,730	\$ 1,016,696,651	\$ 1,123,496,890
15% of taxable value	123,060,433	136,076,510	152,504,498	168,524,534
Calculation of Debt Subject to Limit				
Total debt	80,030,000	76,925,000	87,700,000	136,995,000
Less debt not subject to limit - State qualified debt issuance	<u>76,900,000</u>	<u>74,395,000</u>	<u>86,225,000</u>	<u>136,995,000</u>
Net Debt Subject to Limit	<u>3,130,000</u>	<u>2,530,000</u>	<u>1,475,000</u>	<u>-</u>
Legal Debt Margin	<u>\$ 119,930,433</u>	<u>\$ 133,546,510</u>	<u>\$ 151,029,498</u>	<u>\$ 168,524,534</u>
Net Debt Subject to Limit as a Percentage of Debt Limit	2.54%	1.86%	0.97%	0.00%

Source: South Lyon Community Schools audited financial statements

**Legal Debt Margin
Last Ten Fiscal Years
(Unaudited)**

2002	2003	2004	2005	2006	2007
\$ 1,247,615,886	\$ 1,358,399,973	\$ 1,457,016,414	\$ 1,572,419,716	\$ 1,684,808,826	\$ 1,812,848,754
187,142,383	203,759,996	218,552,462	235,862,957	252,721,324	271,927,313
134,120,000	173,610,000	169,670,000	219,810,000	214,290,000	211,795,000
<u>134,120,000</u>	<u>130,490,000</u>	<u>126,550,000</u>	<u>176,690,000</u>	<u>177,020,000</u>	<u>110,220,000</u>
<u>-</u>	<u>43,120,000</u>	<u>43,120,000</u>	<u>43,120,000</u>	<u>37,270,000</u>	<u>101,575,000</u>
<u>\$ 187,142,383</u>	<u>\$ 160,639,996</u>	<u>\$ 175,432,462</u>	<u>\$ 192,742,957</u>	<u>\$ 215,451,324</u>	<u>\$ 170,352,313</u>
0.00%	21.16%	19.73%	18.28%	14.75%	37.35%

South Lyon Community Schools

Demographic and Economic Statistics Last Ten Fiscal Years (Unaudited)

Fiscal Year	Population	Total Personal Income*	Per Capita Personal Income	County of Oakland Unemployment Rate	State of Michigan Unemployment Rate
1998	29,458	\$ 820,402,888	\$ 27,850	2.50	3.80
1999	31,125	907,176,730	29,146	2.51	3.70
2000	33,205	1,016,696,651	30,619	2.20	3.60
2001	34,834	1,123,496,890	32,253	4.40	5.20
2002	35,595	1,247,615,886	35,050	5.20	6.20
2003	35,922	1,358,399,973	37,815	5.50	7.10
2004	36,906	1,457,016,414	39,479	5.60	7.00
2005	36,948	1,572,419,716	42,558	5.70	6.70
2006	37,137	1,684,808,826	45,367	5.60	6.50
2007	37,188	1,812,848,754	48,748	6.70	7.40

* Taxable value has been used as an estimate of personal income.

Source: Southeast Michigan Council of Governments (SEMCOG)

South Lyon Community Schools

Principal Employers (Unaudited)

Taxpayer	2007 Employees	Percentage of Total Employment	Taxpayer	1997 Employees	Percentage of Total Employment
South Lyon Community Schools	655	0.42	South Lyon Community Schools	493	0.37
Quanex Corp.	390	0.25	Quanex Corp.	400	0.30
Diversitec	285	0.18	Diversitec	285	0.21
Michigan Seamless Tube	250	0.16	Salem Engelhard	140	0.11
Salem Engelhard	140	0.09	American Aggregate Corp.	120	0.09
American Aggregate Corp.	120	0.08	Showerman's IGA	115	0.09
Wal-Mart	110	0.07	Martin Luther Memorial Home	75	0.06
Kroger	110	0.07	Freeland Gauge Co.	60	0.05
Farmer Jack	100	0.06	Sun Steel Treating, Inc.	49	0.04
Martin Luther Memorial Home	<u>82</u>	0.05	City of South Lyon	<u>40</u>	0.03
Total principal employers	<u>2,242</u>	1.43		<u>1,777</u>	1.35
Total employment*	<u>154,579</u>			<u>132,699</u>	

* Based on top 20 employers of Oakland and Washtenaw Counties

Source: Oakland County Department of Planning and Economic Development

South Lyon Community Schools

Full-time Equivalent School District Employees Last Ten Fiscal Years (Unaudited)

Function/Program	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government:										
Instruction	295	311	319	323	337	352	365	376	380	380
Support services	195	198	199	217	225	239	242	248	244	247
Community service	37	38	40	40	41	42	42	44	44	44
Athletics	2	2	2	2	2	2	2	2	2	2
Food service	<u>22</u>	<u>22</u>	<u>24</u>	<u>24</u>	<u>24</u>	<u>25</u>	<u>25</u>	<u>27</u>	<u>27</u>	<u>27</u>
Total	<u>551</u>	<u>571</u>	<u>584</u>	<u>606</u>	<u>629</u>	<u>660</u>	<u>676</u>	<u>697</u>	<u>697</u>	<u>700</u>

Source: South Lyon Community School District Personnel Department

South Lyon Community Schools

Operating Indicators Last Ten Fiscal Years (Unaudited)

Year	Enrollment	Operating Expenditures	Cost per Pupil	Operating Revenues	Revenue per Pupil	Total Teaching Staff	Percentage of Students Qualifying for Free/Reduced Meals	Average Teacher Salary
1998	5,360	\$ 36,546,202	\$ 6,818	\$ 37,547,592	\$ 7,005	295	7.3	\$ 48,011
1999	5,669	37,946,066	6,694	38,069,529	6,715	311	9.4	48,281
2000	6,025	41,945,985	6,962	42,142,919	6,995	319	8.5	48,500
2001	6,077	43,849,102	7,216	44,035,143	7,246	323	8.3	50,283
2002	6,273	48,798,638	7,779	48,709,254	7,765	337	9.6	52,954
2003	6,496	47,402,697	7,297	49,837,816	7,672	352	10.6	50,660
2004	6,645	49,610,752	7,466	50,423,141	7,588	365	10.6	51,001
2005	6,816	52,680,645	7,729	53,295,443	7,819	376	10.4	51,828
2006	6,901	52,318,894	7,581	53,445,655	7,745	380	11.3	53,053
2007	6,973	53,476,068	7,669	56,336,958	8,080	380	13.0	54,406

Source: South Lyon Community School District financial records, State of Michigan financial records

South Lyon Community Schools

Function/Program	1998	1999	2000	2001	2002
Instructional buildings:					
Elementary:					
Number of buildings	5	5	5	6	6
Square footage	316,417	358,192	358,192	389,462	389,462
Capacity	2,650	2,650	2,650	3,200	3,200
Enrollment	2,601	2,736	2,921	2,967	2,999
Middle:					
Number of buildings	1	1	1	1	1
Square footage	187,816	188,406	188,406	188,406	188,406
Capacity	1,250	1,250	1,250	2,150	2,150
Enrollment	1,236	1,296	1,414	1,419	1,480
High:					
Number of buildings	1	1	1	1	1
Square footage	315,820	401,734	401,734	401,734	401,734
Capacity	1,550	1,550	1,550	2,100	2,100
Enrollment	1,523	1,637	1,690	1,691	1,794
Administrative:					
Number of buildings	2	2	2	2	2
Square footage	26,749	26,749	26,749	26,749	26,749
Transportation:					
Number of garages	1	1	1	1	1
Buses	48	53	56	58	60
Athletics:					
Football fields	2	2	2	2	2
Soccer fields	8	8	8	8	8
Running tracks	2	2	2	2	2
Baseball/Softball	10	10	10	10	10
Swimming pools	1	1	1	1	1
Playgrounds	5	5	5	6	6

Capital Asset Information
Last Ten Fiscal Years
(Unaudited)

2003	2004	2005	2006	2007
6	6	7	7	7
389,462	389,462	475,128	475,128	475,128
3,200	3,200	3,825	3,825	3,825
3,087	3,149	3,238	3,241	3,251
2	2	2	2	2
342,146	342,146	342,146	342,146	342,146
2,150	2,150	2,150	2,150	2,150
1,547	1,570	1,557	1,563	1,624
1	1	1	1	1
401,734	401,734	401,734	401,734	401,734
2,100	2,100	2,100	2,100	2,100
1,863	1,926	2,021	2,116	2,131
2	2	2	2	2
26,749	26,749	26,749	26,749	26,749
1	1	1	1	1
61	62	65	67	67
2	2	2	2	2
8	8	8	8	8
2	2	2	2	2
10	10	10	10	10
1	1	1	1	1
6	6	7	7	7

South Lyon Community Schools

**Federal Awards
Supplemental Information
June 30, 2007**

South Lyon Community Schools

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Independent Auditor's Report

To the Board of Education
South Lyon Community Schools

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of South Lyon Community Schools as of and for the year ended June 30, 2007, which collectively comprise South Lyon Community Schools basic financial statements, and have issued our report thereon dated October 17, 2007. Those basic financial statements are the responsibility of the management of South Lyon Community Schools. Our responsibility was to express opinions on those basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise South Lyon Community Schools' basic financial statements. The accompanying schedule of expenditures of federal awards and reconciliation of financial statement federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 17, 2007



Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Education
South Lyon Community Schools

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of South Lyon Community Schools as of and for the year ended June 30, 2007, which collectively comprise South Lyon Community Schools' basic financial statements, and have issued our report thereon dated October 17, 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 South Lyon Community 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 South Lyon Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of South Lyon Community 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 that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the 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 controls. We consider the control deficiency described in the accompanying schedule of findings and questioned costs as item 07-1 to be a significant deficiency in internal control over financial reporting.

To the Board of Education
South Lyon Community Schools

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 the significant deficiency described above is not a material weakness.

Compliance and Other Matters

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

South Lyon Community Schools' response to the significant deficiency identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Plante & Moran, PLLC

October 17, 2007



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Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133

To the Board of Education
South Lyon Community Schools

Compliance

We have audited the compliance of South Lyon Community 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. The major federal programs of South Lyon Community Schools are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of South Lyon Community Schools' management. Our responsibility is to express an opinion on South Lyon Community 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 South Lyon Community 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 South Lyon Community Schools' compliance with those requirements.

In our opinion, South Lyon Community 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.



To the Board of Education
South Lyon Community Schools

Internal Control Over Compliance

The management of South Lyon Community 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 South Lyon Community 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance and its operation that we consider to be material weaknesses, as defined above.

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

Plante & Moran, PLLC

October 17, 2007

South Lyon Community Schools

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount
Clusters:		
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education:		
National School Breakfast Program - 2006-2007	10.553	\$ 45,275
National School Lunch Program - 2006-2007	10.555	<u>309,537</u>
Total Child Nutrition Cluster		354,812
Special Education Cluster - U.S. Department of Education - Passed through the Oakland County ISD:	84.027	
IDEA:		
Project number 060450		1,147,904
Project number 070450		<u>1,184,062</u>
Total IDEA		2,331,966
Preschool Incentive:	84.173	
Project number 060460		42,851
Project number 070460		<u>41,055</u>
Total Preschool Incentive		<u>83,906</u>
Total Special Education Cluster		2,415,872
Other federal awards:		
U.S. Department of Education - Passed through the Michigan Department of Education:		
Title I:	84.010	
Project number 061530-0506		221,898
Project number 061530-0607		795
Project number 071530-0607		<u>247,025</u>
Total Title I		469,718
Title V:	84.298	
Project number 060250-0506		2,794
Project number 060250-0607		2,733
Project number 070250-0607		<u>1,415</u>
Total Title V		6,942

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007**

(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2006	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2007
\$ -	\$ -	\$ -	\$ 45,275	\$ 45,275	\$ -
<u>-</u>	<u>-</u>	<u>-</u>	<u>309,537</u>	<u>309,537</u>	<u>-</u>
-	-	-	354,812	354,812	-
1,131,916	287,711	15,988	303,699	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,184,062</u>	<u>1,184,062</u>
1,131,916	287,711	15,988	303,699	1,184,062	1,184,062
38,214	8,957	4,634	13,591	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,767</u>	<u>40,767</u>
<u>38,214</u>	<u>8,957</u>	<u>4,634</u>	<u>13,591</u>	<u>40,767</u>	<u>40,767</u>
1,170,130	296,668	20,622	317,290	1,224,829	1,224,829
221,102	53,070	-	53,070	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>795</u>	<u>795</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>229,607</u>	<u>229,607</u>
221,102	53,070	-	53,070	230,402	230,402
993	802	-	802	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,733</u>	<u>2,733</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>431</u>	<u>431</u>
993	802	-	802	3,164	3,164

South Lyon Community Schools

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount
Other federal awards (Continued):		
U.S. Department of Education - Passed through the Michigan Department of Education (Continued):		
Technology Literacy Challenge Grant:		
Project number 064290-0607	84.318	\$ 54
Project number 074290-0607		<u>2,507</u>
Total Technology Literacy Challenge		2,561
Title IIA - Improving Teacher Quality:		
Project number 050520-0506	84.367	139,177
Project number 060520-0607		10,643
Project number 070520-0607		<u>140,146</u>
Total Title IIA - Improving Teacher Quality		289,966
Safe and Drug-free Schools and Communities:		
Project number 062860-0506	84.186	21,173
Project number 062860-0607		73
Project number 072860-0607		<u>17,132</u>
Total Safe and Drug-free Schools and Communities		38,378
SPSR - Service Provider Self-review - Project number 060440/SPSR	84.027A	4,700
Elementary and Secondary Education Hurricane Relief:		
Project number 064120	84.938C	3,716
Project number 064120		<u>1,375</u>
Total Elementary and Secondary Education Hurricane Relief		5,091
Total U.S. Department of Education noncluster programs		817,356
U.S. Department of Agriculture - Passed through the Michigan Department of Education - Food Distribution - Entitlement commodities - 2006-2007		
	10.550	<u>75,614</u>
Total federal awards		<u>\$ 3,663,654</u>

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2007

(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2006	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2007
\$ -	-	-	\$ -	\$ 54	\$ 54
-	-	-	-	1,945	1,945
-	-	-	-	1,999	1,999
128,534	73,746	-	73,746	-	-
-	-	-	-	10,643	10,643
-	-	-	-	99,540	99,540
128,534	73,746	-	73,746	110,183	110,183
21,173	1,772	-	1,772	-	-
-	-	-	-	73	73
-	-	-	-	17,132	17,132
21,173	1,772	-	1,772	17,205	17,205
4,700	4,700	-	4,700	-	-
3,716	3,716	-	3,716	-	-
-	-	-	1,375	1,375	-
3,716	3,716	-	5,091	1,375	-
380,218	137,806	-	139,181	364,328	362,953
-	-	-	75,112	75,112	-
\$ 1,550,348	\$ 434,474	\$ 20,622	\$ 886,395	\$ 2,019,081	\$ 1,587,782

South Lyon Community Schools

Reconciliation of Basic Financial Statement Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 1,986,491
Revenue deferred in current year for financial statement purposes as not meeting the "available" criteria of GASB No. 33	53,212
Adjustments and transfer amount on current year schedule of expenditures of federal awards	<u>(20,622)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 2,019,081</u></u>

South Lyon Community Schools

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of South Lyon Community Schools and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

Note 3 - Grant Section Auditor's Report

Management has utilized Form R-7120 and the Cash Management System (CMS) grant auditor report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

Note 4 - Adjustments and Transfers

Adjustments and transfers of \$20,622 relate to adjustments of prior year accrued revenue.

South Lyon Community Schools

Schedule of Findings and Questioned Costs Year Ended June 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ___ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes ___ None reported

Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ___ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ___ Yes X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ___ Yes X No

Identification of major program(s):

CFDA Numbers	Name of Federal Program or Cluster
	Special Education Cluster:
84.027	IDEA
84.173	Preschool Incentive

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes ___ No

South Lyon Community Schools

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statements Audit Findings

Reference Number	Findings
07-1	<p>Finding Type - Significant deficiency</p> <p>Criteria - In order to maintain adequate internal control, timely bank reconciliations should be prepared. The bank reconciliations should then be reviewed for accuracy and completeness by a second individual.</p> <p>Condition - South Lyon Community Schools did not prepare timely bank reconciliations for seven months during the year ended June 30, 2007. South Lyon Community Schools did perform other procedures on the bank statements during this period to corroborate activity reported on the monthly bank statements. The bank reconciliations for these periods were subsequently prepared by South Lyon Community Schools.</p> <p>Effect - Preparation of bank reconciliations on a timely basis allows employees or management to detect or prevent misstatements on a timely basis.</p> <p>Recommendation - Timely bank reconciliations should be prepared and reviewed on a timely basis.</p> <p>Views of Responsible Officials and Planned Corrective Actions - South Lyon Community Schools agrees with the above recommendation and has since implemented procedures to ensure the timely completion and review of bank reconciliations.</p>

Section III - Federal Program Audit Findings

None

October 17, 2007

To the Board of Education
South Lyon Community Schools
345 South Warren
South Lyon, MI 48178

Dear Board Members:

We recently completed our audit of the financial statements for South Lyon Community Schools (the "School District") for the year ended June 30, 2007. In this letter, we would like to offer comments and recommendations for your consideration and to discuss some current issues that may be of interest to the board.

Certificate of Excellence in Financial Reporting

For the tenth consecutive year, South Lyon Community Schools has received the Certificate of Excellence in Financial Reporting presented by the Association of School Business Officials (ASBO) for the 2005-2006 fiscal year. This award certifies that the School District has presented its comprehensive annual financial report to the ASBO Panel of Review for critical evaluation and that the report was judged to have complied with the principles and practices of financial reporting recognized by the organization. The School District's focus on financial accountability is further highlighted by the School District, once again, receiving ASBO's Meritorious Budget Award. We commend the administration for their efforts in reporting accurate and meaningful financial information.

State Aid Issues

2006-2007

- The 2006-2007 State Aid Act as originally enacted called for a \$210 increase in the per pupil foundation allowance. However, from almost the moment the governor signed the 2006 State Aid Act into law, it was unclear if school districts would receive the increased revenue that was promised. In January 2007, the revenue estimating conference predicted that the School Aid Fund would actually be short \$224 per pupil. Since that date, the governor and legislature worked on funding alternatives to prevent the projected school aid deficit from becoming a reality. In June 2007, as the School District's fiscal year was ending, the governor and legislature came to an agreement on several measures. The measures resulted in districts receiving the \$210 per pupil increase originally promised. This was accomplished primarily by securitizing future tobacco settlement proceeds and through a restructuring of the elements used in computing districts' MPERS retirement contribution rates. The MPERS restructuring resulted in a credit to the School District for the difference between the amounts paid in by the School District to MPERS and the actual cost within the retirement system based on the new computations.

2007-2008

- With 2006-2007 finally resolved, the governor and legislature have begun working on state budget issues for 2007-2008. As of the date of this letter, the State House of Representatives has proposed a \$100 per pupil increase in the base foundation allowance, while the governor has recommended a \$178 increase. However, the governor and legislature are currently working on a series of cost restructuring and revenue enhancement measures to deal with the significant deficit at the state level. Many of these measures will likely impact school districts and the School Aid Fund. It is likely that the goal of the measures will be to add some stability to both the cost of operations and the revenue sources going into the School Aid Fund. Given the ongoing negotiations, it is still too early to predict the ultimate impact on the 2007-2008 foundation allowance.

Future MPSERS Contribution Rate

- The legislation discussed above restructured the elements used in computing the MPSERS retirement rate, creating a lower cost to the retirement system. As part of the State's overall plan to deal with the State's budget shortfall, the MPSERS plan elected to suspend the normal "five-year smoothing" method as of October 1, 2006 and instead recognize all the previously unaccounted for gains in the plan as of that date. This one-time fix holds MPSERS contribution rates below their normal levels for two years (for the plan years ending September 30, 2007 and September 30, 2008). However, without significant changes to the retirement system, there is concern that MPSERS contribution rates will jump back to a much higher level after September 30, 2008.

Fund Balance

During the 2006-2007 school year, consistent with the School District's budget plan, South Lyon Community Schools' General Fund revenues exceeded expenditures by approximately \$1,911,000. This resulted in General Fund fund balance of approximately \$5,536,000 at June 30, 2007. We commend the School District for building and maintaining a stable fund balance for the past several years. Fund balance has become increasingly important due to such factors as little or no growth in state funding over the last few years, the potential for state aid proration, funding caps imposed by school finance reform, increasing retirement and healthcare costs, cash flow needs due to the elongation of state aid payments, as well as continuing concerns over the financial health of the School Aid Fund for 2007-2008. We continue to encourage the School District to evaluate the financial implications of such factors as the facts continue to unfold.

Internal Control Reviews

We compliment South Lyon Community Schools for the continued focus on internal control procedures. At the request of the School District, we have performed certain agreed-upon procedures to assist the School District in its evaluation of the procedures being followed for the accounts payable and cash disbursement cycles. Taking the initiative to investigate these areas before a known incident happens is a proactive step to reduce fraudulent risks and identify areas for improvement.

Uniform Budget and Accounting Act

Last year, the Michigan Department of Education (MDE) announced a program to monitor School District compliance with the Uniform Budgeting and Accounting Act. The department began by reviewing the June 30, 2005 annual audited financial statements and identifying any district or public school academy whose total expenditures exceed their budget by more than 1 percent. In addition, the same test will be applied to other financing sources (uses). Beginning with the June 30, 2006 annual audited financial statements, MDE will also consider certain revenue shortfalls as being a violation. For a revenue shortfall to be a violation, it has to represent a variance greater than 1 percent of the total budgeted revenue and the School District's fund balance must have been depleted beyond what had been approved by the Board of Education.

Violations result in a letter being sent to the district. If an adequate response is not received back from the district, MDE will refer the district to the Attorney General's office for possible further action. If your district receives a violation notice from MDE, you will have two weeks to provide MDE with information regarding the School District's procedures to detect and prevent violations of the act. MDE will then decide, based on your response, on the appropriateness of referring the violation to the Attorney General's office for further consideration.

For the year ended June 30, 2007, South Lyon Community Schools again appears to be in compliance with the various provisions of the Uniform Budgeting and Accounting Act. We commend the board and administration for continuing its diligence in monitoring the policies and procedures in this area.

Deferred Compensation Issue

In 2004, the IRS issued new deferred compensation regulations. One of the possible unintended consequences of these new regulations is an impact on the taxability of teachers electing the 26 pay option. In order to allow districts some time to adjust to these new rules, the IRS recently issued IR-2007-142, which states that the new deferred compensation rules will not be applied to annualization elections for school years beginning before January 1, 2008. Therefore, any possible impact will not affect the School District until the year beginning July 1, 2008.

While there will be much discussion of this issue in the coming months, the conservative approach to avoiding any problems appears (at this time) to be able to make certain all 26 pay elections are signed before any service is rendered and allow no changes during the election year. We will have more information on this subject as the year progresses but, for now, you should be thinking about a method that ensures all elections are in place before the teachers return in fall 2008.

New Risk Assessment Standards for June 30, 2008

There will be eight more new standards that will be in effect for the June 30, 2008 audit. These standards will require a deeper look into internal control and accounting procedures. They will also require more upfront assistance from the business office. We will be working with the business office between now and the June 30, 2008 audit to prepare for implementation. To summarize, the new standards primarily require the following:

- A deeper understanding by the auditor of the audited entity and its internal control for the purpose of identifying the risk of material misstatement in the financial statements, as well as what the entity is doing to mitigate those risks
- A more rigorous assessment of the risks of material misstatement based on the understanding of internal controls, with additional emphasis on significant risks that call for special audit consideration
- A better linkage between the assessed risks and the audit procedures performed, including tests of controls and substantive tests in response to those risks
- An enhancement in the communications that should take place between an auditor and those charged with governance, including both an organization's board of directors and audit/finance committee

Our expectation is that this will result in a more rigorous audit planning and internal control assessment and documentation process. Plante & Moran is currently making a significant investment in structuring our audit process to comply with these standards to enhance the audit process and best serve the School District, while trying to minimize the impact these additional standards may have on the School District.

Statement on Auditing Standards 114 - *Communication with Those Charged With Governance*

The AICPA issued Statement on Auditing Standard (SAS) No. 114, which will increase the amount of information provided to the Board of Education, superintendent, and others charged with governance about the audit process and results. This standard, effective for the June 30, 2008 audit, will provide information describing what an audit is, emphasizing management's role in the financial statement reporting process, identifying issues encountered during the audit, and clarifying what must be communicated in writing. This required communication will be in addition to the financial statements, management letter, and single audit report already received by the School District.

Government Auditing Standards (2007 Revision)

The Government Accountability Office (GAO) is finalized its revisions to *Government Auditing Standards* (the Yellow Book). These revisions were issued in January 2007. All school districts in Michigan are required to be audited under Yellow Book requirements in addition to the audit standards issued by the Auditing Standards Board. Most of these Yellow Book changes will be effective for the June 30, 2009 school district audits. However, the Yellow Book does incorporate the SASs issued by the AICPA and those requirements will be effective based on the effective date of the SAS. The changes unique to the Yellow Book are substantive and will impact audit approach, audit documentation, and audit reporting. Some likely impacts from the changes include:

- Clarified ethics and competency considerations when audit services are performed
- Increased use of “emphasis of matter” comments in the auditor’s opinion when unique financial statement matters impact the financial statements
- Increased evaluation of compliance with auditor independence requirements
- Increased expectation of governments to maintain and prepare their financial information for audit

These changes, along with the other changes in the auditing standards, continue to increase the level of audit effort required by the auditor and the amount of information provided to the School District. We will work closely with the School District to simplify and clarify changes as they continue to become effective.

In addition to the comments and recommendations in this letter, our observations and comments regarding South Lyon Community Schools’ internal controls, including any significant deficiencies that we identified, have been reported to you in the accompanying report on internal control over financial reporting and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the supplemental schedule of federal financial assistance (the single audit report), and we recommend that the matters we have noted there receive your careful consideration.

We wish to thank the board for the opportunity to serve as auditors for the School District and to thank Mr. James Graham, Ms. Amy Dagenhardt, and the rest of the business office staff for the courtesy and cooperation extended to us during the course of our examination. If we can be of any further assistance, please feel free to contact us.

Very truly yours,

Plante & Moran, PLLC



Jeffrey C. Higgins