

SANDUSKY COMMUNITY SCHOOLS
Sandusky, Michigan

Report on Financial Statements
(with additional information)
June 30, 2007

SANDUSKY COMMUNITY SCHOOLS
Table of Contents

	<u>PAGE NUMBER</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS	i - vii
REPORT OF INDEPENDENT AUDITORS	1 & 2
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements	
Balance Sheet - Governmental Funds	5
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	6
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	7
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	8
Statement of Fiduciary Assets and Liabilities	9
Notes to the Financial Statements	10 - 23
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - All Major Funds	24
ADDITIONAL INFORMATION	
Nonmajor Governmental Fund Types	
Combining Balance Sheet	25
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	26
General Fund:	
Schedule of Revenues and Other Financing Sources	27
Schedule of Expenditures and Other Financing Uses	28-32
Special Revenue Funds:	
Combining Balance Sheet	33
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	34
Debt Service Fund:	
Combining Balance Sheet	35
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	36
Fiduciary Fund:	
Agency Fund - Statement of Cash Receipts, Cash Disbursements and Liabilities	37 & 38
Schedule of Bonded Debt - 1995 Debt	39
Schedule of Bonded Debt - Durant Bonds	40
Schedule of Bonded Debt - 2001 Energy Conservation Improvement Bonds	41
Schedule of Bonded Debt - Refunding Bonds	42
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	43 & 44
Schedule of findings and responses	45

Sandusky Community Schools

Management's Discussion and Analysis

For Fiscal Year Ended June 30, 2007

Sandusky Community School District, a K-12 school district located in Sanilac County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Sandusky Community School District administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2007 and June 30, 2006.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

Fund Financial Statements

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds, Debt Service Funds, and Fiduciary Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements are required by GASB 34. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

Sandusky Community School
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007

Summary of Net Assets

The following schedule summarizes the net assets at fiscal year ended June 30, 2007 and 2006:

Assets	<u>6/30/07</u>	<u>6/30/06</u>
Current assets	\$ 4,286,054	\$ 3,540,231
Noncurrent assets	<u>12,193,231</u>	<u>12,563,993</u>
Total assets	<u>\$16,479,285</u>	<u>\$16,104,224</u>
Liabilities		
Current liabilities	\$ 3,170,133	\$ 3,115,889
Long-term liabilities	<u>11,642,199</u>	<u>11,219,453</u>
Total liabilities	\$14,812,332	\$14,335,342
Net Assets		
Invested in capital assets, net of related debt	219,211	701,709
Restricted for debt service	1,037,783	337,078
Unrestricted	<u>409,959</u>	<u>730,095</u>
Total net assets	<u>1,666,953</u>	<u>1,768,882</u>
Total liabilities and net assets	<u>\$16,479,285</u>	<u>\$16,104,224</u>

Analysis of Financial Position

During the fiscal year ended June 30, 2007, the District's net assets decreased by \$178,869. A few of the more significant factors affecting net assets during the year are discussed below.

1. Early Retirement Incentives

The School District approved Early Retirement Incentives for 10 employees during the year totaling \$280,500. \$144,000 will be paid in fiscal year 2008 and \$136,500 will be paid in fiscal year 2009. The entire amount has been recorded as a liability of the school district.

2. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2007, \$485,655 was recorded for depreciation expense.

Sandusky Community School
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2007, \$114,893 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

Results of Operations

For the fiscal year ended June 30, 2007 and 2006, the results of operations, on a District-wide basis, were:

	<u>Year Ended June 30, 2007</u>		<u>Year Ended June, 30, 2006</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
General Revenues				
Property Taxes	\$ 2,078,733	17.29%	\$ 2,039,069	17.41%
State sources	8,651,256	71.95%	7,672,342	65.53%
Other	<u>301,292</u>	<u>2.51%</u>	<u>152,267</u>	<u>1.30%</u>
Total general revenues	11,031,281	91.75%	9,863,678	84.24%
Program Revenues				
Charges for services	314,918	2.62%	447,142	3.82%
Operating grants	<u>676,595</u>	<u>5.63%</u>	<u>1,398,003</u>	<u>11.94%</u>
Total revenues	12,022,794	100.00%	11,708,823	100.00%
Expenses				
Instruction	6,789,271	55.64%	6,562,599	55.61%
Support services	3,728,748	30.56%	3,759,943	31.86%
Community services	7,412	0.06%	9,130	0.08%
Food services	636,287	5.22%	603,487	5.11%
Athletics	177,983	1.46%	184,220	1.56%
Interest on long-term debt	376,307	3.08%	408,667	3.46%
Depreciation	<u>485,655</u>	<u>3.98%</u>	<u>273,280</u>	<u>2.32%</u>
Total expenses	\$12,201,663	100.00%	\$11,801,326	100.00%
Increase (decrease) in net assets	<u>\$ (178,869)</u>		<u>\$ (92,503)</u>	

Sandusky Community School
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007

Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levied 18.0000 mills of property taxes for operations on non-homestead properties. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2006-2007 fiscal year, the district levied \$1,184,133 non-homestead property taxes. This represented an increase of 12.97% from the prior year. The amount of unpaid property taxes at June 30, 2007, less an estimate for those deemed to be un-collectible, was \$5,000.

The following table summarizes the non-homestead property tax levies for operations for the past five years:

Fiscal Year	Non-homestead Tax Levy	% Increase (Decrease) from prior year
2006 – 2007	\$1,184,133	12.97%
2005 – 2006	1,048,140	5.05%
2004 – 2005	997,727	

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count and 25% of the prior year's spring count. For the 2006 – 2007 fiscal year, the District's foundation allowance was \$7,085 per student FTE, which represented a 3.05% increase over the amount received for the 2005 – 2006 fiscal year.

3. Student Enrollment

The following schedule lists the actual blended student FTE for the past three fiscal years:

	Actual Blended Student FTE
2006 – 2007	1,312
2005 – 2006	1,290
2004 – 2005	1,331

Sandusky Community School
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007

4. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2007, federal, state and other grants accounted for \$676,595. This represents a decrease of \$44,539 over the total grant sources received for the 2005 – 2006 fiscal year.

5. Interest Earnings

The District received interest on its investments in the amount of \$101,876 for the fiscal year ended June 30, 2007. With interest rates rising from a historic low, interest revenues are up from the prior fiscal year by \$20,447.

6. Comparative Expenditures

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in Fund balances is shown below.

	<u>2006-2007</u> <u>Fiscal Year</u>	<u>2005-2006</u> <u>Fiscal Year</u>	<u>Increase</u> <u>(Decrease)</u>
Expenditures			
Instruction	\$ 6,508,676	\$ 6,517,960	\$ (9,284)
Supporting services	3,738,457	3,558,118	180,339
Community services	7,412	9,130	(1,718)
Food service activities	641,430	603,487	37,943
Athletic activities	177,983	179,486	(1,503)
Capital Outlay	0	18,888	(18,888)
Debt Service	<u>978,116</u>	<u>991,720</u>	<u>(13,604)</u>
Total expenditures	<u>\$12,052,074</u>	<u>\$11,878,789</u>	<u>\$173,285</u>

Sandusky Community Schools
 Management's Discussion and Analysis
 For Fiscal Year Ended June 30, 2007

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1st. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30th.

For the 2006 – 2007 fiscal year, the district amended the general fund budget two times with the Board adopting the final changes in June 2007. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance with Final Budget positive (negative)	% Variance
Total revenues	\$10,071,347	\$10,438,613	\$10,391,679	(\$46,934)	(0.45)%
Expenditures					
Instruction	6,428,580	6,552,319	6,508,676	43,643	0.67%
Supporting services	3,643,703	3,810,542	3,738,457	72,085	1.89%
Community services	<u>12,256</u>	<u>8,434</u>	<u>7,412</u>	<u>1,022</u>	<u>12.12%</u>
Total expenditures	<u>\$10,084,539</u>	<u>\$10,371,295</u>	<u>\$10,254,545</u>	<u>\$116,750</u>	<u>1.13%</u>

Capital Asset and Debt Administration

Capital Assets

By the end of the 2006 – 2007 fiscal year, the district had invested \$12,193,231 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a decrease of \$370,762 over the prior fiscal year. Depreciation expense for the year amounted to \$485,655, bringing the accumulation to \$7,493,649 as of June 30, 2007.

Long- term Debt

At June 30, 2007, the District had \$12,401,210 in debt outstanding. This represents a decrease of \$295,943 over the amount outstanding at the close of the prior fiscal year.

Sandusky Community School
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007

Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future.

- With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2007 – 2008 fiscal year. The early indication is that the foundation allowance for 2007 – 2008 will remain uncertain well into the fiscal year which will pose a challenge to the District to maintain structural balance while continuing with its educational programming.
- As with other employers, the District continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance. Additionally, the State has not managed to keep down the growth in the rate districts fund the retirement system over the past few years, and the increase in the number of retirees projected to occur over the next few years may also result in higher annual increases.
- The contract with the Sandusky Community Schools Education Association, the union that represents the teaching staff, expires July 31, 2008.
- The state of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Education Assessment Program) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Behind Act, adequate yearly progress of students will be more important as certain portions of funding are now tied to it.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact Martha Essenmacher, Superintendent, 191 Pine Tree Lane, Sandusky, MI 48471.



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August 23, 2007

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Sandusky Community Schools
Sandusky, Michigan 48471

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2007 on our consideration of Sandusky Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i through vii and page 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Education
Sandusky Community Schools
August 23, 2007

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the primary government of Sandusky Community Schools' basic financial statements. The additional information on pages 25 to 42 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANT

BASIC FINANCIAL STATEMENTS

SANDUSKY COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
June 30, 2007

ASSETS

CURRENT ASSETS:	
Cash	\$ 1,945,427
Investments	825,978
Accounts receivable	3,711
Due from other governmental units	1,488,020
Due from Internal Accounts	17,918
Property taxes receivable	<u>5,000</u>
TOTAL CURRENT ASSETS	<u>4,286,054</u>
NONCURRENT ASSETS:	
Capital assets	19,686,880
Less accumulated depreciation	<u>(7,493,649)</u>
TOTAL NONCURRENT ASSETS	<u>12,193,231</u>
TOTAL ASSETS	<u><u>\$ 16,479,285</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	\$ 106,957
Accrued salaries, benefits & payroll taxes	725,178
Deferred revenue	17,848
State aid note	1,500,000
Accrued interest	61,139
Current portion of early retirement incentives	144,000
Current portion of long term debt	<u>615,011</u>
TOTAL CURRENT LIABILITIES	<u>3,170,133</u>
NONCURRENT LIABILITIES:	
Noncurrent portion of early retirement incentives	136,500
Noncurrent portion of compensated absences	146,690
Noncurrent portion of long term debt	<u>11,359,009</u>
TOTAL NONCURRENT LIABILITIES	<u>11,642,199</u>
NET ASSETS:	
Invested in capital assets, net of related debt	219,211
Restricted for debt service	1,037,783
Unrestricted	<u>409,959</u>
TOTAL NET ASSETS	<u>1,666,953</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 16,479,285</u></u>

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

SANDUSKY COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

Functions/Programs	Expenses	PROGRAM REVENUES		GOVERNMENTAL
		Charges for Services	Operating Grants	ACTIVITIES
				Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 6,789,271		\$ 217,794	\$ (6,571,477)
Support services	3,728,748		145,196	(3,583,552)
Community services	7,412	-		(7,412)
Food services	636,287	\$ 246,543	313,605	(76,139)
Athletics	177,983	68,375		(109,608)
Interest on long-term debt	376,307		-	(376,307)
Unallocated depreciation	485,655			(485,655)
Total governmental activities	<u>\$ 12,201,663</u>	<u>\$ 314,918</u>	<u>\$ 676,595</u>	(11,210,150)
General revenues:				
Property taxes, levied for general purposes				1,185,878
Property taxes, levied for debt service				892,855
State of Michigan school aid unrestricted				8,651,256
Investment revenue				101,876
Miscellaneous				199,416
Total general revenue				<u>11,031,281</u>
Change in net assets				(178,869)
Net assets, beginning of year				1,768,882
Prior period adjustment				<u>76,940</u>
Net assets, end of year				<u>\$ 1,666,953</u>

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

SANDUSKY COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	GENERAL FUND	DEBT SERVICE	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash	\$ 1,603,943	\$ 272,857	\$ 68,627	\$ 1,945,427
Investments		825,978	-	825,978
Accounts receivable	352	87	3,272	3,711
Due from other funds	18,180		3,927	22,107
Due from other governmental units	1,488,020		-	1,488,020
TOTAL ASSETS	<u>\$ 3,110,495</u>	<u>\$ 1,098,922</u>	<u>\$ 75,826</u>	<u>\$ 4,285,243</u>
<u>LIABILITIES AND FUND BALANCE</u>				
LIABILITIES:				
Accounts payable	\$ 101,959		\$ 4,998	\$ 106,957
Accrued salaries & payroll taxes	725,178			725,178
Due to other funds	3,927		262	4,189
Deferred revenue	17,848		-	17,848
State aid note	1,500,000		-	1,500,000
TOTAL LIABILITIES	<u>2,348,912</u>		<u>5,260</u>	<u>2,354,172</u>
FUND BALANCE:				
Unreserved:				
Designated for compensated absences	146,690			146,690
Undesignated	614,893		70,566	685,459
Reserved for debt retirement		\$ 1,098,922	-	1,098,922
TOTAL FUND BALANCE	<u>761,583</u>	<u>1,098,922</u>	<u>70,566</u>	<u>1,931,071</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,110,495</u>	<u>\$ 1,098,922</u>	<u>\$ 75,826</u>	<u>\$ 4,285,243</u>

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

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

Total Fund Balances - Governmental Funds \$ 1,931,071

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 funds

The cost of capital assets is:	19,686,880
Accumulated depreciation is:	(7,493,649)

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

Bonds payable:	(11,974,020)
Early retirement incentives	(280,500)
Compensated absences	(146,690)
Accrued interest is not included as a liability in governmental funds; it is recorded when paid:	(61,139)

Balance of taxes receivable at 6/30/07 less allowance for doubtful accounts	5,000
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Net Assets of Governmental Activities \$ 1,666,953

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

SANDUSKY COMMUNITY SCHOOLS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	GENERAL FUND	DEBT SERVICE	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
Local sources				
Property tax	\$ 1,180,878	\$ 892,855	-	\$ 2,073,733
Interest income	76,522	21,112	\$ 4,242	101,876
Food sales and athletic admissions			314,918	314,918
Other	165,198	15	6,499	171,712
State sources	8,606,091		45,165	8,651,256
Federal sources	362,990		313,605	676,595
TOTAL REVENUES	\$ 10,391,679	\$ 913,982	\$ 684,429	\$ 11,990,090
EXPENDITURES:				
Instruction	\$ 6,508,676			\$ 6,508,676
Supporting services	3,738,457			3,738,457
Community services	7,412			7,412
Food services activities			\$ 641,430	641,430
Athletic activities			177,983	177,983
Capital outlay			-	-
Debt service:				
Principal retirement		\$ 595,000	-	595,000
Interest		380,236	-	380,236
Other		2,880	-	2,880
TOTAL EXPENDITURES	\$ 10,254,545	\$ 978,116	\$ 819,413	\$ 12,052,074
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	137,134	(64,134)	(134,984)	(61,984)
OTHER FINANCING SOURCES (USES):				
Transfer from other funds	-	137,663	109,551	247,214
Sale of fixed assets	1,950			1,950
Transfer from other districts	25,754			25,754
Transfer to other funds	(247,214)		-	(247,214)
Principal retirement	-			-
Purchase of Land	(4,639)			(4,639)
Interest on Purchase of Land	(7,043)			(7,043)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (231,192)	\$ 137,663	\$ 109,551	\$ 16,022
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	\$ (94,058)	\$ 73,529	\$ (25,433)	\$ (45,962)
FUND BALANCE - BEGINNING OF YEAR	855,641	337,078	95,999	1,288,718
PRIOR PERIOD ADJUSTMENTS		688,315	-	688,315
FUND BALANCE - END OF YEAR	\$ 761,583	\$ 1,098,922	\$ 70,566	\$ 1,931,071

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

SANDUSKY COMMUNITY SCHOOLS
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 June 30, 2007

Total net change in fund balances - governmental funds \$ (45,962)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:

Depreciation expense	(485,655)
Capital outlay	14,893

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable at the beginning of the year	74,991
Accrued interest payable at the end of the year	(61,139)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	599,639
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Compensated absences are reported on the accrual method in the statement of activities and recorded as an expenditure when due in the governmental funds:

Accrued compensated absences beginning of the year	146,554
Accrued compensated absences end of the year	(146,690)

Early retirement incentives are reported on the accrual method in the statement of activities and recorded as an expenditure when due in the governmental funds:

Accrued early retirement incentives beginning of the year	-
Accrued early retirement incentives end of the year	(280,500)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Accrued revenue at the beginning of the year	-
Accrued revenue at the end of the year	5,000

Change in net assets of governmental activities \$ (178,869)

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

SANDUSKY COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
June 30, 2007

	<u>AGENCY FUNDS</u>
CURRENT ASSETS	
Cash	\$ 120,870
Accrued interest	693
	<hr/>
TOTAL ASSETS	<u>\$ 121,563</u>
LIABILITIES	
Due to general fund	\$ 17,918
Due to student organizations	103,645
	<hr/>
TOTAL LIABILITIES	<u>\$ 121,563</u>

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

SANDUSKY COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Sandusky School District was organized in the late 1800's and presently covers approximately 156 square miles covering all or parts of 13 Townships in Sanilac County. The School District operates under an elected School Board (7 members) and provides educational services to approximately 1,312 students.

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

REPORTING ENTITY:

The Sandusky Community Schools (the "District") is governed by the Sandusky Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

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 non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

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 or segment. Program revenues include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as general revenues.

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

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

SANDUSKY COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED):

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (Continued):

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

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

GOVERNMENTAL FUNDS:

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The 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.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

OTHER NON-MAJOR FUNDS:

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *capital projects fund* is used to account for the acquisition and construction of major facilities by the school district.

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

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

SANDUSKY COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED):

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION:

Accrual Method:

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 revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method:

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 when they are collectible 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 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.

Property taxes, state and federal aid 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.

State Revenue:

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007 the foundation allowance was based on the blended pupil membership counts taken in February and September of the last three years.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes that may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October, 2006 - August, 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

For the year ended June 30, 2007 \$152,832 of non cash transactions from the Michigan Department of Education (MDE) has been recorded as state aid revenue and pension expenditures as a result of a change in funding by MDE.

SANDUSKY COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED):

ASSETS, LIABILITIES AND EQUITY:

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the districts intend to hold the investment until maturity.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Short-term Interfund Receivables/Payables.

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

3. Property Taxes.

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

The District along with certain other governmental units is permitted by the Constitution of the State of Michigan of 1963 to levy combined taxes up to \$50 per \$1,000 of assessed valuation for general governmental services other than the payment of Debt Service Fund expenses if approved by a majority of the electors. The District must include certain tax levies of other governmental units located within the District, primarily the county, when determining the maximum millage of \$50 per \$1,000 of assessed valuation. For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation:

<u>FUND</u>	<u>MILLS</u>
General Fund - Non Homestead	18.000
2000 Debt Service Fund – Homestead and non-homestead	.700
2004 Debt Service Fund – Homestead and non-homestead	3.750

SANDUSKY COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED):

ASSETS, LIABILITIES AND EQUITY, (Continued):

4. Inventories and Prepaid items.

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies, held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Capital Assets.

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 15 years
Vehicles and buses	5 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000. Group purchases are evaluated on a case-by-case basis.

6. Compensated Absences.

Teachers with ten years or more of consecutive service will be paid \$22 per day for unused sick days if they leave the district. Each teacher shall be credited with thirteen sick leave days at the beginning of each school year that can be accumulated with no cap for teachers employed by the District as of December 18, 2002. All teachers hired after December 18, 2002, will have a 90-day cap on their unused sick days. Other groups have contracts with negotiated sick leave benefits at varying levels. The long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured.

7. Unemployment Insurance.

The District reimburses the Bureau of Worker's & Unemployment Compensation (BW & UC) for the actual amount of unemployment benefits disbursed by the BW & UC on behalf of the District. Billings received for amounts paid by the BW & UC through June 30 are accrued, if material.

8. Long-term obligations.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

SANDUSKY COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED):

ASSETS, LIABILITIES AND EQUITY, (Continued):

8. Long-term obligations (continued).

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

9. Fund Balance.

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources". The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

10. Memorandum only - Total Column.

The total column on the combined financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis and do not represent consolidated financial information. Data in these columns do not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

11. Use of Estimates.

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

SANDUSKY COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY:

Budgets are adopted on a basis consistent with U. S. generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The District does not maintain a formalized encumbrance accounting system.

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

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

NOTE 3 – DEPOSITS AND INVESTMENTS - CREDIT RISK:

As of June 30, 2007, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
Guaranteed Investment Contract (GIC)	\$ 825,978	2.4	A1+	100.0
Total fair value	<u>\$ 825,978</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>2.4</u>		

1 day maturity equals 0.0027, one year equals 1.00

SANDUSKY COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 3 – DEPOSITS AND INVESTMENTS - CREDIT RISK, (Continued):

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. At June 30, 2007, the carrying amount of the District's deposits was \$2,066,297 and the bank balance was \$2,242,293. Of the bank balance, \$200,000 was covered by federal deposit insurance while the remaining bank balance of \$2,042,293 was uninsured and uncollateralized. The District places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the District, subject to minimal risk.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the 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 District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

The District's Guaranteed Investment Contract is collateralized and invested for the purpose of paying off the Note Payable Disclosed in Note 7.

The Investment Agreement, dated as of April 12, 2001, by and among LaSalle Bank, as the Depository on behalf of both the participating Michigan School District and the Michigan Municipal Bond Authority, and Wachovia, as Provider.

The net proceeds from the sale of the School Improvement Bonds were loaned by the Authority to Michigan School Districts. Such Loans are to be repaid with annual set-a-side installments deposited with the Depository for investment under the Investment Agreement. Set-a-side installments are deposited under the Investment Agreement versus Permitted Investments (collateral securities) equaling at least 103% of the deposited amount and the Depository holds such Permitted Investments in a fiduciary capacity.

The Guaranteed Rate under this Investment Agreement (commonly referred to as guaranteed investment contract-GIC or collateralized investment agreement-CIA) is 2.0% (simple interest actual days elapsed over a 365-day year).

The Guarantor is Wachovia, as guarantor of the Provider's obligations under this Investment Agreement.

**SANDUSKY COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

NOTE 3 – DEPOSITS AND INVESTMENTS - CREDIT RISK, (Continued):

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

The above amounts as previously reported in Note 3:

Deposits - including Fiduciary Funds of \$120,870	\$ 2,066,297
Investments	<u>825,978</u>
	<u><u>\$ 2,892,275</u></u>

The above amounts are reported in the financial statements as follows:

Cash - District wide	\$ 1,945,427
Fiduciary Funds	120,870
Investments - District wide	<u>825,978</u>
	<u><u>\$ 2,892,275</u></u>

NOTE 4 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN:

Plan Description – The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan, 48909-7671 or by calling (800) 381-5111.

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

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

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2007 was 16.34% through September 2006 and 17.74% for October 1, 2006 through June 30, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2007, 2006, and 2005 were \$990,475, \$879,818, and \$814,901, respectively, and were equal to the required contribution for the year.

**SANDUSKY COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

NOTE 4 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN, (Continued):

The District is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Other Post-Employment Benefits -- Also within the MPSERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPSERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the MPSERS with the balance deducted from the monthly pension.

NOTE 5 - RISK MANAGEMENT:

The District is exposed to risk of loss related to injuries to employees'. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays quarterly premiums to the pool for the insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES:

The Trust & Agency Fund is the custodian for several accounts that are considered school district funds, the balance of which is payable to the General Fund.

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$18,180	\$ 3,927
Hot Lunch	3,927	
Trust & Agency Fund		17,918
Athletic Fund	<u> </u>	<u>262</u>
Total	<u>\$22,107</u>	<u>\$22,107</u>

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

NOTE 7 - LONG-TERM DEBT:

As of June 30, 2007, the school district had the following long-term debt outstanding:

A) General Obligation Bonds Payable

2000 School Building and Site Bonds

Sandusky Community Schools has issued General Obligation Bonds dated July 26, 2000, in the amount of \$2,065,000, bearing interest at rates varying from 5.00% to 5.50% per annum. These bonds were issued for the purpose of erecting, furnishing and equipping additions to Maple Valley Elementary and developing and improving athletic fields and facilities, parking improvements and sites. The balance of the bonds as of June 30, 2007 was \$1,765,000.

SANDUSKY COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 7 - LONG-TERM DEBT, (Continued):

2001 Energy Conservation Improvement Bonds (General Obligation – Limited Tax) Qualified Zone Academy Bonds

Sandusky Community Schools issued 2001 Energy Conservation Improvement Bonds dated June 21, 2001, in the amount of \$1,789,620. The bonds will be repaid with 13 annual payments of \$137,663. The annual payments are being made to the bank of New York Trust Company and will be accumulated until 2014 at which time the bonds will be redeemed.

2004 Refunding Bonds (General Obligation – Unlimited Tax)

The Bonds are being issued for the purpose of refunding all of the District's outstanding 1994 Bonds, dated January 12, 1994, which are due and payable May 1, 2005 through May 1, 2021, inclusive, (the "Prior Bonds") and to pay the costs of issuing the Bonds. The bonds were issued January 21, 2004 in the amount of \$9,845,000 bearing interest at rates varying from 2.000% to 4.125% per annum. The balance of the bonds as of June 30, 2007 was \$8,245,000.

B) 1998 Durant Resolution Bonds

Sandusky Community Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$154,111 at the interest rate 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2007 was \$90,996.

C) Voluntary Severance Payments

Payments due to teachers and support personnel who accepted the voluntary severance program as of June 30, 2007 are as follows:

August 2007	\$ 14,000
September 2007	\$130,000
August 2008	\$ 6,500
September 2008	\$130,000

D) Land Contract

Sandusky Community Schools entered into a 15 year land contract in 2003 for \$100,000 at the interest rate of 8%. The land contract was for the purchase of land. The balance at June 30, 2007 was \$83,404.

E) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2007 are as follows:

	Bonds Payable	Interest	Total
June 30, 2008	\$ 615,011	\$ 373,506	\$ 988,517
June 30, 2009	638,987	361,433	1,000,420
June 30, 2010	698,662	362,997	1,061,659
June 30, 2011	675,725	326,440	1,002,165
June 30, 2012	696,677	305,667	1,002,344
June 30, 2013-2017	5,603,140	1,136,055	6,739,195
June 30, 2018-2021	3,045,818	333,935	3,379,753
Accumulated Early Retirement Incentives	280,500		280,500
Accumulated Compensated Absences	146,690		146,690
Total	\$12,401,210	\$3,200,033	\$15,601,243

The payment of sick days payable are undeterminable. Interest paid for the year on long-term obligations was \$376,307.

SANDUSKY COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 7 - LONG-TERM DEBT, (Continued):

F) Changes in General Long-Term Debt

The following is a summary of the long-term debt of the school district for the year ended June 30, 2007:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Amount Due</u> <u>In One Year</u>
Governmental Activities:					
General Obligation & Durant					
Bonds	\$12,485,616	\$88,043	\$599,639	\$11,974,020	\$615,011
Capital Leases	64,983	0	64,983	0	0
Early Retirement Incentives		280,500		280,500	144,000
Compensated Absences					
	<u>146,554</u>	<u>136</u>	<u>0</u>	<u>146,690</u>	<u>0</u>
 Total Governmental Activities	 <u>\$12,697,153</u>	 <u>\$368,679</u>	 <u>\$664,622</u>	 <u>\$12,401,210</u>	 <u>\$759,011</u>

An amount of \$1,098,922 is available in the debt service fund to service the general obligation debt.

Interest expense (all funds) for the year ended June 30, 2007 was \$376,307.

NOTE 8 – TRANSFERS:

The general fund during the current fiscal year transferred \$109,551 to the athletic fund to subsidize operations and \$137,663 to the QZAB debt retirement fund to fund the annual payment.

NOTE 9 – PRIOR PERIOD ADJUSTMENTS:

There was a prior period adjustment made to the statement of net assets to correct the beginning net assets. The changes are as follows:

Land purchased in previous year, but not recorded as a capital asset	\$100,000
Land contract not included on the statement of net assets in previous year	(88,043)
Capital lease recorded in long term debt that is no longer a debt	<u>64,983</u>
 Total prior period adjustment	 <u>\$ 76,940</u>

There was a prior period adjustment made to the QZAB Debt Service Fund in the amount of \$688,315 to record the funds being held in trust by the Bank of New York Trust Company.

SANDUSKY COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 9 – CAPITAL ASSETS:

A summary of changes in the District's capital assets follows:

	<u>BALANCE</u> <u>JULY 1, 2006</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>JUNE 30,</u> <u>2007</u>
Capital assets:				
Land		\$ 100,000		\$ 100,000
Buildings and additions	\$17,667,298			17,667,298
Land improvements	628,021			628,021
Equipment and furniture	234,992	14,893		249,885
Vehicles	<u>1,049,176</u>		<u>\$(7,500)</u>	<u>1,041,676</u>
Subtotal	19,579,487	<u>114,893</u>	<u>(7,500)</u>	19,686,880
Accumulated depreciation:	<u>(7,015,494)</u>	<u>(485,655)</u>	<u>7,500</u>	<u>7,493,649</u>
Net capital assets	<u>\$12,563,993</u>	<u>\$(370,762)</u>	<u>\$ 0</u>	<u>\$12,193,231</u>

Depreciation expense was charged as unallocated to the governmental activities in the amount of \$485,655.

NOTE 10 – SHORT-TERM DEBT:

The District borrowed \$1,500,000 at 3.68% interest per annum on August 18, 2006, from Chase Bank on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The note matures August 20, 2007. The balance as of June 30, 2007 was \$1,500,000 .

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2007</u>
State Aid Note	<u>\$1,500,000</u>	<u>\$1,500,000</u>	<u>\$1,500,000</u>	<u>\$1,500,000</u>

SANDUSKY COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 11 – OPERATING LEASES:

Sandusky Community Schools has entered into the following operating leases summarized below:

Operating Lease as Lessor

The District entered into a lease with the Sanilac Intermediate School District Special Education Consortium for the purpose of leasing a building under construction at the Sandusky Middle School. The lease dates June 16, 1993 began July 1, 1993 with occupancy occurring on or about August 23, 1993 and extends for fifteen years. Lease payments totaling \$140,000 were paid at the inception of the lease. The purpose of the lease is to allow the consortium to provide special education services and other related services. The lessor is responsible for all utilities and property and casualty insurance.

The District entered into a lease with Capital Advantage Leasing for the purpose of leasing 11 digital copiers and 16 printers. The lease is for 60 months and requires monthly payments of \$3,458. At June 30, 2007, future lease payments under the lease are as follows:

June 30, 2008	\$41,496
June 30, 2009	41,496
June 30, 2010	41,496
June 30, 2011	41,496
June 30, 2012	31,122

NOTE 12 – SELF INSURANCE POOL:

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on coverage. Should the pool experience significant losses in the aggregate; the School District may be required to pay additional monies to the pool.

NOTE 13 – SUBSEQUENT EVENT:

The District borrowed \$1,500,000 at 3.68% interest per annum on August 18, 2007, from Chase Bank on a State Aid Anticipation Note to meet cash flow needs for the 2007-2008 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

SANDUSKY COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2007

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUES:				
Local sources	\$ 1,201,550	\$ 1,429,714	\$ 1,422,598	\$ (7,116)
State sources	8,497,211	8,622,680	8,606,091	(16,589)
Federal sources	372,586	386,219	362,990	(23,229)
TOTAL REVENUES	<u>10,071,347</u>	<u>10,438,613</u>	<u>10,391,679</u>	<u>(46,934)</u>
EXPENDITURES:				
Instruction	6,428,580	6,552,319	6,508,676	43,643
Supporting services	3,643,703	3,810,542	3,738,457	72,085
Community services	12,256	8,434	7,412	1,022
TOTAL EXPENDITURES	<u>10,084,539</u>	<u>10,371,295</u>	<u>10,254,545</u>	<u>116,750</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(13,192)</u>	<u>67,318</u>	<u>137,134</u>	<u>69,816</u>
OTHER FINANCING SOURCES (USES):				
Transfers from Other Funds	-	-	-	-
Sale of Fixed Assets	-	-	1,950	1,950
Transfers from Other Districts	-	-	25,754	25,754
Transfers to Other Funds	(100,000)	(110,733)	(247,214)	(136,481)
Principal Retirement	(137,663)	(137,663)	-	137,663
Purchase of Land	(11,683)	(11,683)	(4,639)	7,044
Interest on Purchase of Land	-	-	(7,043)	(7,043)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(249,346)</u>	<u>(260,079)</u>	<u>(231,192)</u>	<u>28,887</u>
EXCESS OF REVENUES OVER EXPEN- DITURES & OTHER SOURCES (USES)	<u>(262,538)</u>	<u>(192,761)</u>	<u>(94,058)</u>	<u>98,703</u>
FUND BALANCE - BEGINNING OF YEAR	<u>855,641</u>	<u>855,641</u>	<u>855,641</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 593,103</u>	<u>\$ 662,880</u>	<u>\$ 761,583</u>	<u>\$ 98,703</u>

ADDITIONAL INFORMATION

SANDUSKY COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
June 30, 2007

	<u>SPECIAL REVENUE</u>	<u>TOTAL 2007</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 68,627	\$ 68,627
Investments		
Accounts receivable	3,272	3,272
Due from other funds	3,927	3,927
Due from other governmental units	-	-
Inventory	-	-
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 75,826</u>	<u>\$ 75,826</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
LIABILITIES		
Accounts payable	\$ 4,998	\$ 4,998
Due to other funds	262	262
Deferred revenue		-
Accrued payroll taxes		-
	<hr/>	<hr/>
TOTAL LIABILITIES	<u>5,260</u>	<u>5,260</u>
FUND BALANCE		
Unreserved:		
Designated for debt retirement		-
Undesignated	70,566	70,566
	<hr/>	<hr/>
TOTAL FUND BALANCE	<u>70,566</u>	<u>70,566</u>
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 75,826</u>	<u>\$ 75,826</u>

SANDUSKY COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2007

	SPECIAL REVENUE	TOTAL 2007
REVENUES:		
Local sources		
Property tax		\$ -
Interest income	\$ 4,242	4,242
Food sales and athletic admissions	314,918	314,918
Other	6,499	6,499
State sources	45,165	45,165
Federal sources	313,605	313,605
	684,429	684,429
TOTAL REVENUES		
EXPENDITURES:		
Food services activities	641,430	641,430
Athletic activities	177,983	177,983
Capital outlay		-
Debt service:		
Principal retirement		-
Interest		-
Other		-
	819,413	819,413
TOTAL EXPENDITURES		
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(134,984)	(134,984)
OTHER FINANCING SOURCES (USES):		
Transfers from other funds	109,551	109,551
Transfers to other funds		-
	109,551	109,551
TOTAL OTHER FINANCING SOURCES (USES)		
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	(25,433)	(25,433)
FUND BALANCE - JULY 1	95,999	95,999
PRIOR PERIOD ADJUSTMENT		-
FUND BALANCE - JUNE 30	\$ 70,566	\$ 70,566

**SANDUSKY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES
YEAR ENDED JUNE 30, 2007**

	ACTUAL
REVENUE FROM LOCAL SOURCES:	
Property Tax	\$ 1,180,878
Interest income	76,522
Tuition and fees	-
Rental of building	61,316
Transfer from Student Activities	22,015
Other	81,867
TOTAL REVENUE FROM LOCAL SOURCES	1,422,598
 REVENUE FROM STATE SOURCES:	
State aid	7,991,233
At risk	270,190
Preschool program	118,800
Special education	225,868
TOTAL REVENUE FROM STATE SOURCES	8,606,091
 REVENUE FROM FEDERAL SOURCES:	
Title I	201,406
Title VI	-
IDEA Project #060450-0506	58,000
Title II	74,901
Title V	2,006
Other Federal Grants	26,677
TOTAL REVENUE FROM FEDERAL SOURCES	362,990
 OTHER FINANCING SOURCES	
Transfers from Other Funds	-
Sale of Fixed Assets	1,950
Transfers from Other Districts	25,754
TOTAL REVENUE FROM OTHER FINANCING SOURCES	27,704
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 10,419,383

SANDUSKY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2007

	ACTUAL
INSTRUCTION:	
Basic Programs:	
Elementary:	
Professional Salaries	\$ 1,215,648
Non-Professional Salaries	64,868
Insurance Benefits	330,248
FICA, Retirement, Etc.	322,570
Purchased Services	10,386
Supplies	25,660
Capital Outlay	2,178
Miscellaneous	1,879
Total Elementary	1,973,437
Middle School:	
Professional Salaries	927,396
Non-Professional Salaries	19,303
Insurance Benefits	246,467
FICA, Retirement, Etc.	239,222
Purchased Services	12,513
Supplies	11,953
Capital Outlay	73
Miscellaneous	2,554
Total Middle School	1,459,481
High School:	
Professional Salaries	1,023,631
Non-Professional Salaries	17,907
Insurance Benefits	302,704
FICA, Retirement, Etc.	262,735
Purchased Services	33,845
Supplies	46,273
Capital Outlay	3,990
Miscellaneous	3,301
Total High School	1,694,386

SANDUSKY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2007

	ACTUAL
INSTRUCTION, (Continued):	
Basic Programs, (Continued):	
Pre-School Program:	
Professional Salaries	\$ 45,503
Non-Professional Salaries	21,829
Insurance Benefits	38,219
FICA, Retirement, Etc.	16,368
Purchased Services	1,079
Supplies	1,450
Capital Outlay	135
Total Pre-School Program	124,583
Total Basic Programs	5,251,887
Added Needs:	
Special Education:	
Professional Salaries	370,301
Non-Professional Salaries	83,397
Insurance Benefits	175,474
FICA, Retirement, Etc.	113,409
Purchased Services	15,624
Supplies	1,750
Capital Outlay	-
Total Special Education & Speech Therapy	759,955
Compensatory Education:	
Professional Salaries	62,384
Non-Professional Salaries	165,677
Insurance Benefits	207,067
FICA, Retirement, Etc.	54,508
Purchased Services	1,930
Supplies	5,268
Total Compensatory Education	496,834
Total Added Needs	1,256,789
TOTAL INSTRUCTION:	6,508,676

SANDUSKY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2007

	ACTUAL
SUPPORTING SERVICES:	
Student Services:	
Professional Salaries	\$ 325,411
Non-Professional Salaries	27,676
Insurance Benefits	104,245
FICA, Retirement, Etc.	89,061
Purchased Services	14,908
Supplies	5,692
Total Student Services	566,993
Instructional Support:	
Professional Salaries	34,137
Non-Professional Salaries	47,599
Insurance Benefits	60,281
FICA, Retirement, Etc.	19,618
Purchased Services	1,981
Supplies	14,346
Capital Outlay	615
Total Instructional Support	178,577
General Administration:	
Professional Salaries	112,881
Insurance Benefits	17,052
FICA, Retirement, Etc.	51,462
Purchased Services	37,368
Supplies	3,200
Miscellaneous	6,151
Total General Administration	228,114
School Administration:	
Professional Salaries	184,388
Non-Professional Salaries	88,761
Insurance Benefits	79,410
FICA, Retirement, Etc.	67,323
Purchased Services	139,247
Supplies	12,939
Total School Administration	572,068

SANDUSKY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2007

	ACTUAL
SUPPORTING SERVICES, (Continued):	
Business Administration:	
Non-Professional Salaries	\$ 24,132
Insurance Benefits	6,112
FICA, Retirement, Etc.	6,106
Purchased Services	102,923
Supplies	2,963
Miscellaneous	69,368
	211,604
Total Business Administration	211,604
Operations & Maintenance:	
Professional Salaries	45,763
Non-Professional Salaries	277,118
Insurance Benefits	157,791
FICA, Retirement, Etc.	83,250
Purchased Services	174,379
Supplies	458,443
Capital Outlay	28,992
Miscellaneous	50
	1,225,786
Total Operations & Maintenance	1,225,786
Pupil Transportation:	
Professional Salaries	39,262
Non-Professional Salaries	255,287
Insurance Benefits	146,346
FICA, Retirement, Etc.	77,361
Purchased Services	18,859
Supplies	147,987
Capital Outlay	946
Miscellaneous	380
	686,428
Total Pupil Transportation	686,428

SANDUSKY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2007

	ACTUAL
SUPPORTING SERVICES, (Continued):	
Other Support Services:	
Non-Professional Salaries	\$ 16,499
Insurance Benefits	-
FICA, Retirement, Etc.	4,308
Purchased Services	10,669
Supplies	11,091
Capital Outlay	26,320
Total Other Support Services	68,887
TOTAL SUPPORTING SERVICES	3,738,457
COMMUNITY SERVICES:	
Professional Salaries	-
Non-Professional Salaries	5,901
FICA, Retirement, Etc.	1,493
Purchased Services	-
Supplies	18
TOTAL COMMUNITY SERVICES	7,412
OTHER FINANCING USES:	
Transfers to Other Funds	247,214
Purchase of Land	4,639
Interest on Purchase of Land	7,043
Payments on Loans	-
TOTAL OTHER FINANCING USES	258,896
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 10,513,441

SANDUSKY COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
 June 30, 2007

	FOOD SERVICES	ATHLETICS	COMBINED
<u>ASSETS</u>			
Cash in bank	\$ 68,365	\$ 262	\$ 68,627
Accounts Receivable	3,272	-	3,272
Due from other funds	3,927	-	3,927
Due from other governmental units	-	-	-
Inventory	-	-	-
	\$ 75,564	\$ 262	\$ 75,826
TOTAL ASSETS	\$ 75,564	\$ 262	\$ 75,826
 <u>LIABILITIES & FUND BALANCE</u>			
LIABILITIES:			
Accounts Payable	\$ 4,998		\$ 4,998
Due to other funds	-	\$ 262	262
	4,998	262	5,260
TOTAL LIABILITIES	4,998	262	5,260
 FUND BALANCE	 70,566	 \$ -	 70,566
TOTAL LIABILITIES & FUND BALANCE	\$ 75,564	\$ 262	\$ 75,826

SANDUSKY COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
June 30, 2007

	<u>FOOD SERVICES</u>	<u>ATHLETICS</u>	<u>COMBINED</u>	<u>COMBINED BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES:					
Local Sources:					
Sale of meals & milk	\$ 246,543		\$ 246,543		
Admissions		\$ 68,375	68,375		
Interest	4,185	57	4,242		
Sale of supplies			-		
Other	6,499	-	6,499	\$ -	\$ -
Total Local Sources	<u>257,227</u>	<u>68,432</u>	<u>325,659</u>	<u>320,291</u>	<u>5,368</u>
State Sources:					
State Lunch Aid	45,165		45,165		
Other	-		-		
Total State Sources	<u>45,165</u>	<u>-</u>	<u>45,165</u>	<u>46,447</u>	<u>(1,282)</u>
Federal Sources:					
National School Lunch Program	299,440		299,440		
USDA Commodities	14,165		14,165		
Total Federal Sources	<u>313,605</u>	<u>-</u>	<u>313,605</u>	<u>302,387</u>	<u>11,218</u>
TOTAL REVENUE	<u>615,997</u>	<u>68,432</u>	<u>684,429</u>	<u>669,125</u>	<u>15,304</u>
EXPENDITURES:					
School Service Activities:					
Non-Professional Salaries	122,043	114,937	236,980		
Insurance Benefits	101,455	-	101,455		
FICA, Retirement, Etc.	29,099	23,869	52,968		
Purchased Services	88,365	9,043	97,408		
Supplies & other costs	292,679	30,134	322,813		
Capital Outlay	7,789	-	7,789		
TOTAL EXPENDITURES	<u>641,430</u>	<u>177,983</u>	<u>819,413</u>	<u>808,545</u>	<u>(10,868)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(25,433)</u>	<u>(109,551)</u>	<u>(134,984)</u>	<u>(139,420)</u>	<u>4,436</u>
OTHER FINANCING SOURCES (USES):					
Transfers from General Fund	-	109,551	109,551		
Transfers to General Fund	-	-	-		
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>109,551</u>	<u>109,551</u>	<u>110,732</u>	<u>(1,181)</u>
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	<u>(25,433)</u>	<u>-</u>	<u>(25,433)</u>	<u>\$ (28,688)</u>	<u>\$ 3,255</u>
FUND BALANCE - JULY 1	<u>95,999</u>	<u>-</u>	<u>95,999</u>		
FUND BALANCE - JUNE 30	<u>\$ 70,566</u>	<u>\$ -</u>	<u>\$ 70,566</u>		

SANDUSKY COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
 June 30, 2007

	<u>2000 DEBT SERVICE</u>	<u>2004 DEBT SERVICE</u>	<u>DURANT DEBT SERVICE</u>	<u>QZAB DEBT SERVICE</u>	<u>TOTAL DEBT SERVICE</u>
<u>ASSETS</u>					
Cash in bank	\$ 61,753	\$ 211,104	\$ -		\$ 272,857
Investments	-	-	-	\$ 825,978	825,978
Taxes Receivable	14	73	-	-	87
TOTAL ASSETS	<u>\$ 61,767</u>	<u>\$ 211,177</u>	<u>\$ -</u>	<u>\$ 825,978</u>	<u>\$ 1,098,922</u>
<u>LIABILITIES & FUND BALANCE</u>					
Reserved for debt service	<u>\$ 61,767</u>	<u>\$ 211,177</u>	<u>\$ -</u>	<u>\$ 825,978</u>	<u>\$ 1,098,922</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 61,767</u>	<u>\$ 211,177</u>	<u>\$ -</u>	<u>\$ 825,978</u>	<u>\$ 1,098,922</u>

SANDUSKY COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2007

	<u>2000 DEBT SERVICE</u>	<u>2004 DEBT SERVICE</u>	<u>DURANT DEBT SERVICE</u>	<u>QZAB DEBT SERVICE</u>	<u>TOTAL DEBT SERVICE</u>
REVENUES FROM LOCAL SOURCES:					
Local Sources:					
Current tax levy	\$ 142,930	\$ 749,925			\$ 892,855
Miscellaneous	5	10			15
Interest on investments	3,464	17,648			21,112
Total Local Sources	146,399	767,583	-	-	913,982
State Sources			-		-
TOTAL REVENUES	<u>146,399</u>	<u>767,583</u>	<u>-</u>	<u>-</u>	<u>913,982</u>
EXPENDITURES:					
Bond principal	50,000	545,000	-		595,000
Bond interest	97,163	283,073	-		380,236
Bond fees and charges	300	250	-		550
Tax abatement	1,789	541	-		2,330
TOTAL EXPENDITURES	<u>149,252</u>	<u>828,864</u>	<u>-</u>	<u>-</u>	<u>978,116</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENDITURES	(2,853)	(61,281)	-		(64,134)
OTHER FINANCING SOURCES (USES):					
Transfer from other funds	-	-	-	\$ 137,663	137,663
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>137,663</u>	<u>137,663</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	(2,853)	(61,281)	-	137,663	73,529
FUND BALANCE - JULY 1	<u>64,620</u>	<u>272,458</u>	<u>-</u>	<u>-</u>	<u>337,078</u>
PRIOR PERIOD ADJUSTMENT				688,315	688,315
FUND BALANCE - JUNE 30	<u>\$ 61,767</u>	<u>\$ 211,177</u>	<u>\$ -</u>	<u>\$ 825,978</u>	<u>\$ 1,098,922</u>

SANDUSKY COMMUNITY SCHOOLS
AGENCY FUND
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND LIABILITIES
YEAR ENDED JUNE 30, 2007

	<u>BALANCE</u> <u>JUNE 30,</u> <u>2006</u>	<u>CASH</u> <u>RECEIPTS</u>	<u>CASH</u> <u>DISBURSEMENTS</u>	<u>BALANCE</u> <u>JUNE 30,</u> <u>2007</u>
STUDENT ACTIVITIES:				
Academic Games	\$ 109			\$ 109
AP Social Studies	-			-
Art Fund	2,294	\$ 2,925	\$ 2,795	2,424
Band	1,192	1,532	2,184	540
Baseball	213	425	425	213
Basketball	3,196	8,180	6,682	4,694
Brick Garden Fund	1,917	200	56	2,061
Cheerleaders	2,858	3,338	3,018	3,178
Class of 2007	1,273	2,793	3,985	81
Class of 2008	1,730	8,918	7,099	3,549
Class of 2009	916	610	175	1,351
Class of 2010	-	1,660	35	1,625
Drama Fund	5,375	2,195	2,152	5,418
Elementary Fund	17,963	57,323	63,823	11,463
Equestrian Team	161	861	969	53
Football	211	16,349	15,095	1,465
Girls Basketball	1,260	7,194	5,666	2,788
Girls Soccer Club	135	313	416	32
Golden Apple	5,560	-	5,560	-
HS Fund	1,251	7,489	3,745	4,995
HS Gift Shop	252	660	621	291
HS Pop Fund	3,459	3,846	7,305	-
HS Student Council	909	492	657	744
JRN Scholarship Fund	1,734	500	-	2,234
Library	5,635	1,344	-	6,979
MV Accelerated Reader	234	500	733	1
MV Fourth Grade	3,226	21,017	20,768	3,475
MV Library	-	-	-	-
MV Music Program	194	480	519	155
MS Activities	388	-	-	388
MS Builders Club	242	361	302	301
MS Drama Club	326	2,512	2,054	784
MS Fund	7,973	7,569	5,168	10,374
MS Library	2,332	8,196	8,381	2,147
MS Quiz Bowl	469	114	249	334

SANDUSKY COMMUNITY SCHOOLS
AGENCY FUND
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND LIABILITIES
YEAR ENDED JUNE 30, 2007

	<u>BALANCE</u> <u>JUNE 30,</u> <u>2006</u>	<u>CASH</u> <u>RECEIPTS</u>	<u>CASH</u> <u>DISBURSEMENTS</u>	<u>BALANCE</u> <u>JUNE 30,</u> <u>2007</u>
STUDENT ACTIVITIES (Continued):				
MS Science Olympiad	\$ 370	\$ 556	\$ 770	\$ 156
MS Social Studies Olympics	389	128	214	303
MS Student Council	1,740	4,605	4,582	1,763
MS Tech Committee	2,298	124	-	2,422
MS Technology	903	-	50	853
MS Travel Club	4,444	14,320	17,830	934
National Honor Society	237	717	320	634
National Jr. Honor Society	690	1,351	1,311	730
Project Graduation	20	6,034	5,520	534
Public Improvement	300	50	-	350
R.A.I.D.	2,594	-	321	2,273
Ski Club	1,580	6,490	7,412	658
Soccer	369	550	185	734
Softball	9	2,679	1,765	923
Spanish Club	60	-	32	28
Special Education Club	1,057	520	138	1,439
Tennis	91	3,325	3,056	360
Track	-	1,205	598	607
Volleyball	22	5,615	2,785	2,852
Woodshop Club	807	1,887	1,705	989
Wrestling	1,396	3,213	2,773	1,836
Yearbook	1,646	18,302	11,927	8,021
TOTAL STUDENT ACTIVITIES	<u>\$ 96,009</u>	<u>\$ 241,567</u>	<u>\$ 233,931</u>	<u>\$ 103,645</u>

SANDUSKY COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT - DURANT BONDS
 June 30, 2007

\$154,111 Durant Bond issued November 24, 1998:

PRINCIPAL DUE MAY 15	INTEREST DUE MAY 15	DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
		JUNE 30	AMOUNT
-	-	2007	-
-	-	2008	-
\$ 8,576	\$ 2,246	2009	\$ 10,822
52,818	19,894	2010	72,712
9,413	1,409	2011	10,822
9,860	961	2012	10,821
10,329	492	2013	10,821
<u>\$ 90,996</u>	<u>\$ 25,002</u>		<u>\$ 115,998</u>

The above bond issue bears interest at 4.7613%.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the School Aid Payments directly to the Authority's Depository.

SANDUSKY COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
2000 SCHOOL BUILDING AND SITE BONDS
June 30, 2007

Purpose of Issue: Erecting, furnishing and equipping additions to Maple Valley Elementary and developing and improving athletic fields and facilities, parking and other site improvements. The bonds were issued July 26, 2000 in the amount of \$2,065,000 bearing interest rates varying from 5.00% to 5.50%.

<u>DUE DATE</u>	<u>PRINCIPAL</u>	<u>RATES</u>	<u>INTEREST DUE</u>	<u>PAYMENT DUE</u>
11/1/2007			\$ 47,331	\$ 47,331
5/1/2008	\$ 55,000	5.125	47,331	102,331
11/1/2008			45,922	45,922
5/1/2009	65,000	5.125	45,922	110,922
11/1/2009			44,256	44,256
5/1/2010	70,000	5.200	44,256	114,256
11/1/2010			42,436	42,436
5/1/2011	80,000	5.200	42,436	122,436
11/1/2011			40,356	40,356
5/1/2012	85,000	5.200	40,356	125,356
11/1/2012			38,146	38,146
5/1/2013	100,000	5.200	38,146	138,146
11/1/013			35,546	35,546
5/1/014	120,000	5.300	35,546	155,546
11/1/2014			32,366	32,366
5/1/2015	140,000	5.300	32,366	172,366
11/1/2015			28,656	28,656
5/1/2016	175,000	5.375	28,656	203,656
11/1/2016			23,953	23,953
5/1/2017	175,000	5.375	23,953	198,953
11/1/2017			19,250	19,250
5/1/2018	175,000	5.500	19,250	194,250
11/1/2018			14,438	14,438
5/1/2019	175,000	5.500	14,438	189,438
11/1/2019			9,625	9,625
5/1/2020	175,000	5.500	9,625	184,625
11/1/2020			4,812	4,812
5/1/2021	175,000	5.500	4,812	179,812
TOTAL	\$ 1,765,000		\$ 854,186	\$ 2,619,186

SANDUSKY COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
2001 ENERGY CONSERVATION IMPROVEMENT BONDS
June 30, 2007

The Energy Conservation Improvement Bonds were issued June 1, 2001 in the amount of \$1,789,620 with an interest rate of 0.00%.

<u>PRINCIPAL DUE</u> <u>JUNE 1</u>	<u>INTEREST DUE</u>	<u>DEBT SERVICE REQUIREMENT</u> <u>FOR FISCAL YEAR</u>	
	<u>JUNE 1</u>	<u>JUNE 30</u>	<u>AMOUNT</u>
-	-	2008	-
-	-	2009	-
-	-	2010	-
-	-	2011	-
-	-	2012	-
-	-	2013	-
<u>\$ 1,789,620</u>	<u>-</u>	2014	<u>\$ 1,789,620</u>
<u><u>\$ 1,789,620</u></u>	<u><u>\$ -</u></u>		<u><u>\$ 1,789,620</u></u>

SANDUSKY COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
2004 REFUNDING BONDS
June 30, 2007

Purpose of Issue: To refund all of the District's outstanding 1994 Bonds, dated January 12, 1994, which are and payable May 1, 2005 through May1, 2021. The bonds were issued January 21, 2004 in the amount of \$9,845,000 bearing interest rates varying from 2.000% to 4.125%.

<u>DUE DATE</u>	<u>PRINCIPAL</u>	<u>RATES</u>	<u>INTEREST DUE</u>	<u>PAYMENT DUE</u>
11/1/2007			\$ 136,086	\$ 136,086
5/1/2008	\$ 555,000	2.000	136,086	691,086
11/1/2008			130,536	130,536
5/1/2009	560,000	2.200	130,536	690,536
11/1/2009			124,376	124,376
5/1/2010	570,000	2.450	124,376	694,376
11/1/2010			117,394	117,394
5/1/2011	580,000	2.700	117,394	697,394
11/1/2011			109,564	109,564
5/1/2012	595,000	3.000	109,564	704,564
11/1/2012			100,639	100,639
5/1/2013	605,000	3.150	100,639	705,639
11/1/013			91,110	91,110
5/1/014	610,000	3.350	91,110	701,110
11/1/2014			80,892	80,892
5/1/2015	620,000	3.500	80,893	700,893
11/1/2015			70,043	70,043
5/1/2016	615,000	3.650	70,042	685,042
11/1/2016			58,819	58,819
5/1/2017	600,000	3.800	58,819	658,819
11/1/2017			47,419	47,419
5/1/2018	590,000	4.000	47,419	637,419
11/1/2018			35,619	35,619
5/1/2019	595,000	4.000	35,619	630,619
11/1/2019			23,719	23,719
5/1/2020	585,000	4.125	23,719	608,719
11/1/2020			11,653	11,653
5/1/2021	<u>565,000</u>	4.125	<u>11,653</u>	<u>576,653</u>
TOTAL	<u>\$ 8,245,000</u>		<u>\$ 2,275,738</u>	<u>\$ 10,520,738</u>



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

August 23, 2007

Board of Education
Sandusky Community Schools
Sandusky, Michigan 48471

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sandusky Community Schools as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements of the District's primary government and have issued our report thereon dated August 23, 2007. Our opinion is for the primary government only and not for the primary reporting entity. 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 Controller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sandusky 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 the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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 in the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiencies described as 2007-1 in the accompanying schedule of findings and responses to be significant in internal control over financial reporting.

Board of Education
Sandusky Community Schools
August 23, 2007

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be presented 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 deficiencies described above as 2007-1 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sandusky 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*.

We noted certain matters that we reported to management of Sandusky Community Schools in a separate letter dated August 23, 2007.

Sandusky Community Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and response. We did not audit Kinston Community Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of education, management, U.S. Department of Education, Michigan Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Education
Sandusky Community School
Sandusky, MI 48471

Schedule of Findings and Responses

Finding 2007-1

Criteria:

Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition:

After considering the qualifications of the accounting personnel of Sandusky Community Schools, we believe that the personnel have the abilities to maintain the day-to-day bookkeeping of the School District, but they do not have the qualifications and abilities to generate financial statements, including required footnotes, in accordance with accounting principles generally accepted in the United States of America.

Cause:

The staff of the district does understand all information included in the annual financial statements; however, we assist in preparing the financial statements and related footnotes.

Effect:

We assist management with the external financial reporting responsibility to ensure their financial statements are accurate.

Recommendation:

We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

Client Response:

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

SANDUSKY COMMUNITY SCHOOL DISTRICT

ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133

YEAR ENDED JUNE 30, 2007

CONTENTS

	<u>Page Number</u>
<i>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</i>	1 & 2
<i>Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.</i>	3 & 4
<i>Schedule of Expenditures Of Federal Awards</i>	5 & 6
<i>Notes to schedule of expenditures of federal awards</i>	7
<i>Schedule of Findings and Questioned Costs</i>	8 & 9
<i>Schedule of Prior Audit Findings</i>	10
<i>Corrective Action Plan</i>	11



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

August 23, 2007

To the Board of Education
Sandusky Community Schools
Sandusky, MI 48471

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sandusky Community Schools as of and for the year ended June 30, 2007, which collectively comprise Sandusky Community Schools basic financial statements and have issued our report thereon dated August 23, 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 Sandusky 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 the Sandusky Community School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Sandusky 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 over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be 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 control. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of 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 described above as 2007-1 we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Sandusky 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*.

We noted certain matters that we reported to management of Sandusky Community Schools in a separate letter dated August 23, 2007.

Sandusky Community Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Sandusky Community Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of education, management, U.S. Department of Education, Michigan Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
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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**

August 23, 2007

To the Board of Education
Sandusky Community Schools
Sandusky, MI 48471

COMPLIANCE

We have audited the compliance of Sandusky 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 its major federal program for the year ended June 30, 2007. Sandusky Community Schools' major federal program is identified in the summary of auditors' 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 Sandusky Community Schools' management. Our responsibility is to express an opinion on Sandusky 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 Controller 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 Sandusky 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 of Sandusky Community Schools' compliance with those requirements.

In our opinion, Sandusky Community Schools complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

INTERNAL CONTROL OVER COMPLIANCE

The management of Sandusky 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 Sandusky 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, but not for the purpose of expressing an opinion on the effectiveness of the Sandusky Community Schools' internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

To the Board of Education
August 23, 2007

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

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

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 to be material weaknesses, as defined above.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sandusky Community Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated August 23, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Sandusky Community Schools basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such 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.

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

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**

SANDUSKY COMMUNITY SCHOOLS, SANDUSKY, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ <u>PROGRAM TITLE</u>	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 6/30/2006	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE 6/30/2007
U.S. DEPARTMENT OF EDUCATION:								
Passed through Michigan Dept. of Education:								
ECIA Title I	84.010	071530 0607	\$ 210,562			\$ 197,798	\$ 197,798	\$ -
ECIA Title I, Carryover	84.010	061530 0607	3,608			3,608	3,608	-
Title II A	84.367	070520 0607	72,643			72,643	72,643	-
Title V - Part A	84.298	070250 0607	2,006			2,006	2,006	-
Technology Literacy Challenge Grant	84.318	074290 0607	2,258			2,258	2,258	-
TOTAL U.S. DEPARTMENT OF EDUCATION						278,313	278,313	-
TRANSFERS FROM OTHER GOVERNMENTAL UNITS:								
Sanilac Intermediate School District								
IDEA - Flowthrough	84.027	070450-0607	58,000			58,000	58,000	
Tech Prep	84.048	073540-0607	425			425	425	
Tuscola Intermediate School District:								
Drug-free Grant	84.186	062860/0407	173			173	173	
Drug-free Grant	84.186	072860/0607	2,819			2,819	2,819	
Michigan State Police								
PeNut Grant	10.561		916			916	916	
TOTAL TRANSFERS FROM OTHER GOVERNMENTAL UNITS						62,333	62,333	-

SANDUSKY COMMUNITY SCHOOLS, SANDUSKY, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ <u>PROGRAM TITLE</u>	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 6/30/2006	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE 6/30/2007
U.S. DEPARTMENT OF AGRICULTURE:								
Passed through Michigan Dept. of Education:								
National School Lunch Program	10.555		\$ 214,116			\$ 214,116	214,116	
Food Distribution Entitlement	10.550		14,146		14,146	14,146		
Food Distribution Bonus	10.550		19		19	19		
National School Lunch & Breakfast Program	10.553		81,032		81,032	81,032		
Headstart Program	10.558		4,292		4,292	4,292		
TOTAL U.S. DEPARTMENT OF AGRICULTURE			313,605		313,605	313,605		
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES								
Passed through Northeast Michigan Community Services Agency, Inc. (NEMSCA)								
Head Start			22,344		22,344	22,344		
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 689,359	\$ -	\$ 676,595	\$ 676,595		\$ -

The accompanying notes are an integral part of this schedule.

**SANDUSKY COMMUNITY SCHOOL DISTRICT, SANDUSKY, MICHIGAN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

NOTES:

1. Basis of Presentation – The accompanying schedule of expenditures of federal awards includes the grant activity of Sandusky Community Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. Title I (CFDA number 84.010) was audited as a major program representing 29.77% of federal expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000. This schedule was prepared on the modified accrual basis of accounting.
4. Management has utilized the Grant Section Auditor's Report (form R7120) and the Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the financial statements:

General Fund	\$362,990
Special Revenue Fund	<u>313,605</u>
Total per financial statements	<u>\$676,595</u>
Total expenditures per the SEFA	<u>\$676,595</u>

**SANDUSKY COMMUNITY SCHOOL DISTRICT, SANDUSKY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE 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 No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

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

Type of auditor’s report issued on compliance for major programs: *Unqualified*

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I

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

Auditee qualified as low-risk auditee? Yes No

**SANDUSKY COMMUNITY SCHOOL DISTRICT, SANDUSKY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Section II – Financial Statement Findings

Findings considered material weaknesses

Finding 2007-1

Criteria:

Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition:

After considering the qualifications of the accounting personnel of Sandusky Community Schools, we believe that the personnel have the abilities to maintain the day-to-day bookkeeping of the School District, but they do not have the qualifications and abilities to generate financial statements, including required footnotes, in accordance with accounting principles generally accepted in the United States of America.

Cause:

The staff of the district does understand all information included in the annual financial statements; however, we assist in preparing the financial statements and related footnotes.

Effect:

We assist management with the external financial reporting responsibility to ensure their financial statements are accurate.

Recommendation:

We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

Client Response:

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

Section III – Federal Award Findings and Questioned Costs

None

**SANDUSKY COMMUNITY SCHOOL DISTRICT, SANDUSKY, MICHIGAN
SCHEDULE OF PRIOR AUDIT FINDINGS**

There were no prior year audit findings for the year ended June 30, 2006.

**SANDUSKY COMMUNITY SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
AUGUST 23, 2007**

Sandusky Community School District respectfully submits the following corrective action plan for the year ended June 30, 2007.

Auditor: Anderson, Tuckey, Bernhardt & Doran, PC
715 E Frank St
Caro, MI 48723

Audit Period: Year ended June 30, 2007

The findings from the June 30, 2007 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

Finding – Financial statement audit

Material weakness 2007-01.

Recommendation: We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

Action to be taken: We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

August 23, 2007

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

To the Board of Education
Sandusky Community Schools
Sandusky, Michigan

In planning and performing our audit of the financial statements of Sandusky Community Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Sandusky Community School's internal control.

Our consideration of internal control 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, during our audit we noted a certain matter involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated August 23, 2007 on the financial statements of Sandusky Community Schools. Our comments are summarized as follows:

Adjusting Journal Entries

As part of the School's normal accounting procedures, adjusting journal entries may be required to correct prior entries, reclassify revenues and expenditures or any of a number of other reasons. These adjusting journal entries do not go through the same approval process that is in place for a check or a deposit. We recommend that a procedure be established that would require approval for all adjusting journal entries.

We will review the status of this comment during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss this comment in further detail at your convenience.

This report is intended solely for the information and use of Sandusky Community Schools, management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Anderson, Tuckey, Bernhardt & Doran, P.C.

Anderson, Tuckey, Bernhardt & Doran, P.C.
Certified Public Accountants