Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	BURR OAK COMMUNITY SCHOOLS	ST. JOSEPH

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
6/30/06	8/17/06	11/29/06

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

	YES	NO	**Check each applicable box below**. (See instructions for further detail.)
1.	☒	☐	All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.	☒	☐	There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.	☒	☐	The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.	☒	☐	The local unit has adopted a budget for all required funds.
5.	☒	☐	A public hearing on the budget was held in accordance with State statute.
6.	☒	☐	The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.	☒	☐	The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.	☒	☐	The local unit only holds deposits/investments that comply with statutory requirements.
9.	☒	☐	The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan,* as revised (see Appendix H of Bulletin).
10.	☒	☐	There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.	☒	☐	The local unit is free of repeated comments from previous years.
12.	☒	☐	The audit opinion is UNQUALIFIED.
13.	☒	☐	The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.	☒	☐	The board or council approves all invoices prior to payment as required by charter or statute.
15.	☒	☐	To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☐	Nothing to report
Other (Describe)	☐	No other documents necessary

Certified Public Accountant (Firm Name)	Telephone Number		
Siegfried Crandall, PC	(269) 381-4970		
Street Address	**City**	**State**	**Zip**
246 East Kilgore Road	Kalamazoo	MI	49002
Authorizing CPA Signature	**Printed Name**	**License Number**	
	Daniel L. Veldhuizen, CPA	1101020724	

Burr Oak Community School District
Saint Joseph County, Michigan

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

Year ended June 30, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Burr Oak Community School District's (the District) financial performance provides a narrative overview of the District's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's total net assets decreased $149,894 (12 percent) as a result of this year's operations.
- Of the $1,081,773 total net assets reported, $545,390 is available to be used to meet future operating and capital improvement needs.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was $405,103, which represents 15 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The District's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the District:

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-wide statements

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

Government-wide statements (Continued)

The two government-wide statements report the District's net assets and how they have changed. Net assets (the difference between the District's assets and liabilities) is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors, such as changes in the condition of the District's capital assets.

The government-wide financial statements present governmental activities. These activities include functions most commonly associated with schools (e.g., instruction, food service, and athletics). Intergovernmental revenues and property taxes finance these activities.

Fund financial statements

The fund financial statements provide more detailed information about the District's most significant funds - not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

The District has two kinds of funds:

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

- Fiduciary funds. The District is the trustee, or fiduciary, for certain assets that - because of a trust arrangement - can only be used for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. Total net assets at the end of the fiscal year were $1,081,773, a decrease of 12 percent compared to the prior year. Of this total, $536,383 is invested in capital assets. Consequently, unrestricted net assets were $545,390, or 50 percent of the total.

	2006	*2005*	*Percentage change*
Current assets	**$ 1,034,896**	$ 1,050,346	-1%
Capital assets	**536,383**	630,882	-15%
Total assets	**1,571,279**	1,681,228	-7%
Current liabilities	**489,506**	449,561	9%
Net assets:			
Invested in capital assets	**536,383**	630,882	-15%
Unrestricted	**545,390**	600,785	-9%
Total net assets	**$ 1,081,773**	$ 1,231,667	-12%

Changes in net assets. The District's total revenues are $2,832,251, with approximately 78 percent coming from unrestricted state aid. The total cost of all the District's programs amounted to $2,982,145.

	2006	*2005*	*Percentage change*
Program revenues:			
Charges for services	**$ 92,544**	$ 101,568	-9%
Operating grants	**340,263**	327,323	4%
General revenues:			
Unrestricted state aid	**2,223,041**	2,174,303	2%
Property taxes	**148,372**	140,529	6%
Other	**28,031**	31,570	-11%
Total revenues	**2,832,251**	2,775,293	2%
Expenses:			
Instruction	**1,854,001**	1,905,687	-3%
Supporting services	**891,433**	826,511	8%
Food service	**113,560**	88,598	28%
Athletics	**123,151**	108,682	13%
Total expenses	**2,982,145**	2,929,478	2%
Decrease in net assets	**$ (149,894)**	$ (154,185)	

Governmental activities. Governmental activities decreased the District's net assets by $149,894. The decrease is consistent with the prior year and is primarily caused by depreciation expense in excess of $98,000.

The cost of all governmental activities this year was $2,982,145. After subtracting the direct charges to those who directly benefited from the programs ($92,544), and operating grants ($340,263), the "public benefit" portion covered by state aid, property taxes, and other general revenues was $2,549,338.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental funds. At June 30, 2006, the District's governmental funds reported a combined fund balance of $545,390, a decrease of $55,395 in comparison with the prior year.

The General Fund is the chief operating fund of the District. At the end of the fiscal year, unreserved fund balance was $531,115. Total fund balance decreased by $63,036 during the fiscal year primarily due to transfers to other funds in the amount of $102,316. The General Fund continues to maintain an adequate unreserved fund balance approximating 15 percent of expenditures that will allow the District to maintain its current level of services.

General Fund budgetary highlights

The District amended the General Fund budget during the current year in accordance with state statutes. In an effort to control costs, total budgeted expenditures were decreased by $101,707 (4 percent).

Capital assets and debt administration

Capital Assets
The District's investment in capital assets as of June 30, 2006, amounts to $536,383 (net of accumulated depreciation). This investment includes a broad range of assets. The decrease in the District's net investment in capital assets for the current fiscal year was $94,499.

Major capital asset events occurred during the current fiscal year included the following:

- Purchase of radio equipment for $2,524
- Purchase of a copier for $1,950

More detailed information about the District's capital assets is presented in Note 5 of the notes to the basic financial statements.

Debt administration
The District had no long-term debt at the beginning or end of the current fiscal year.

Economic factors and next year's budget

The District's budget for the next year projects further reductions in state aid. The District has set aside enough net assets to offset this loss in revenues.

Contacting the District's financial management

This financial report is designed to provide a general overview of the District's finances to those with an interest in the District's finances and to demonstrate the District's accountability for the money it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Business Manager
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326 East Eagle Street
P.O. Box 337
Burr Oak, Michigan 49030

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INDEPENDENT AUDITORS' REPORT

Board of Education
Burr Oak Community School District

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Burr Oak Community School District, as of June 30, 2006, and for the year then ended, which collectively comprise the Burr Oak Community School District's basic financial statements as listed in the contents. These financial statements are the responsibility of the Burr Oak Community School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Burr Oak Community School District at June 30, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information, as listed in the contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires 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.

Board of Education
Burr Oak Community School District

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Burr Oak Community School District's basic financial statements. The supplementary information, as listed in the contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary 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.

In accordance with *Government Auditing Standards*, we have issued our report dated August 17, 2006, on our consideration of Burr Oak Community School District's internal control over financial reporting and 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 an opinion on the internal control over financial reporting or 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.

Siegfried Crandall P.C.

August 17, 2006

BASIC FINANCIAL STATEMENTS

Burr Oak Community School District
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental activities
ASSETS	
Current assets:	
Cash	$ 36,259
Investments	499,495
Receivables	488,076
Inventories	11,066
Total current assets	1,034,896
Noncurrent assets	
Capital assets, net of accumulated depreciation	536,383
Total assets	1,571,279
LIABILITIES	
Current liabilities:	
Payables	189,506
Short-term notes payable	300,000
Total current liabilities	489,506
NET ASSETS	
Invested in capital assets	536,383
Unrestricted	545,390
Total net assets	$ 1,081,773

See notes to the financial statements

Burr Oak Community School District
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

		Program revenues		Net (expenses) revenues and changes in net assets
	Expenses	*Charges for services*	*Operating grants and contributions*	*Governmental activities*
Functions/Programs				
Governmental activities:				
Instruction	$ 1,854,001	$ 17,840	$ 248,553	$ (1,587,608)
Supporting services	891,433	26,549	-	(864,884)
Food service	113,560	28,734	91,710	6,884
Athletics	123,151	19,421	-	(103,730)
Total governmental activities	$ 2,982,145	$ 92,544	$ 340,263	(2,549,338)
General revenues:				
Property taxes				148,372
State aid not restricted to specific purposes				2,223,041
Investment income				14,609
Other				13,422
Total general revenues				2,399,444
Change in net assets				(149,894)
Net assets - beginning				1,231,667
Net assets - ending				$ 1,081,773

See notes to the financial statements

Burr Oak Community School District
BALANCE SHEET - *governmental funds*
June 30, 2006

	General	Nonmajor governmental funds	Total governmental funds
ASSETS			
Cash	$ 28,550	$ 7,709	$ 36,259
Investments	499,495	-	499,495
Receivables	487,324	752	488,076
Due from other funds	5,252	-	5,252
Inventories	5,000	6,066	11,066
Total assets	$ 1,025,621	$ 14,527	$ 1,040,148
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payables	$ 189,506	$ -	$ 189,506
Note payable	300,000	-	300,000
Due to other funds	-	5,252	5,252
Total liabilities	489,506	5,252	494,758
Fund balances:			
Reserved for inventories	5,000	6,066	11,066
Unreserved:			
Designated	126,012	-	126,012
Undesignated	405,103	-	405,103
Undesignated reported in nonmajor:			
Special revenue funds	-	3,209	3,209
Total fund balances	536,115	9,275	542,181
Total liabilities and fund balances	$ 1,025,621	$ 14,527	$ 1,036,939
Total fund balances - all governmental funds			$ 542,181
Amounts reported for governmental activities in the statement of activities are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			536,383
Net assets of governmental activities			$ 1,078,564

See notes to the financial statements

Burr Oak Community School District

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - *governmental funds*

Year ended June 30, 2006

	General	Nonmajor governmental funds	Total governmental funds
REVENUES			
Local sources:			
Property taxes	$ 148,372	$ -	$ 148,372
Other	72,420	48,155	120,575
State sources	2,374,337	4,873	2,379,210
Federal sources	97,257	86,837	184,094
Total revenues	2,692,386	139,865	2,832,251
EXPENDITURES			
Instruction	1,770,921	-	1,770,921
Supporting services	863,869	-	863,869
Food service	-	113,560	113,560
Athletics	-	113,373	113,373
Capital outlay	18,316	7,607	25,923
Total expenditures	2,653,106	234,540	2,887,646
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	39,280	(94,675)	(55,395)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	102,316	102,316
Transfers out	(102,316)	-	(102,316)
Total other financing sources (uses)	(102,316)	102,316	-
NET CHANGE IN FUND BALANCES	(63,036)	7,641	(55,395)
FUND BALANCES - BEGINNING	599,151	1,634	600,785
FUND BALANCES - ENDING	$ 536,115	$ 9,275	$ 545,390

See notes to the financial statements

Burr Oak Community School District

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - *governmental funds* (Continued)

Year ended June 30, 2006

	Total governmental funds
Net change in fund balances - total governmental funds (Page 8)	$ (55,395)
Amounts reported for *governmental activities* in the statement of activities (Page 6) are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.	
Add: assets acquired	4,474
Less: provision for depreciation	(98,973)
Change in net assets of *governmental activities* (Page 6)	$ (149,894)

See notes to the financial statements

Burr Oak Community School District

STATEMENT OF FIDUCIARY NET ASSETS - *fiduciary funds*

June 30, 2006

	Private-purpose trusts	*Agency*
ASSETS		
Cash	$ 32,714	$ 57,729
Loans receivable	6,743	-
Total assets	39,457	57,729
LIABILITIES		
Due to student groups	-	57,729
NET ASSETS		
Held in trust for other purposes	$ 39,457	$ -

See notes to the financial statements

Burr Oak Community School District

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - *fiduciary funds*

June 30, 2006

	Private-purpose trusts
ADDITIONS	
Interest:	
Investments	$ 618
Loans	163
Total additions	781
DEDUCTIONS	
Scholarships awarded	120
CHANGE IN NET ASSETS	661
NET ASSETS - BEGINNING	38,796
NET ASSETS - ENDING	$ 39,457

See notes to the financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of Burr Oak Community School District (the District) conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies used by the District:

a) Reporting entity:
In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the District. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The District has determined that no outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the District's financial statements.

b) Government-wide and fund financial statements:
The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the District. The effect of all interfund activity has been removed from these statements. Governmental activities, normally supported by intergovernmental revenues and taxes, are reported in these statements. All of the District's activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (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 and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major individual governmental fund is reported as a separate column in the fund financial statements.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):
Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are expected to be 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 relating to compensated absences and claims and judgments, are recorded only when payment is due.

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

The District reports the following major governmental fund:

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

Additionally, the District reports the following fund types:

The private-purpose trust funds are used to account for resources legally held in trust for use by students seeking higher education. All resources of the funds, including any earnings on invested resources, may be used to provide scholarships and loans to students seeking higher education. There is no requirement that any portion of these resources be preserved as capital.

The Agency Fund accounts for assets held for student groups in an agency capacity.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict the standards of the Governmental Accounting Standards Board. The District has elected not to follow subsequent private-sector standards.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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

d) Assets, liabilities, and net assets or equity:
i) Deposits and investments - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The District's Investments are reported at fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued)*:*

ii) Receivables and payables - In general, outstanding balances between funds are reported as "due to/from other funds."

All receivables are considered to be fully collectible.

iii) Inventories - All inventories are valued at cost using the first-in, first-out method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

iv) Capital assets - Capital assets, which include property, equipment, and vehicles, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of two years. 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. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	10 - 50 years
Furniture and equipment	3 - 20 years
Vehicles	8 years

v) Compensated absences - It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated vacation and sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. The contingent liability for unpaid accumulated vacation and sick leave has been reported in Note 9.

vi) 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.

vii) Property tax recognition - Property taxes are levied as of July 1 on property values assessed as of December 31 of the prior year. The billings are due on or before September 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the District. Property tax revenue is recognized in the year for which taxes have been levied and become available. The District levy date is July 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the debt service fund, which is not required to adopt a budget. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the Board is the functional level. All annual appropriations lapse at the end of the fiscal year.

NOTE 3 - CASH AND INVESTMENTS:

Cash and investments as of June 30, 2006, are classified in the accompanying financial statements as follows:

Statement of net assets:	
Governmental activities:	
Cash	$ 36,259
Investments	499,495
Fiduciary funds - cash	90,443
Total cash and investments	$ 626,197

Cash and investments as of June 30, 2006, consist of the following:

Cash on hand	$ 100
Deposits with financial institutions	126,602
Investments	499,495
Total cash and investments	$ 626,197

a) Deposits:
State statutes and the District's investment policy authorize the District to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The District's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the District will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of June 30, 2006, $52,253 of the District's bank balances of $173,722 was exposed to custodial credit risk because it was uninsured. The District believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the District evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

b) Investments:
State statutes and the District's investment policy authorize the District to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, with three (3) highest rate classifications by at least two (2) rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; and e) qualified investment pools. Not more than 50% of any fund may be invested in commercial paper.

NOTE 3 - CASH AND INVESTMENTS (Continued):

The District's investments consist of holdings in the Michigan Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund, which holds qualified investments for school districts in Michigan. MILAF is not regulated by, nor is it registered with, the SEC. The fair value of the District's investment in this pool is reported at amounts based upon the District's pro-rata share of the fair value provided by MILAF for the entire MILAF portfolio (in relation to the amortized cost of that portfolio). The District's holdings are carried at cost, which approximates fair value.

NOTE 4 - RECEIVABLES:

At June 30, 2006, the District's receivables were as follows:

	Property taxes	*Inter-governmental*	*Totals*
Governmental funds:			
General Fund	$ 6,829	$ 480,495	$ 487,324
Nonmajor governmental funds	-	752	752
Total	$ 6,829	$ 481,247	$ 488,076

All receivables are due within one year and are considered to be fully collectible.

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning balance	*Increases*	*Decreases*	*Ending balance*
Governmental activities:				
Capital assets being depreciated:				
Buildings	1,177,846	-	-	1,177,846
Furniture and equipment	1,194,169	4,474	-	1,198,643
Vehicles	204,810	-	-	204,810
Subtotal	2,576,825	4,474	-	2,581,299
Less accumulated depreciation for:				
Buildings	771,198	12,927	-	784,125
Furniture and equipment	1,009,947	72,457	-	1,082,404
Vehicles	164,798	13,589	-	178,387
Subtotal	1,945,943	98,973	-	2,044,916
Total capital assets being depreciated, net	$ 630,882	$ (94,499)	$ -	$ 536,383

NOTE 5 - CAPITAL ASSETS (Continued):

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

Instruction	$ 81,470
Supporting services	15,332
Athletics	2,171
Total	$ 98,973

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

At June 30, 2006, the composition of the District's interfund balances is as follows:

Fund	*Receivable*	*Fund*	*Payable*
General	$ 5,252	Food service	$ 5,252

The interfund receivable and payable balances resulted from the time lag between the dates that interfund goods and services are provided and payments between funds are made.

A summary of interfund transfers for the year ended June 30, 2006, is as follows:

Fund	*Transfers in*	*Fund*	*Transfers out*
Other governmental funds	$ 102,316	General	$ 102,316

The transfers out of the General Fund moved unrestricted resources to supplement operational costs of the Athletic Fund and the Food Service Fund in accordance with budgetary requirements.

NOTE 7 - PAYABLES:

At June 30, 2006, the District's payables were as follows:

	Accounts	*Payroll*	*Totals*
Governmental funds:			
General Fund	$ 19,485	$ 170,021	$ 189,506

NOTE 8 - NOTE PAYABLE:

At June 30, 2006, the District has outstanding a $300,000 state aid note dated August 18, 2005. The note, with an interest rate of 3.125%, matures August 18, 2006. The note is secured by the full faith and credit of the District as well as pledged state aid.

NOTE 9 - DEFINED BENEFIT PENSION PLAN:

Plan description - The District participates in the Michigan Public School Employees' Retirement System (MPSERS), a cost-sharing, multiple-employer defined benefit pension plan that covers all employees of the District. MPSERS provides retirement, survivor, and disability and death benefits to plan members and their beneficiaries. Public Act 300 of 1980 of the State of Michigan assigns the authority to establish and amend benefit provisions to the MPSERS Board of Trustees. MPSERS issues a publicly-available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MPSERS, P.O. Box 30673, Lansing, Michigan 48909-8103, or, by calling 1-800-381-5111.

Funding policy - Employer contributions to MPSERS result from the implementing effects of the School Finance Reform Act. 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.

Annual pension costs - The District is currently required to contribute 16.34 percent of its annual covered payroll. The contribution requirements of the plan members are established, and may be amended, by the MPSERS Board of Trustees. The District's contributions to the Plan for the years ending June 30, 2006, 2005, and 2004, were $248,030, $220,942, and $192,242, respectively, equal to the required contributions for each year.

NOTE 10 - CONTINGENT LIABILITIES:

The District is a reimbursing employer to the Michigan Employment Security Commission (MESC) and, as such, is responsible to pay MESC for those benefits paid and charged to its account. As of June 30, 2006, appropriate liabilities have been recorded for all claims paid by MESC. However, no provision has been made for future payments that might result from claims in process or unfiled.

The District is contingently liable at June 30, 2006, for approximately $343,000 of nonvested accumulated sick pay benefits.

NOTE 11 - RISK MANAGEMENT:

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), and medical benefits provided to employees. The District has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

Burr Oak Community School District
BUDGETARY COMPARISON SCHEDULE - *General Fund*
Year ended June 30, 2006

	Original budget	*Amended budget*	*Actual*	*Variance favorable (unfavorable)*
REVENUES FROM LOCAL SOURCES				
Property taxes	$ 110,512	$ 143,532	$ 148,372	$ 4,840
Interest	4,500	14,000	14,609	609
Other	49,350	61,850	57,811	(4,039)
Total revenues from local sources	164,362	219,382	220,792	1,410
REVENUES FROM STATE SOURCES				
Direct appropriations from the state - state school aid	2,296,250	2,223,000	2,223,041	41
Restricted grants:				
Special education	58,000	71,000	77,279	6,279
At-risk	65,000	74,252	74,008	(244)
Other	-	-	9	9
Total revenues from state sources	2,419,250	2,368,252	2,374,337	6,085
REVENUES FROM FEDERAL SOURCES				
Appropriations from the state representing:				
Title I	76,500	71,525	68,669	(2,856)
Title II	26,780	22,849	22,867	18
Title V	1,240	2,446	1,347	(1,099)
Homeland security	-	2,524	2,524	-
Safe and drug free schools	1,750	1,750	1,850	100
Total revenues from federal sources	106,270	101,094	97,257	(3,837)
Total revenues	2,689,882	2,688,728	2,692,386	3,658

Burr Oak Community School District
BUDGETARY COMPARISON SCHEDULE - *General Fund* (Continued)
Year ended June 30, 2006

	Original budget	*Amended budget*	*Actual*	*Variance favorable (unfavorable)*
EXPENDITURES				
Instruction:				
Elementary grades:				
Salaries of teachers	$ 235,915	$ 220,023	$ 220,023	$ -
Salaries of substitutes and aides	25,849	24,000	25,016	(1,016)
Teaching supplies	5,500	6,000	6,043	(43)
Textbooks	14,000	12,832	12,832	-
Consumable books	3,300	2,670	2,664	6
Fringe benefits	144,351	124,670	123,726	944
Other	1,700	1,100	722	378
Total elementary grades	430,615	391,295	391,026	269
Secondary grades:				
Salaries of teachers	442,469	442,469	443,508	(1,039)
Salaries for extra duty assignments	26,800	23,300	23,952	(652)
Salaries of substitutes	9,000	6,500	6,640	(140)
Teaching supplies	13,000	13,000	12,969	31
Textbooks	13,000	12,000	11,324	676
Consumable books	2,000	3,674	3,674	-
Fringe benefits	289,814	255,343	245,848	9,495
Dual enrollment tuition	9,800	8,600	8,518	82
Michigan virtual high school	3,800	12,500	13,169	(669)
Other	6,750	6,250	3,796	2,454
Total secondary grades	816,433	783,636	773,398	10,238
Guidance services:				
Salaries of guidance counselors	45,390	46,612	46,612	-
Salaries of secretaries	12,520	12,520	11,645	875
Fringe benefits	20,893	19,735	19,781	(46)
Travel, workshops, and conferences	500	315	270	45
Supplies	2,500	2,500	2,380	120
Total guidance services	81,803	81,682	80,688	994

Burr Oak Community School District
BUDGETARY COMPARISON SCHEDULE - *General Fund* (Continued)
Year ended June 30, 2006

	Original budget	*Amended budget*	*Actual*	*Variance favorable (unfavorable)*
EXPENDITURES (Continued)				
Instruction (continued):				
Principal office:				
Salaries of principals	$ 87,688	$ 87,688	$ 87,688	$ -
Salaries of secretaries	47,507	47,507	49,001	(1,494)
Fringe benefits	59,834	59,834	56,958	2,876
Travel, workshops, and conferences	1,500	1,500	1,500	-
Miscellaneous supplies	5,000	5,300	5,147	153
Total principal office	201,529	201,829	200,294	1,535
Summer school:				
Salaries of teachers	4,000	3,000	3,000	-
Salaries of aides and substitutes	750	385	385	-
Teaching supplies	1,500	-	-	-
Fringe benefits	1,140	813	762	51
Total summer school	7,390	4,198	4,147	51
Special education:				
Salaries of teachers	69,826	85,926	83,002	2,924
Salaries of aides and substitutes	22,965	21,595	20,043	1,552
Fringe benefits	42,212	46,393	44,916	1,477
Travel, workshops, and conferences	500	-	-	-
Supplies	2,000	1,625	1,628	(3)
Total special education	137,503	155,539	149,589	5,950
Compensatory education:				
Salaries of teachers	57,817	57,817	59,535	(1,718)
Salaries of aides and substitutes	11,506	11,866	12,023	(157)
Fringe benefits	40,249	36,132	35,752	380
Travel	250	50	65	(15)
Supplies	9,800	3,000	2,123	877
Total compensatory educatio	119,622	108,865	109,498	(633)
Tuition to other schools	78,336	63,119	62,281	838
Total instruction	1,873,231	1,790,163	1,770,921	19,242

Burr Oak Community School District
BUDGETARY COMPARISON SCHEDULE - *General Fund* (Continued)
Year ended June 30, 2006

	Original budget	*Amended budget*	*Actual*	*Variance favorable (unfavorable)*
EXPENDITURES (Continued)				
Supporting services:				
Library:				
Salary	$ 37,538	$ 38,588	$ 38,588	$ -
Library books	700	700	738	(38)
Newspaper and periodicals	950	830	649	181
Audio visual and computer supplies	800	1,769	1,785	(16)
Fringe benefits	16,006	15,000	15,327	(327)
Total library	55,994	56,887	57,087	(200)
Instructional improvement	36,188	26,025	25,549	476
Suspension aide:				
Salary	18,900	16,860	16,007	853
Fringe benefits	4,534	3,882	2,198	1,684
Total suspension aide	23,434	20,742	18,205	2,537
Summer recreation program	4,140	6,570	6,195	375
Career preparation	4,934	5,261	4,648	613
Health services - contracted services	1,000	38	38	-
Administration:				
Salaries of board of education	4,200	4,200	3,930	270
Salary of superintendent	76,880	76,680	77,196	(516)
Salary of business manager	39,929	39,929	39,929	-
Office clerk salary	4,000	3,000	2,405	595
Legal fees	5,000	3,700	3,683	17
Audit fees	10,250	8,500	8,500	-
Office supplies	6,700	6,100	6,248	(148)
Postage	4,200	4,200	3,987	213
Travel, workshops, and conferences	7,700	7,400	6,937	463
Publishing and printing	3,000	100	70	30
Fringe benefits	57,135	60,231	64,033	(3,802)
Insurance	6,000	4,698	4,698	-
Interest expense	1,500	4,893	7,422	(2,529)
Miscellaneous	5,600	6,863	8,407	(1,544)
Total administration	232,094	230,494	237,445	(6,951)

Burr Oak Community School District
BUDGETARY COMPARISON SCHEDULE - *General Fund* (Continued)
Year ended June 30, 2006

	Original budget	*Amended budget*	*Actual*	*Variance favorable (unfavorable)*
EXPENDITURES (Continued)				
Supporting services (continued):				
Transportation:				
Salaries of bus drivers	$ 38,500	$ 33,500	$ 31,241	$ 2,259
Salary of transportation supervisor	5,000	13,000	13,000	-
Salaries for special events	8,800	6,400	5,688	712
Salaries of bus aides	8,200	5,500	4,560	940
Gasoline, oil, and grease	18,750	18,750	19,890	(1,140)
Tires, tubes, and batteries	1,500	1,500	1,338	162
Vehicle repairs/parts	19,000	19,500	20,219	(719)
Vehicle insurance	2,300	2,372	2,372	-
Fringe benefits	28,314	27,970	26,144	1,826
Miscellaneous	9,100	6,800	1,820	4,980
Total transportation	139,464	135,292	126,272	9,020
Operation and maintenance:				
Salaries and custodial services	66,000	66,000	66,885	(885)
Heating fuel	50,000	38,300	38,478	(178)
Utilities	49,500	42,750	43,462	(712)
Telephone	9,000	5,000	4,994	6
Insurance	14,000	13,000	13,023	(23)
Custodial supplies	30,000	40,000	40,904	(904)
Contracted plant maintenance	44,000	23,500	19,576	3,924
Fringe benefits	48,433	46,021	46,338	(317)
Miscellaneous	5,000	4,500	6,681	(2,181)
Total operation and maintenance	315,933	279,071	280,341	(1,270)

Burr Oak Community School District
BUDGETARY COMPARISON SCHEDULE - *General Fund* (Continued)
Year ended June 30, 2006

	Original budget	*Amended budget*	*Actual*	*Variance favorable (unfavorable)*
EXPENDITURES (Continued)				
Technology coordinator:				
Salary	$ 34,152	$ 47,434	$ 47,434	$ -
Fringe benefits	21,393	24,579	24,586	(7)
Contracted services	20,000	34,700	34,712	(12)
Supplies	3,000	1,000	888	112
Travel, workshops, and conferences	300	450	469	(19)
Total technology coordinator	78,845	108,163	108,089	74
Total supporting services	892,026	868,543	863,869	4,674
Capital outlay - new and replacement furniture and equipment	14,000	18,844	18,316	528
Total expenditures	2,779,257	2,677,550	2,653,106	24,444
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(89,375)	11,178	39,280	28,102
OTHER FINANCING USES				
Transfers out	(145,723)	(90,765)	(102,316)	(11,551)
Total other financing uses	(145,723)	(90,765)	(102,316)	(11,551)
NET CHANGE IN FUND BALANCES	(235,098)	(79,587)	(63,036)	16,551
FUND BALANCES - BEGINNING	599,151	599,151	599,151	-
FUND BALANCES - ENDING	$ 364,053	$ 519,564	$ 536,115	$ 16,551

SUPPLEMENTARY INFORMATION

Burr Oak Community School District
COMBINING BALANCE SHEET - *nonmajor governmental funds*
June 30, 2006

	Special revenue funds		Total nonmajor
	Food Service	Athletic Activities	governmental funds
ASSETS			
Cash	$ 7,116	$ 593	$ 7,709
Receivables	752	-	752
Inventory	6,066	-	6,066
Total assets	$ 13,934	$ 593	$ 14,527
LIABILITIES AND FUND BALANCES			
Liabilities - due to other funds	$ 5,252	$ -	$ 5,252
Fund balances:			
Reserved for inventory	6,066	-	6,066
Unreserved, undesignated	2,616	593	3,209
Total fund balances	8,682	593	9,275
Total liabilities and fund balances	$ 13,934	$ 593	$ 14,527

Burr Oak Community School District

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - *nonmajor governmental funds*

Year ended June 30, 2006

	Special revenue funds		*Total nonmajor governmental funds*
	Food Service	*Athletics*	
REVENUES			
Local sources:			
Food service	$ 24,895	$ -	$ 24,895
Athletic gate receipts	-	16,321	16,321
Other	3,839	3,100	6,939
State grants	4,873	-	4,873
Federal grants	86,837	-	86,837
Total revenues	120,444	19,421	139,865
EXPENDITURES			
Current:			
Food purchases	48,469	-	48,469
Salaries and wages	32,830	66,713	99,543
Fringe benefits	15,812	21,972	37,784
Commodity usage	9,799	-	9,799
Supplies	3,107	3,773	6,880
Contracted services	147	11,301	11,448
Miscellaneous	3,396	9,614	13,010
Capital outlay	-	7,607	7,607
Total expenditures	113,560	120,980	234,540
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	6,884	(101,559)	(94,675)
OTHER FINANCING SOURCES			
Transfers in - General Fund	1,200	101,116	102,316
NET CHANGE IN FUND BALANCES	8,084	(443)	7,641
FUND BALANCES - BEGINNING	598	1,036	1,634
FUND BALANCES - ENDING	$ 8,682	$ 593	$ 9,275

Burr Oak Community School District
COMBINING BALANCE SHEET - *private-purpose trust funds*
June 30, 2006

	Educational Loan	*Endowment Scholarship*	*Totals*
ASSETS			
Cash	$ 24,693	$ 8,021	$ 32,714
Loans receivable	6,743	-	6,743
Total assets	$ 31,436	$ 8,021	$ 39,457
FUND BALANCES	$ 31,436	$ 8,021	$ 39,457

Burr Oak Community School District

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - *private-purpose trust funds*

Year ended June 30, 2006

	Educational Loan	*Endowment Scholarship*	*Totals*
REVENUES			
Local sources:			
Interest	$ 490	$ 128	$ 618
Other	163	-	163
Total revenues	653	128	781
EXPENDITURES	-	120	120
EXCESS OF REVENUES OVER EXPENDITURES	653	8	661
NET ASSETS - BEGINNING	30,783	8,013	38,796
NET ASSETS - ENDING	$ 31,436	$ 8,021	$ 39,457

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

Board of Education
Burr Oak Community School District

We have audited the accompanying financial statements of Burr Oak Community School District, as of and for the year ended June 30, 2006, and have issued our report thereon dated August 17, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Burr Oak Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Burr Oak Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Siegfried Crandall P.C.

August 17, 2006