

**CARO COMMUNITY SCHOOLS**

Caro, Michigan

**REPORT ON FINANCIAL STATEMENTS**

(with required supplementary and  
additional information)

June 30, 2007

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August 24, 2007

**INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Caro Community Schools  
Caro, Michigan 48723

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Caro 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 Caro Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Caro 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 24, 2007, on our consideration of Caro 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 conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages *i* through *xiv* and page 21, 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 it.

Board of Education  
Caro Community Schools  
August 24, 2007

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Caro Community Schools' basic financial statements. The combining and individual nonmajor fund financial statements and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

# Caro Community Schools

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## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2007

This section of the 2007 annual financial report presents our discussion and analysis of the School District's financial performance during the school year ended 2007. The intent of this discussion and analysis is to provide, in layman's terms, a look at the district's performance and past and current position. Readers should also review the transmittal letter, notes to the financial statements and financial statements to enhance their understanding of the district's financial performance.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management Discussion and Analysis (MD&A) – for State and Local Governments issued in June of 2000. This is our fifth year of implementation so certain comparative information between the current year and the prior year is required to be presented in the MD&A. Our district has met those requirements to our knowledge.

### Using this Annual Report

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplemental information. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district's budget for the year.

### Financial Section

- **Basic Financial Statements**
  - District-wide Financial Statements
  - Fund Financial Statements
  - Fiduciary Fund
  - Notes to Financial Statements
- **Required Supplemental Information**
  - Budgetary Comparison Schedules

# Caro Community Schools

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## Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2007

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

The district-wide financial statements are new to our district. One of the most frequent and important question asked about our School District is, "As a whole, what is the School District's financial condition as a result of this year's activities?" The first two statements in the School District's financial statements are the Statement of net assets and the statement of activities. These two statements report information on the School District as a whole because they include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Caro Community School District's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The School District's operating results come from the relationship between the revenues and expenses. Our School District's goal is not to generate profits, as do commercial entities, but is to provide services to our students. To assess the overall health of the School District, there are many non-financial factors such as the quality of education provided, along with the safety of our schools.

In the District-wide statements, the district's activities are classified as governmental activities. The District's activities include regular and special education, support services, community services, transportation, food service, and athletics. Property taxes, State aid, State and Federal grants finance most of these activities.

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

The fund financial statements do not report the School District as a whole; instead the fund financial statements provide detailed information about the District's most significant funds. The School District establishes funds that comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." The General Fund is the District's major fund, which includes the instructional student and instructional support activities. There are additional funds that the School District also establishes to help it control and manage money for particular purposes, such as the Athletic Funds, Food Services Funds, Student Activities Funds and Debt Funds. Funds need to be established to show that it's meeting legal responsibilities for certain taxes, grants, and other money including the 2005 Bond Issue, which funded the construction for voter-approved capital projects like the new Middle School wing along with renovations and technology upgrades in it and all other schools. The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using the modified accrual method of accounting, which measures cash and all

# Caro Community Schools

## Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2007

other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future to finance the School District's programs

In the fund financial statements, capital asset purchases are reported as expenditures in the year of acquisition. No asset is 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. Future year's debt obligations are not recorded.

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

The School District acts as the trustee for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. These activities are excluded from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### **Financial Analysis of the School District as a Whole**

The statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2007.

Table 1 Condensed Statement of Net Assets	Governmental Activities 2006	Governmental Activities 2007
Current assets	\$ 19,505,134.	9,348,664.
Capital assets	<u>9,526,561.</u>	<u>18,726,059.</u>
<b>Total assets</b>	<b><u>29,031,695.</u></b>	<b><u>28,074,723.</u></b>
Current liabilities	4,251,656.	3,002,393.
Noncurrent liabilities	<u>16,822,062.</u>	<u>17,269,861.</u>
<b>Total liabilities</b>	<b><u>21,073,718.</u></b>	<b><u>20,272,254.</u></b>
<b>Net assets</b>		
Invested in capital assets – Net of related debt	(7,044,625).	1,662,005.
Restricted	13,313,950.	4,873,425.
Unrestricted	<u>1,688,652.</u>	<u>1,267,039.</u>
<b>Total net assets</b>	<b><u>7,957,976.</u></b>	<b><u>7,802,469.</u></b>
<b>Total Net Assets and Liabilities</b>	<b><u>29,031,695.</u></b>	<b><u>28,074,723.</u></b>

# Caro Community Schools

## Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2007

The statement of activities shows the results of this year's operations for Caro Community Schools as a whole. Table 2 shows the changes in net assets of the School District as of June 30, 2006 and June 30, 2007

<b>Table 2</b>		
<b>Statement of Net Assets from Operating Results</b>		
	<b>Governmental Activities</b>	
	<b>2006</b>	<b>2007</b>
<b>Revenues</b>		
<b>Program revenues:</b>		
Charges for services	362,438.	376,125.
Operating grants & Other Transactions	937,571.	859,578.
<b>General revenues:</b>		
Property taxes	2,404,481.	2,602,181.
State formula aid	14,190,002.	14,168,039.
Other	<u>957,133.</u>	<u>700,199.</u>
<b>Total revenues</b>	<b><u>18,851,625.</u></b>	<b><u>18,706,122.</u></b>
<b>Expenses</b>		
Instruction	11,209,452.	11,338,681.
Support services	4,561,012.	4,453,858.
Community services	131,643.	165,303.
Land contract interest	39,658.	37,145.
Food Services	615,820.	789,952.
Athletics	421,900.	448,855.
Transfers	-	2,340.
Capital Projects	-	447,534.
Interest on long-term debt	475,826.	486,750.
Unallocated depreciation & Amortization	<u>529,064.</u>	<u>691,211.</u>
<b>Total Expenses</b>	<b><u>17,984,374.</u></b>	<b><u>18,861,629.</u></b>
<b>Increase (Decrease) in Net Assets</b>	<b><u>867,251.</u></b>	<b><u>(155,507.)</u></b>

The beginning net assets of the district were \$7,957,976. The ending net assets were \$7,802,469. The net assets of the District decreased by \$155,507 during 2006/2007 school year. Table 2 shows the breakdown of this change. The Statement of Activities presented later in the government-wide financial statements, provides greater detail on the District's annual activity.

# Caro Community Schools

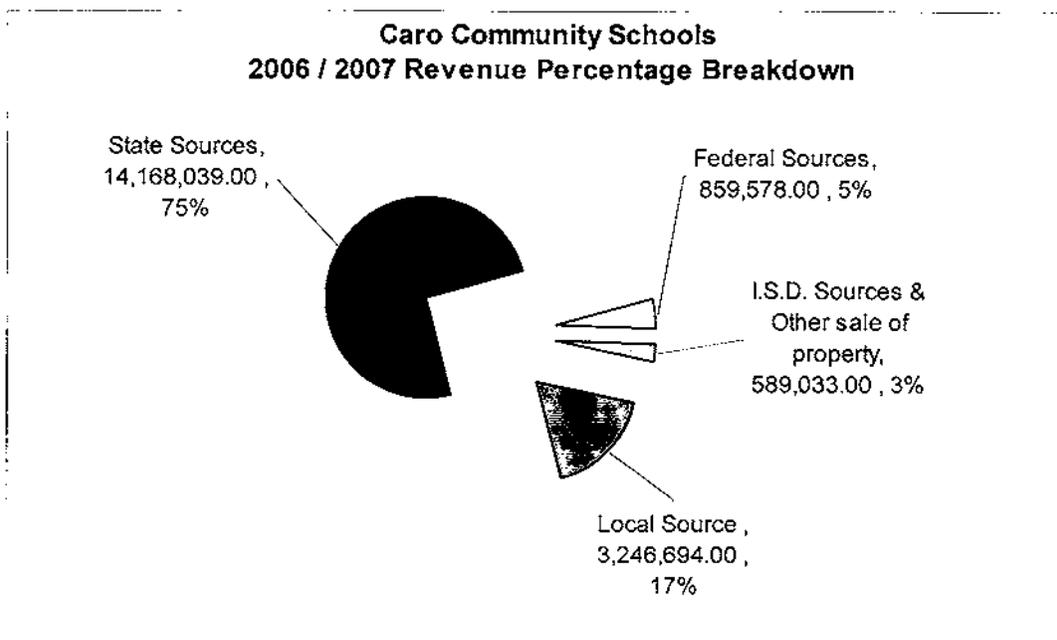
## Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2007

### Financial analysis of the School District's Funds

The District uses funds to help it control and manage money for particular purposes. The reader can look at these funds to help determine whether the Caro Community School District is being held accountable for the resources taxpayers and others provide to it, and it may give them insight in the School District's overall financial health.

Table 3 shows the breakdown of the sources of revenue for the District. A substantial portion (75%) of the District's revenues is received from State sources, which means that the financial stability of the District rests primarily with the economic health of the State of Michigan. The state sources have declined 1% from 2005/2006 and 16% from 2003/2004.

Table 3

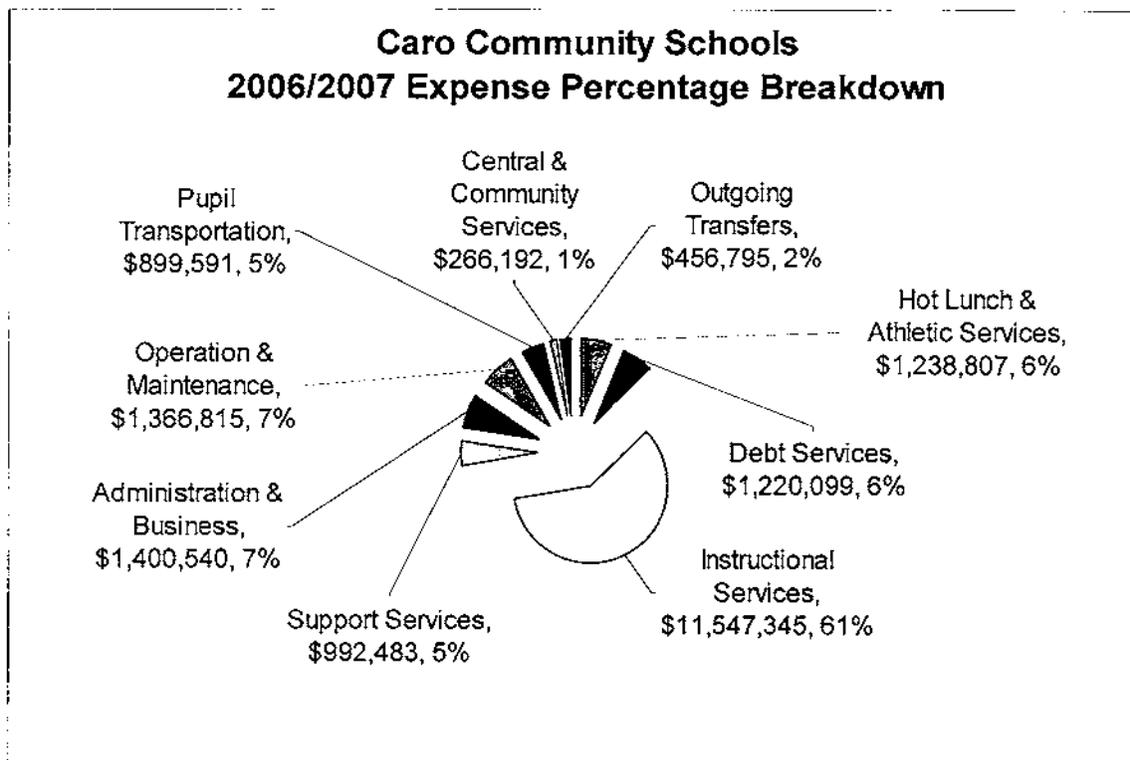


# Caro Community Schools

## Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2007

Table 4 shows that 61% of the District's resources are spent on instruction services. The supporting services were 5%, which are services that are needed for the support of our instructional services. The administration cost along with the business aspect of the district was 7% of the budget. Pupil transportation costs consume 5%, while the operation and maintenance of the district consumes 7% of the expenses. The central and community services program expenses 1% of the budget. This keeps the community informed of the happenings of the district and provides services like the availability of the swimming pool. The 2% for outgoing transfers helps to subsidize the athletic program and short term borrowing costs. The food services and athletic services accounts for 6% of the budget and the remaining 6% of the budget expenses were for the District's debt repayment.

Table 4



### Factors Decreasing Fund Equity

- ◆ *General Fund Equity* – Decrease of \$325,981 is higher than the decrease in 2005/2006 due to reductions in revenue sources and increases in expenditures due to various factors.

# Caro Community Schools

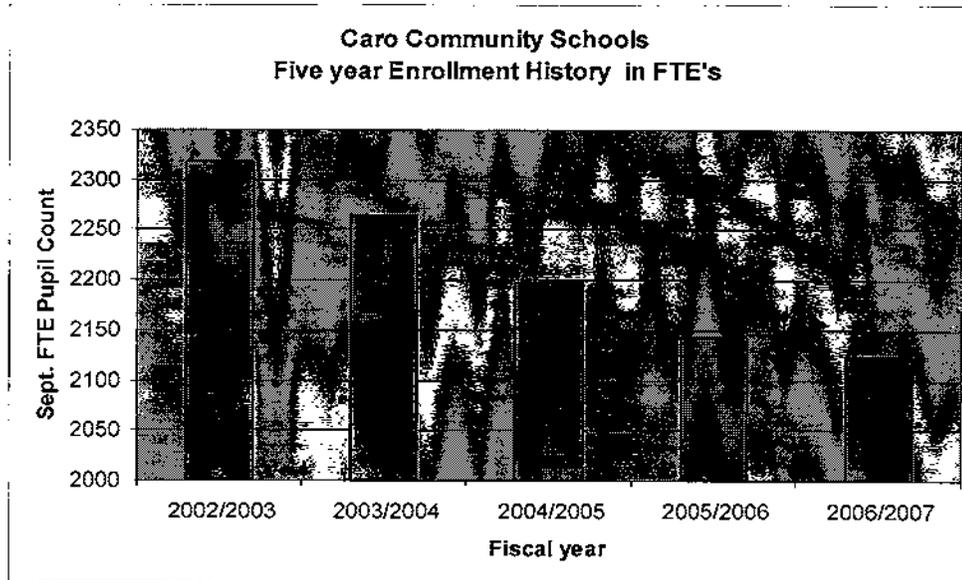
## Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2007

### Factors Decreasing Fund Equity Continued

- ◆ *Delinquent Property Taxes* – We had uncollectible personal property taxes of \$49,800
- ◆ We purchased the property on a land contract for \$650,000 plus 7% interest over a 12 year period in 2003-2004, the 3<sup>rd</sup> payment of \$75,565.86 was paid.
- ◆ *Federal Grants* - decreased by \$59,477
- ◆ *Increase in Contracts and Wages* - for all employees per agreements.
- ◆ *Health benefits* - increased 15%
- ◆ *Gas & Utilities* – higher gas prices means higher transportation costs along with utility costs in all buildings.
- ◆ *Retirement* - increased .38% from 16.34% to 16.72%. The initial retirement rate was 17.74%, in June we were given a retirement credit which lowered the rate to 16.72%.
- ◆ *Student Enrollment in FTE's*  
The chart below shows the steady decline in enrollment for the past 5 years, with a total loss in 5 years of 195 FTE's. There was a decline of 20 students between 2005/2006 beginning school year and the 2006/2007 beginning school year. State aid is calculated at \$7,085 per student, this is a loss of state aid revenue worth \$141,700 for the 2006/2007 school year.

# Caro Community Schools

## Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2007



- ◆ ***Debt Fund Equity*** – Increase of \$882,704...  
The district had less debt due to the refunding of bonds the previous years and increase in taxable values. This increase in equity will be used to pay the upcoming debt for the 2006 School Building & Site Bonds.
  
- ◆ ***Food Service Fund Equity*** – Decrease of \$83,046.  
The cafeteria had capital expenses from the installation of a new walk-in freezer, refrigerator, and storage facility. A new fire protection system was also added. The cost of these additions was approximately \$111,900. The cost was offset by the additional usage of commodities that were made available to the district.

### **Budget vs. Actual**

The General fund had a positive expense budget variance of \$131,338 from a budget amount of \$17,061,097 which is a .77% budget variance. It had a revenue budget variance of \$139,128 from a budget amount of \$16,464,650 which is a .85% budget variance.

# **Caro Community Schools**

## **Management's Discussion and Analysis (Continued) For the 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 July 1, the start of the fiscal year. Over the course of the year, the School District revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. The final amendment to the budget was actually adopted in June, along with the new adopted budget for the upcoming school year.

### **Budget Amendment 2006/2007 and Beginning Budget 2007/2008**

#### **Amended Budget 06/07**

##### Revenues:

- Local Sources: Decrease in local taxes because of final Taxable Value changes.
- State Sources: Decrease in State Sources because of Taxable Value changes due to Renaissance Taxes.
- Federal Sources: Decrease in Federal Grants
- ISD & Transfers: Decrease in services to other districts

##### Expenditures:

- 110 - 1. Curriculum added
- 120 - 1. Decrease in Federal Programs transferred Social Worker to 210
- 130 - 1. No Alternative Learning Center Administrator
- 210 - 1. Added Social Worker from 120
- 260 - 1. Savings on substitute custodians  
2. Savings because of new construction

# **Caro Community Schools**

## **Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2007**

### **Next Years Proposed Budget 07/08**

#### Revenues:

Local Sources: Taxable value 102,947,926 will generate \$1,853,068 in property tax revenues.

State Sources: Remove 07 Senior Class 147 and added 08 Kindergarten class 165

State aid adjusted for new Taxable Values 102,947,926

#### Expenditures:

All contracts increased by steps only.

Retirement increased to 17.74%.

Health Insurance increased by 4.7%.

Curriculum has \$25,000 for additional books.

Utilities increased 10%.

Added \$15,540 for fingerprinting

# Caro Community Schools

## Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2007

This chart shows the budget breakdowns for the beginning, amended 2006-2007 and the Beginning for the 2007-2008 School years.

Caro Community Schools					
General Fund Budgets					
Comparative Revenue and Expense Statement					
Fiscal Years Ended June 30, 2006-2008					
January 8, 2007					
	July Beginning Budget	January Amended Budget	June Amended Budget	Amount of Change From Jan Amended to June. Amended	July Beginning Budget
	2006-2007	2006-2007	2006-2007	2006-2007	2007-2008
<b>Revenues:</b>					
Local Source / 100	1,862,503.00	1,840,422.27	1,780,347.54	(60,074.73)	1,910,128.00
Intermediate Sources / 200	0.00	0.00		0.00	0.00
State Sources / 300	14,316,380.00	14,155,708.42	13,999,295.37	(156,413.05)	14,106,586.00
Federal Sources / 400	660,651.00	545,091.00	486,507.00	(58,584.00)	485,745.00
I.S.D. & Transfers Sources / 500	242,000.00	242,350.00	198,500.00	(43,850.00)	202,500.00
<b>Total Revenues:</b>	<b>\$17,081,534.00</b>	<b>\$16,783,571.69</b>	<b>\$16,464,649.91</b>	<b>(\$318,921.78)</b>	<b>\$16,704,959.00</b>
<b>Expenditures:</b>					
Instruction / 110	8,605,811.00	8,798,960.85	8,863,519.85	64,559.00	9,096,964.00
Special Needs / 120	2,872,436.00	2,422,509.00	2,329,376.01	(93,132.99)	2,102,695.00
Adult Con't Ed / 130	523,669.00	437,761.00	425,369.00	(12,392.00)	399,295.00
Guidance - Speech / 210	463,782.00	488,801.54	586,440.54	97,639.00	597,584.00
Library - Spec Serv / 220	300,958.00	435,188.30	420,297.30	(14,891.00)	421,002.00
Board - Central Admin. / 230	305,731.00	307,399.00	311,119.00	3,720.00	291,094.00
School Administration / 240	973,315.00	945,501.00	931,083.00	(14,418.00)	987,437.00
Fiscal Serv - Business / 250	189,977.00	182,974.00	178,674.00	(4,300.00)	183,883.00
Operation & Maintenance / 260	1,528,525.00	1,489,722.00	1,379,707.00	(110,015.00)	1,405,875.00
Pupil Transportation / 270	1,010,244.00	916,394.00	907,394.00	(9,000.00)	921,544.00
Central Services / 280	98,643.00	101,943.00	98,593.00	(3,350.00)	117,990.00
Community Services / 300	138,083.00	171,040.00	167,125.00	(3,915.00)	172,155.00
Outgoing - Fund Modifications / 400	465,039.00	475,696.68	462,398.94	(13,297.74)	492,854.04
<b>Total Expenditures:</b>	<b>\$17,476,223.00</b>	<b>\$17,173,890.37</b>	<b>\$17,061,096.64</b>	<b>(\$112,793.73)</b>	<b>\$17,190,372.04</b>
<b>Excess Revenues (Exp.)</b>	<b>(\$394,689.00)</b>	<b>(\$390,318.68)</b>	<b>(\$596,446.73)</b>	<b>(\$206,128.05)</b>	<b>(\$485,413.04)</b>
<b>Fund Balance July 01.</b>	<b>2,470,053.89</b>	<b>2,075,364.89</b>	<b>2,470,053.89</b>		<b>1,873,607.16</b>
<b>Fund Balance June 30,</b>	<b>\$2,075,364.89</b>	<b>\$1,685,046.21</b>	<b>\$1,873,607.16</b>		<b>\$1,388,194.12</b>

# **Caro Community Schools**

## **Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2007**

### **Capital Asset and Debt Administration**

#### ***Capital Assets***

As of June 30, 2007, the School District had \$18,554,793 invested in a broad range of capital assets. The District's capital additions for the year are as follows:

Buses (3new, 2 used)	\$ 197,946
Buildings & bldg improvements	112,904
Construction in Process	9,263,456
General Equipment	286,172
Lawn & Maintenance	38,985
Technology	<u>148,084</u>
Total additions	\$ <u>10,047,547</u>

The District's capital assets at year-end are outlined in Table 5.

**Table 5**

<b>Capital Assets</b>	<b>(Net of Depreciation) Governmental Activities</b>	
	<b><u>2006</u></b>	<b><u>2007</u></b>
Buildings	\$ 5,876,183	\$ 14,954,880
Buses	341,831	400,701
General Equipment	1,178,104	1,266,186
HVAC Systems	127,847	120,992
Land	1,045,476	1,045,476
Lawn & Maintenance	16,651	51,983
Playground, Athletic, Site Improvement	226,952	207,239
Portable Classrooms	35,190	0
Technology	<u>478,350</u>	<u>507,336</u>
<b>Total</b>	<b>\$ <u>9,326,584</u></b>	<b>\$ <u>18,554,793</u></b>

The capital assets show an increase from 2006 of \$9,228,209. This is a result of \$662,500 in Depreciation taken on the existing assets, using the Straight-line method of depreciation, \$156,838 of disposals and the current year additions of \$10,047,547.

# **Caro Community Schools**

## **Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2007**

### ***Debt Administration***

As of June 30, 2007 the District had debt on the financial statements for Durant bonds with a remaining balance of \$140,567. These are self-liquidating bonds issued by the State of Michigan to fund a special education lawsuit by Michigan school districts. Payment of principal and interest on the bonds is made directly to the State of Michigan. The District has pledged and assigned to bondholders all rights to state aid payments as security for the bond.

As of June 30, 2007 the District had 2004 general obligation debt on the financial statements for Serial bonds in the amount of \$770,000. These bonds will mature May 1, 2009.

As of June 30, 2007 the District had Series A, 2005 School Building and Site Bonds due in the amount of \$10,490,000. These are due in annual installments of \$80,000 to new Middle School addition, Roof repairs to all buildings, and renovations of the High School and Middle School.

As of June 30, 2007 the District had 2005 Qualified Zone Academy Bonds (QZAB) with a face amount of \$4,000,000. These bonds are interest free and are repayable on May 1, 2019. The district is required to set aside \$230,974 from its debt account, beginning on May 1, 06 and each year thereafter. The sum of these set aside amounts with the interest earned, will be used to repay the aggregate principal amount of these bonds. These are being used for the renovations of the buildings along with the purchase of technology equipment.

As of June 30, 2007 the District had 2006 Qualified Zone Academy Bonds (QZAB) with a face amount of \$1,000,000. These bonds are interest free and are repayable on August 31, 2012. The district is required to set aside \$71,976.04 from its general fund account, beginning on August 31, 2007 and each year thereafter until August 31, 2014. The district is then required to set aside \$47,165.06 from its general fund account, beginning on August 31, 2015 and each year thereafter until August 31, 2021. The sum of these set aside amounts with the interest earned, will be used to repay the aggregate principal amount of these bonds. These are used for the purchase of busses along with maintenance equipment, and technology equipment.

Under State statute, the District is legally restricted from incurring long-term bonded debt in excess of 15% of the assessed value of taxable property within the school district. At June 30, 2007 the District's net bonded debt of \$15,840,567 is well below the legal limit of approximately 38.4 million.

# **Caro Community Schools**

## **Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2007**

As of June 30, 2007 the District also had debt on the financial statements for a Land Contract of \$492,220.86. This was for the purchase of 81 acres with buildings. The payment of \$75,565.86 is due annually on January 15, until the year of 2016. The payments are made through the general fund and not the debt retirement fund.

As of June 30, 2007 the District had compensated absences, which include accumulated sick and vacation pay, totaling \$784,186.

We present more detailed information about our long-term liabilities in the notes to financial statements.

### **Requests for Information**

This financial report is designed to provide our citizens, taxpayers, parents, students and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Caro Community Schools, Superintendent's Office, Brenda Dunham, 301 N Hooper Street, Caro, Michigan, 48723, or call (989) 673-3160 ext. 1003.

## BASIC FINANCIAL STATEMENTS

**CARO COMMUNITY SCHOOLS**  
**STATEMENT OF NET ASSETS**  
June 30, 2007

	<b>GOVERNMENTAL ACTIVITIES</b>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and equivalents	\$ 4,129,354
Investments	2,567,998
Accounts receivable	7,767
Property taxes receivable	23,797
Prepaid expenses	27,294
Due from Agency funds	8,596
Due from other governmental units	<u>2,583,858</u>
<b>TOTAL CURRENT ASSETS</b>	<u>9,348,664</u>
<b>NONCURRENT ASSETS:</b>	
Deferred bond issuance costs	250,283
Amortization of bond issuance cost	(79,017)
Capital assets	28,554,384
Less accumulated depreciation	<u>(9,999,591)</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>18,726,059</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 28,074,723</u></b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 639,642
Benefits payable	406,920
Deferred revenue	-
Retirement payable	-
Salaries payable	1,066,574
Annuities payable	1,550
Other current liabilities	5,833
Accrued interest	90,925
Current portion of long term debt	501,110
Current portion of compensated absences	<u>289,839</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>3,002,393</u>
<b>NONCURRENT LIABILITIES:</b>	
Deferred bond premium	426,484
Amortization of bond premium	(42,648)
Noncurrent portion of long term debt	16,391,678
Compensated absences	<u>494,347</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>17,269,861</u>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	1,662,005
Restricted for Capital Projects	3,408,852
Restricted for debt service	729,182
Unrestricted	<u>2,002,430</u>
<b>TOTAL NET ASSETS</b>	<u>7,802,469</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 28,074,723</u></b>

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

**CARO 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	\$ 11,338,681	-	\$ 339,479	\$ (10,999,202)
Support services	4,453,858	-	145,491	(4,308,367)
Community services	165,303			(165,303)
Land contract interest	37,145			(37,145)
Transfers to other districts	2,340			(2,340)
Food services	789,952	\$ 307,498	374,608	(107,846)
Athletics	448,855	68,627		(380,228)
Capital projects	447,534			(447,534)
Interest on long-term debt	486,750		-	(486,750)
Amortization	28,711			(28,711)
Unallocated depreciation	662,500			(662,500)
<b>Total governmental activities</b>	<b>\$ 18,861,629</b>	<b>\$ 376,125</b>	<b>\$ 859,578</b>	<b>(17,625,926)</b>
General revenues:				
Property taxes, levied for general purposes				1,555,887
Property taxes, levied for debt service				1,046,294
State of Michigan school aid unrestricted				14,168,039
Investment revenue				459,841
Transfers from other districts				-
Amortization				21,324
Sale of school property				(149,060)
Miscellaneous				368,094
<b>Total general revenue</b>				<b>17,470,419</b>
Change in net assets				(155,507)
Net assets, beginning of year				7,957,976
Net assets, end of year				<b>\$ 7,802,469</b>

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

**CARO COMMUNITY SCHOOLS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2007

	<u>GENERAL FUND</u>	<u>2005 CAPITAL PROJECTS FUND</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b><u>ASSETS</u></b>				
<b>CURRENT ASSETS:</b>				
Cash and equivalents	\$ 1,033,960	\$ 1,446,703	\$ 1,648,691	\$ 4,129,354
Investments		2,567,998		2,567,998
Accounts receivable	7,767	-	-	7,767
Prepaid expenses	28,073	-	(779)	27,294
Due from agency funds	8,596	-		8,596
Due from other governmental units	2,564,920	-	18,938	2,583,858
<b>TOTAL ASSETS</b>	<b>\$ 3,643,316</b>	<b>\$ 4,014,701</b>	<b>\$ 1,666,850</b>	<b>\$ 9,324,867</b>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 33,793	\$ 605,849	\$ -	\$ 639,642
Benefits payable	401,606		5,314	406,920
Deferred Revenue	-		-	-
Retirement payable	-		-	-
Salaries payable	1,062,294		4,280	1,066,574
Annuities Payable	1,550			1,550
Other current liabilities	-		5,833	5,833
<b>TOTAL LIABILITIES</b>	<b>1,499,243</b>	<b>605,849</b>	<b>15,427</b>	<b>2,120,519</b>
<b>FUND BALANCE:</b>				
Reserved		3,408,852	1,555,498	4,964,350
Unreserved:				
Designated for susequent year expenditures	485,413			485,413
Designated for compensated absences	784,186		-	784,186
Designated for capital improvements	200,000		-	200,000
Undesignated	674,474		95,925	770,399
<b>TOTAL FUND BALANCE</b>	<b>2,144,073</b>	<b>3,408,852</b>	<b>1,651,423</b>	<b>7,204,348</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<b>\$ 3,643,316</b>	<b>\$ 4,014,701</b>	<b>\$ 1,666,850</b>	<b>\$ 9,324,867</b>

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

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

**Total Fund Balances - Governmental Funds** \$ 7,204,348

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 the capital assets is:	28,554,384
Accumulated depreciation is:	(9,999,591)

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

Long term debt	(16,892,788)
Deferred bond issuance costs	250,283
Amortization of bond issuance costs	(79,017)
Deferred bond premium	(426,484)
Amortization of bond premium	42,648
Compensated absences:	(784,186)
Accrued interest is not reported as a liability in governmental funds; it is recorded when paid:	(90,925)

Balance of taxes receivable at 06/30/07 less allowance for doubtful accounts, expected to be collected after September 1, 2007

23,797

**Net Assets of Governmental Activities**

\$ 7,802,469

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

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

	GENERAL FUND	2005 CAPITAL PROJECTS FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES:</b>				
Local sources	\$ 1,967,793	\$ 341,650	\$ 1,478,928	\$ 3,788,371
State sources	14,143,239		24,800	14,168,039
Federal sources	484,970		374,608	859,578
Other transactions:				
Transfers from other districts	-		-	-
Sale of school property	7,778		-	7,778
<b>TOTAL REVENUES</b>	<b>16,603,780</b>	<b>341,650</b>	<b>1,878,336</b>	<b>18,823,766</b>
<b>EXPENDITURES:</b>				
Instruction	11,697,631		-	11,697,631
Supporting services	4,607,693		-	4,607,693
Community services	165,303		-	165,303
Food services	-		789,952	789,952
Athletic services	-		448,855	448,855
Outgoing transfers & other	2,340			2,340
Capital project expenses		156,994	290,540	447,534
Capital Outlay		9,510,693		9,510,693
Debt service:				
Principal redemption	-		440,000	440,000
Bond issuance costs	-			-
Interest and fiscal charges	-		489,559	489,559
<b>TOTAL EXPENDITURES</b>	<b>16,472,967</b>	<b>9,667,687</b>	<b>2,458,906</b>	<b>28,599,560</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>130,813</b>	<b>(9,326,037)</b>	<b>(580,570)</b>	<b>(9,775,794)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Land contract principal payments	(38,421)			(38,421)
Land contract interest & fees	(37,145)			(37,145)
Bond proceeds			1,000,000	1,000,000
Transfers in	-		381,228	381,228
Transfers out	(381,228)		-	(381,228)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(456,794)</b>	<b>-</b>	<b>1,381,228</b>	<b>924,434</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES &amp; OTHER SOURCES (USES)</b>	<b>(325,981)</b>	<b>(9,326,037)</b>	<b>800,658</b>	<b>(8,851,360)</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>2,470,054</b>	<b>12,734,889</b>	<b>850,765</b>	<b>16,055,708</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 2,144,073</b>	<b>\$ 3,408,852</b>	<b>\$ 1,651,423</b>	<b>\$ 7,204,348</b>

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

**CARO 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** **\$ (8,851,360)**

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	(662,500)
Capital outlay	10,047,547
Net book value of assets sold	(156,838)

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	93,734
Accrued interest payable at the end of the year	(90,925)

The issuance of long-term debt provides current financial resources to governmental funds while the repayment of principal of long-term debt consumes the current financial resources of governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, where as these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:

Proceeds from issuance of bonds	(1,000,000)
Payments on debt	478,421
Amortization on bond refunding	(21,595)
Amortization on bonds discount	(2,375)
Amortization on bond issuance costs	(4,741)
Amortization on bond premium	21,324

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	(5,927)
Accrued revenue at the end of the year	23,797

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued absences at the beginning of the year	760,117
Accrued absences at the end of the year	(784,186)

**Change in net assets of governmental activities** **\$ (155,507)**

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

**CARO COMMUNITY SCHOOLS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
 June 30, 2007

	<b>AGENCY FUNDS</b>
<b><u>ASSETS</u></b>	
CURRENT ASSETS	
Cash	\$ 254,710
<b>TOTAL ASSETS</b>	<b>\$ 254,710</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>	
LIABILITIES:	
Due to student organizations	\$ 246,114
Due to general funds	8,596
Due to other funds	-
NET ASSETS	-
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 254,710</b>

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

**CARO COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The basic financial statements of the Caro Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, except as described in Note 1. 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 Caro Community Schools (the "District") is governed by the Caro 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 Statement 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.

**CARO COMMUNITY SCHOOLS**  
Notes to 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 funds:

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 *2005 Capital Projects Fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

**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 *Fiduciary Funds* accounts 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).

The *2006 QZAB Capital Projects Fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

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

**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.

**CARO COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2007

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

**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.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION (CONTINUED):**

**Modified Accrual Method (Continued):**

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 pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007 the foundation allowance was based on the pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes 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 to 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 that are not expended by the close of the fiscal year are recorded as deferred revenue.

For the year ended June 30, 2007, approximately \$323,170 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 the MDE.

**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 and 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. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

**CARO COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2007

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

**ASSETS, LIABILITIES AND EQUITY (CONTINUED):**

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 date is September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

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

<u>FUND</u>	<u>MILLS</u>
General Fund – Non Homestead	18.00
Debt Service Funds - Homestead and non-homestead	3.64

4. Prepaid items.

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 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 – 20 years

**CARO COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2007

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

**ASSETS, LIABILITIES AND EQUITY (Continued):**

The District's capitalization policy is to capitalize individual amounts exceeding \$2,500. Group purchases are evaluated on a case-by-case basis.

6. Compensated Absences.

The District's policies generally provide for granting vacation and sick leave with pay. It is the policy of the District to allow accumulation of sick pay. Upon retirement, accumulated sick days become vested and are payable subject to a maximum of \$6,500 per employee for professional staff, \$3,000 per employee for administrative staff, \$3,450 per employee for support staff belonging to MESPA and \$1,500 per employee for mechanics. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignation or retirements.

7. Unemployment Insurance.

The District reimburses the State of Michigan 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.

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 uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Memorandum Only - Total Column.

The total column on the combined general-purpose 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.

10. 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.

**CARO COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2007

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

**ASSETS, LIABILITIES AND EQUITY (Continued):**

11. 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. For the year ended June 30, 2007, the District has designated \$200,000 for capital improvements, \$485,413 for subsequent year expenditures and \$784,186 for compensated absences.

12. Interfund Transactions.

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reduction of expenditures/expenses in the fund that is reimbursed.

**NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY:**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year-end, if any, are reported as reservations of fund balances because they will be re-appropriated in the subsequent fiscal year. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

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 in the combined statement of revenues, expenditures and changes in fund balances - budget and actual - general, special revenue and debt service funds.
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, in the major funds are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
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.

**CARO COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2007

**NOTE 3 - CASH AND EQUIVALENTS - CREDIT RISK:**

Cash and cash equivalents are held separately in the name of the district by each of the district's funds.

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

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted Average Maturity (Years)</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
U.S. Treasury & Agency Notes & Bonds	\$ 2,567,998	0.6667	A-1+	100.00%
Total fair value	<u>\$ 2,567,998</u>			100.0%
Portfolio weighted average maturity		<u>0.6667</u>		
1 day maturity equals 0.0027, one year equals 1.00				

The district voluntarily invested proceeds from school bond sales in short term U.S. Treasury & Agency Notes & Bonds. These investments are set to mature according to the draw schedule needed for the construction project.

**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. As of June 30, 2007, \$5,997,478 of the District's bank balance of \$7,421,730 was exposed to custodial credit risk because it 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.

**CARO COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2007

**NOTE 3 - CASH AND EQUIVALENTS - 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 \$	\$ 4,384,034	
Investments	2,567,998	
	<u>\$ 6,952,032</u>	

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

Cash - District wide	\$ 4,129,354	
Fiduciary Funds	254,680	
Investments - District wide	2,567,998	
	<u>\$ 6,952,032</u>	

**NOTE 4 - LONG-TERM DEBT:**

On February 4, 2004, the District paid off \$380,000 of general obligation bonds due in 2008 and purchased refunding bonds for \$1,535,000 in general obligation bonds with an average interest rate of 2.3% to advance refund \$1,535,000 outstanding 1994 registered bonds with an average interest rate of 4.7%. As a result, the 1994 term bonds are considered defeased and the liability for those bonds has been removed from the general long-term debt account group.

The district paid off early and refunded the 1994 term bonds to reduce its total debt service payments over the next six years by \$152,955 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$79,028.

On January 15, 2004 the district purchased 81 acres of land with a 7% land contract with \$50,000 down and \$600,000 due over the next 12 years.

On November 1, 2005 the district sold the 2005 School Building and Site Bonds in the amount of \$10,650,000 for the purpose of erecting, furnishing and equipping additions to, and partially remodeling, furnishing, and refurbishing, equipping and re-equipping school facilities; and developing and improving sites.

On May 1, 2006 the district sold limited tax general obligation bonds (Qualified Zone Academy Bonds) for the purpose of various improvements to the school buildings and other projects.

On August 23, 2006 the district sold limited tax general obligation bonds (Qualified Zone Academy Bonds) for the purpose of various improvements to the schools buildings and other projects.

**CARO COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For The Year Ended June 30, 2007**

**NOTE 4 - LONG-TERM DEBT (Continued):**

Following is a summary of the various long-term debt of the school district:

Limited obligation (Durant) bond, due in annual installments of \$11,523 to \$56,244 through May 15, 2013, with interest of 4.76%.	\$ 140,567
2005 School Building and Site Bonds, Series A due in annual installments of \$80,000 to \$765,000 with interest from 3.00% to 4.35%.	10,490,000
2005 Qualified Zone Academy Bonds (QZAB face amount \$4,000,000). The bonds are interest free and are repayable on 5/1/2019. The district is required to set aside \$230,974 beginning on 5/1/06 and each year thereafter. The sum of these amounts set aside, together with the interest earned thereon, will be sufficient to repay the aggregate principal amount of the bonds.	4,000,000
2004 general obligation (serial bonds) due in annual installments of \$65,000 to \$390,000 with interest from 2.00% to 2.50%.	770,000
2006 Qualified Zone Academy Bonds (QZAB face amount \$1,000,000). The bonds are interest free and are repayable on 8/31/2021. The district is required to set aside \$71,976 and \$47,165 beginning on 8/31/07 and 8/31/15, respectively, and each year thereafter. The sum of these amounts set aside, together with the interest earned thereon, will be sufficient to repay the aggregate principal amount of the bonds.	<u>1,000,000</u>
Total bonded debt	16,400,567
7% Land contract due in annual installments of \$75,566 through January 15, 2016.	492,221
Accumulated compensated absences	<u>784,186</u>
Total long-term debt	<u>\$17,676,974</u>

**DEBT SERVICE REQUIREMENTS:**

The annual requirements to amortize long-term debt outstanding as of June 30, 2007 are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2008	\$ 501,110	\$ 513,899	\$ 1,015,009
2009	532,151	503,817	1,035,968
2010	545,940	487,727	1,033,667
2011	569,896	469,221	1,039,117
2012	589,112	447,329	1,036,441
2013-2017	3,919,579	1,881,150	5,800,729
2018-2022	7,955,000	1,045,500	9,000,500
2023-2027	<u>2,280,000</u>	<u>213,583</u>	<u>2,493,583</u>
	16,892,788	5,562,226	22,455,014
Accumulated compensated absences	<u>784,186</u>	-	<u>784,186</u>
	<u>\$17,676,974</u>	<u>\$5,562,226</u>	<u>\$23,239,200</u>

An amount of \$820,107 is available in the debt service fund to service the general obligation debt.

**CARO COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2007

**NOTE 4 - LONG-TERM DEBT (Continued):**

**CHANGES IN LONG-TERM DEBT:**

Following is a summary of long-term debt transactions of the district for the year ended June 30, 2007:

	<u>ACCUMULATED SICK &amp; VACATION PAY</u>	<u>GENERAL OBLIGATION</u>
Long-term debt - July 1, 2006	\$760,117	\$16,371,209
Net increase in accumulated compensated absences	24,069	
Additions:		
Recorded appreciation		1,000,000
Deductions:		
2005 Bldg & Sites bonds paid		(80,000)
2004 serial bonds paid		(360,000)
2004 land contract		(38,421)
Durant bonds paid	<u>          -</u>	<u>          -</u>
Total	<u>\$784,186</u>	<u>\$16,892,788</u>

Interest expense (all funds) for the year ended June 30, 2007 was \$523,895.

**NOTE 5 - 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 survivor and disability 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.

**CARO COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2007

**NOTE 5 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued):**

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 1<sup>st</sup> 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 rates for the year ended June 30, 2006 were 16.34% for July 1 through September 30, 2006 and 17.74% for October 1 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 contributes to MPERS for the years ended June 30, 2007, 2006 and 2005 were \$1,802,348, \$1,646,872, and \$1,587,094, respectively, and were equal to the required contribution for each year.

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 MPERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employer. The MPERS 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 MPERS with the balance deducted from the monthly pension.

**NOTE 6 - OPERATING LEASES:**

The School District leases an automobile, equipment and a building under operating lease agreements that expire at various dates. Lease expense for the year amounted to \$81,340. At June 30, 2007, future lease payments under such leases are as follows:

June 30, 2008	\$44,673
June 30, 2009	41,340
June 30, 2010	41,340
June 30, 2011	10,335

**NOTE 7 - 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 employee health and accident insurance, torts, theft of, damage to and destruction of assets and errors & omissions.

**CARO COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2007

**NOTE 8 – INTERFUND RECEIVABLES AND PAYABLES:**

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$8,596	\$ 0
Agency Fund	<u>0</u>	<u>8,596</u>
 Total	 <u>\$8,596</u>	 <u>\$8,596</u>

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

**NOTE 9 – CAPITAL ASSETS:**

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

	<u>BALANCE JULY 1, 2006</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE JUNE 30, 2007</u>
Assets not being depreciated – land	\$1,045,476			\$ 1,045,476
Other capital assets:				
Land improvements	595,318	\$ 38,985		634,303
Building and additions	8,693,940	93,732	\$323,000	8,464,672
Machinery and equipment	5,043,205	434,256	48,260	5,429,201
Transportation equipment	<u>1,492,881</u>	<u>197,946</u>	<u>195,277</u>	<u>1,495,550</u>
Subtotal	15,825,344	764,919	566,537	16,023,726
Accumulated depreciation:				
Land improvements	(351,716)	(23,366)		375,082
Building and additions	(5,020,311)	(172,663)	198,000	4,994,974
Machinery and equipment	(3,223,711)	(327,395)	16,422	3,534,684
Transportation equipment	<u>(1,151,052)</u>	<u>(139,076)</u>	<u>195,277</u>	<u>1,094,851</u>
Subtotal	(9,746,790)	(662,500)	409,699	(9,999,591)
Net other capital assets	<u>6,078,554</u>	<u>102,419</u>	<u>156,838</u>	<u>6,024,135</u>
Construction in Progress	2,202,554	9,282,628	11,485,182	
Net capital assets	<u>\$9,326,584</u>	<u>\$9,385,047</u>	<u>\$156,838</u>	<u>\$18,554,793</u>

Depreciation for the fiscal year ended June 30, 2007 amounted to \$662,500.

**CARO COMMUNITY SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2007

**NOTE 10 – TRANSFERS:**

The general fund transferred \$381,228 to the athletic fund during the current fiscal year. The transfer to the athletic fund was to subsidize operations.

REQUIRED SUPPLEMENTAL INFORMATION

**CARO COMMUNITY SCHOOLS**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<b>GENERAL FUND</b>			<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>
	<b>ORIGINAL BUDGET</b>	<b>FINAL BUDGET</b>	<b>ACTUAL</b>	
<b>REVENUES</b>				
Local sources	\$ 1,862,503	\$ 1,971,048	\$ 1,967,793	\$ (3,255)
State sources	14,316,380	13,999,295	14,143,239	143,944
Federal sources	660,651	486,507	484,970	(1,537)
Other transactions:				
Transfers from other districts	-	-	-	-
Sale of school property	-	7,800	7,778	(22)
<b>TOTAL REVENUES</b>	<b>16,839,534</b>	<b>16,464,650</b>	<b>16,603,780</b>	<b>139,130</b>
<b>EXPENDITURES</b>				
Instruction	12,766,666	11,767,408	11,697,631	69,777
Supporting services	4,106,435	4,661,905	4,607,693	54,212
Community services	138,083	166,385	165,303	1,082
Outgoing transfers and other	-	3,000	2,340	660
<b>TOTAL EXPENDITURES</b>	<b>17,011,184</b>	<b>16,598,698</b>	<b>16,472,967</b>	<b>125,731</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(171,650)</b>	<b>(134,048)</b>	<b>130,813</b>	<b>264,861</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Land contract principal payments	-	(38,421)	(38,421)	-
Land contract interest & fees	-	(37,145)	(37,145)	-
Fund transfers in	242,000	-	-	-
Fund transfers out	(465,039)	(386,833)	(381,228)	5,605
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(223,039)</b>	<b>(462,399)</b>	<b>(456,794)</b>	<b>5,605</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)</b>	<b>\$ (394,689)</b>	<b>\$ (596,447)</b>	<b>\$ (325,981)</b>	<b>\$ 270,466</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>			<b>2,470,054</b>	
<b>FUND BALANCE - END OF YEAR</b>			<b>\$ 2,144,073</b>	

## ADDITIONAL INFORMATION

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

	<u>GOVERNMENTAL FUND TYPES</u>			<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>DEBT RETIREMENT</u>	<u>2006 QZAB CAPITAL PROJECTS</u>	<u>2007</u>
<b><u>ASSETS</u></b>				
Cash and equivalents	\$ 93,193	\$ 820,107	\$ 735,391	\$ 1,648,691
Accounts receivable	-			-
Inventory	-			-
Prepaid expenses	(779)			(779)
Due from other governmental units	18,938			18,938
<b>TOTAL ASSETS</b>	<b><u>\$ 111,352</u></b>	<b><u>\$ 820,107</u></b>	<b><u>\$ 735,391</u></b>	<b><u>\$ 1,666,850</u></b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
Accounts payable	-			-
Benefits payable	\$ 5,314			\$ 5,314
Due to other funds				-
Retirement payable	-			-
Salaries payable	4,280			4,280
Accrued payroll taxes	-			-
Deferred Revenue	-			-
Other current liabilities	5,833			5,833
<b>TOTAL LIABILITIES</b>	<b><u>15,427</u></b>			<b><u>15,427</u></b>
<b><u>FUND BALANCE</u></b>				
Fund balances:				
Reserved		\$ 820,107	\$ 735,391	1,555,498
Unreserved:				
Undesignated	95,925			95,925
<b>TOTAL FUND BALANCE</b>	<b><u>95,925</u></b>	<b><u>820,107</u></b>	<b><u>735,391</u></b>	<b><u>1,651,423</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 111,352</u></b>	<b><u>\$ 820,107</u></b>	<b><u>\$ 735,391</u></b>	<b><u>\$ 1,666,850</u></b>

**CARO COMMUNITY SCHOOLS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN NONMAJOR FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>GOVERNMENTAL FUND TYPES</u>			<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>DEBT RETIREMENT</u>	<u>2006 QZAB CAPITAL PROJECTS</u>	<u>2007</u>
<b>REVENUES</b>				
Local sources	\$ 376,125	\$ 1,076,872	\$ 25,931	\$ 1,478,928
State sources	24,800			24,800
Federal sources	374,608			374,608
<b>TOTAL REVENUES</b>	<u>775,533</u>	<u>1,076,872</u>	<u>25,931</u>	<u>1,878,336</u>
<b>EXPENDITURES</b>				
Equipment			240,535	240,535
Buildings			39,556	39,556
Other			10,449	10,449
Food services	789,952			789,952
Athletic services	448,855			448,855
Outgoing transfers & other				
Debt service:				
Principal redemption		440,000		440,000
Bond issuance costs				-
Interest and fiscal charges		489,559		489,559
<b>TOTAL EXPENDITURES</b>	<u>1,238,807</u>	<u>929,559</u>	<u>290,540</u>	<u>2,458,906</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(463,274)</u>	<u>147,313</u>	<u>(264,609)</u>	<u>(580,570)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond proceeds			1,000,000	1,000,000
Fund transfers in	381,228			381,228
Fund transfers out				-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>381,228</u>	<u>-</u>	<u>1,000,000</u>	<u>1,381,228</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES &amp; OTHER SOURCES (USES)</b>	<u>(82,046)</u>	<u>147,313</u>	<u>735,391</u>	<u>800,658</u>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>177,971</u>	<u>672,794</u>		<u>850,765</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 95,925</u>	<u>\$ 820,107</u>	<u>\$ 735,391</u>	<u>\$ 1,651,423</u>

**CARO COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
<b>LOCAL SOURCES:</b>			
Property taxes	\$ 1,538,038	\$ 1,538,017	\$ (21)
Tuition and fees	-	-	-
Earnings on investments	61,700	61,682	(18)
Other local revenues	371,310	368,094	(3,216)
<b>Total Local Sources</b>	<u>1,971,048</u>	<u>1,967,793</u>	<u>(3,255)</u>
<b>STATE SOURCES:</b>			
Foundation grant	-	-	-
Special education grant	617,522	617,523	1
<b>Other state sources:</b>			
Career prep grant	32,422	35,963	3,541
Gifted & talented grant	-	-	-
At Risk	375,467	375,182	(285)
Other	12,973,883	13,114,571	140,688
<b>Total State Sources</b>	<u>13,999,295</u>	<u>14,143,239</u>	<u>143,944</u>
<b>FEDERAL SOURCES:</b>			
ECIA Title I	348,234	348,234	-
ECIA Title II	124,743	124,743	-
ECIA Title V	1,634	1,634	-
Homeland security	-	-	-
Other	11,896	10,359	(1,537)
<b>Total Federal Sources</b>	<u>486,507</u>	<u>484,970</u>	<u>(1,537)</u>
<b>OTHER TRANSACTIONS:</b>			
Transfers from other funds	-	-	-
<b>Total Transfers</b>	<u>-</u>	<u>-</u>	<u>-</u>
Sale of School property	7,800	7,778	(22)
<b>TOTAL REVENUES</b>	<u>\$ 16,464,650</u>	<u>\$ 16,603,780</u>	<u>\$ 139,130</u>

**CARO COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
BASIC PROGRAMS:			
ELEMENTARY - SCHALL:			
Salaries:			
Teachers	\$ 1,251,407	\$ 1,250,281	\$ 1,126
Aides	-	-	-
Substitutes	29,500	29,143	357
Employee benefits	631,793	630,872	921
Professional & technical services	33,500	32,883	617
Workshops and conferences	575	573	2
Teaching supplies & materials	13,570	12,203	1,367
Capital outlay	-	-	-
Total Elementary - Schall	<u>1,960,345</u>	<u>1,955,955</u>	<u>4,390</u>
ELEMENTARY - MCCOMB:			
Salaries:			
Teachers	1,196,175	1,195,291	884
Aides	-	-	-
Substitutes	45,140	44,486	654
Other	-	-	-
Employee benefits	651,987	641,607	10,380
Conference & workshops	3,800	3,782	18
Teaching supplies & materials	18,999	18,462	537
Professional & technical services	51,025	50,902	123
Capital outlay	-	-	-
Other expenses	-	-	-
Total Elementary - McComb	<u>1,967,127</u>	<u>1,954,530</u>	<u>12,597</u>
EARLY CHILDHOOD:			
Salaries:			
Teacher	58,586	57,736	850
Aides	15,318	14,998	320
Substitutes	3,606	2,805	801
Other	103,623	103,079	544
Employee benefits	35,163	34,560	603
Contracted services	-	-	-
Teaching supplies & materials	175	118	57
Total Early Childhood	<u>216,471</u>	<u>213,296</u>	<u>3,175</u>

**CARO COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION, (Continued):			
BASIC PROGRAMS, (Continued):			
MIDDLE SCHOOL:			
Salaries:			
Teachers	\$ 1,439,248	\$ 1,436,612	\$ 2,636
Substitutes	23,100	22,984	116
Employee benefits	778,914	772,265	6,649
Conferences & workshop	224	224	-
Contracted services	13,700	13,693	7
Teaching supplies & materials	19,206	17,712	1,494
Capital outlay	-	-	-
Other expense	5,295	5,286	9
	<u>2,279,687</u>	<u>2,268,776</u>	<u>10,911</u>
Total Middle School			
HIGH SCHOOL:			
Salaries:			
Drivers education	-	-	-
Teachers	1,565,500	1,565,459	41
Aides	22,200	22,162	38
Substitutes	36,105	36,006	99
Employee benefits	893,773	893,588	185
Conferences & workshops	1,155	1,151	4
Contracted services	18,650	18,382	268
Teaching supplies & materials	92,958	86,917	6,041
Capital outlay	-	-	-
Other expenses	200	200	-
	<u>2,630,541</u>	<u>2,623,865</u>	<u>6,676</u>
Total High School			
ADDED NEEDS:			
Special Education:			
Salaries:			
Teachers	963,969	961,693	2,276
Aides	118,675	116,507	2,168
Substitutes	101,282	97,276	4,006
Employee benefits	600,822	596,625	4,197
Conferences & workshops	1,100	1,076	24
Contracted services	3,700	3,671	29
Teaching supplies & materials	12,811	11,618	1,193
Capital outlay	-	-	-
	<u>1,802,359</u>	<u>1,788,466</u>	<u>13,893</u>
Total Special Education			

**CARO COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION, (Continued):			
ADDED NEEDS, (Continued):			
COMPENSATORY EDUCATION:			
ECIA Title I:			
Salaries:			
Teachers	\$ 236,451	\$ 236,161	\$ 290
Aides	73,648	73,304	344
Substitutes	-	-	-
Employee benefits	109,790	106,718	3,072
Audit fees	100	100	-
Conference & workshops	5,108	5,001	107
Teaching supplies & materials	3,081	3,080	1
Capital outlay	-	-	-
ECIA Title II:			
Employee benefits	-	-	-
Total Compensatory Education	428,177	424,364	3,813
ADULT CONTINUING EDUCATION:			
ALTERNATIVE EDUCATION:			
Salaries:			
Administrative	29,555	27,296	2,259
Supervisor & secretary	8,711	8,710	1
Teachers	177,100	170,804	6,296
Aides	-	-	-
Substitutes	2,040	1,560	480
Employee benefits	111,307	108,162	3,145
Telephone	65	-	65
Rental of facilities	35,080	35,013	67
Local travel	1,500	1,430	70
Contracted services	56,760	56,649	111
Teaching supplies & materials	2,340	1,719	621
Capital outlay	-	-	-
Other expenses	-	-	-
Total Alternative Education	424,458	411,343	13,115

**CARO COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<b>BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE - FAVORABLE (UNFAVORABLE)</b>
INSTRUCTION, (Continued):			
ADULT CONTINUING EDUCATION, (Continued):			
CONTINUING EDUCATION:			
Salaries:			
Teacher	-	-	-
Pool	-	-	-
Employee benefits	-	-	-
Advertising	-	-	-
Contracted services	-	-	-
Teaching supplies & materials	-	-	-
	-	-	-
Total Continuing Education	-	-	-
SPECIAL GRANTS:			
Special programs	\$ 9,896	\$ 7,516	\$ 2,380
AT RISK:			
Salaries:			
Teacher	-	-	-
Aides	25,164	23,928	1,236
Substitutes	-	-	-
Other	-	-	-
Employee benefits	23,183	25,592	(2,409)
Contracted services	-	-	-
Teaching supplies & materials	-	-	-
	-	-	-
Total At Risk	48,347	49,520	(1,173)
 TOTAL INSTRUCTION	 11,767,408	 11,697,631	 69,777

**CARO COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
<b>SUPPORTING SERVICES:</b>			
<b>GUIDANCE SERVICES:</b>			
Elementary:			
Salaries:			
Counseling	\$ 53,142	\$ 53,142	-
Employee benefits	16,497	16,369	\$ 128
Conferences & workshops	-	-	-
Contracted services	-	-	-
Supplies	100	86	14
Other expenses	-	-	-
	<u>69,739</u>	<u>69,597</u>	<u>142</u>
Total Elementary			
Middle School:			
Salaries:			
Counseling	68,069	68,069	-
Employee benefits	20,779	20,675	104
Contracted services	3,000	2,594	406
Supplies	500	153	347
Conferences & workshops	-	-	-
Other expenses	-	-	-
	<u>92,348</u>	<u>91,491</u>	<u>857</u>
Total Middle School			
High School:			
Salaries:			
Counseling	115,317	111,545	3,772
Secretarial	25,120	24,779	341
		-	
Employee benefits	85,103	83,781	1,322
Contracted services	46,216	45,401	815
Supplies	1,210	1,157	53
Conferences & workshops	-	-	-
	<u>272,966</u>	<u>266,663</u>	<u>6,303</u>
Total High School			

**CARO COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<b>BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE - FAVORABLE (UNFAVORABLE)</b>
<b>SUPPORTING SERVICES, (Continued):</b>			
<b>SPEECH PATHOLOGY:</b>			
Salaries:			
Speech pathology	\$ 69,929	\$ 69,929	-
Employee benefits	34,835	34,465	\$ 370
Conferences	-	-	-
Contracted services	133	133	-
Miscellaneous	100	-	100
<b>Total Speech Pathology</b>	<b>104,997</b>	<b>104,527</b>	<b>470</b>
<b>LIBRARY:</b>			
High School & Middle School:			
Salaries:			
Librarians	145,673	144,583	1,090
Employee benefits	85,462	84,206	1,256
Contracted services	-	-	-
Supplies & materials	7,669	6,511	1,158
Capital outlay	-	-	-
Miscellaneous	450	350	100
<b>Total High School &amp; Middle School</b>	<b>239,254</b>	<b>235,650</b>	<b>3,604</b>
Elementary - Schall:			
Salaries:			
Library Aides	-	-	-
Employee benefits	16,818	16,818	-
Supplies & materials	50	31	19
<b>Total Elementary Schall</b>	<b>16,868</b>	<b>16,849</b>	<b>19</b>
Elementary - McComb:			
Salaries:			
Paraprofessional	68,994	68,994	-
Employee benefits	-	-	-
Supplies & materials	8,250	8,515	(265)
<b>Total Elementary McComb</b>	<b>77,244</b>	<b>77,509</b>	<b>(265)</b>

**CARO COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
AUDIO-VISUAL:			
Salaries:			
Technician	\$ 45,897	\$ 45,538	\$ 359
Employee benefits	29,646	31,538	(1,892)
Contracted services	2,350	1,940	410
Teaching supplies	600	390	210
Capital outlay	11,000	10,552	448
Total Audio-Visual	<u>89,493</u>	<u>89,958</u>	<u>(465)</u>
BOARD OF EDUCATION:			
Salaries:			
Board members	-	-	-
Legal fees	2,800	2,761	39
Audit fees	10,000	10,000	-
Conferences & workshops	750	716	34
Advertising	-	-	-
Contracted services	-	-	-
Election expenses	19,597	19,597	-
Miscellaneous supplies	550	545	5
Other expenses	13,395	13,279	116
Total Board of Education	<u>47,092</u>	<u>46,898</u>	<u>194</u>
CENTRAL ADMINISTRATION:			
Salaries:			
Superintendent	101,612	101,612	-
Secretarial	63,256	63,236	20
Switchboard	-	-	-
Employee benefits	80,433	80,280	153
Conferences & workshops	3,725	3,366	359
Postage	1,050	914	136
Data processing	-	-	-
Lease	3,150	3,150	-
Contracted services	850	807	43
Capital outlay	-	-	-
Office supplies	8,901	8,658	243
Other expenses	1,050	1,044	6
Total Central Administration	<u>264,027</u>	<u>263,067</u>	<u>960</u>

**CARO COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
<b>SUPPORTING SERVICES, (Continued):</b>			
<b>SCHOOL ADMINISTRATION:</b>			
Salaries:			
Principals	\$ 376,803	\$ 376,753	\$ 50
Secretarial	209,832	206,384	3,448
Employee benefits	288,530	280,172	8,358
Conferences & workshop	2,774	2,440	334
Contracted services	145,212	144,892	320
Postage	5,625	5,392	233
Office supplies	19,694	19,212	482
Capital outlay	-	-	-
Other expenses	4,685	4,685	-
	<u>1,053,155</u>	<u>1,039,930</u>	<u>13,225</u>
Total School Administration			
	<u>1,053,155</u>	<u>1,039,930</u>	<u>13,225</u>
<b>FISCAL &amp; OTHER BUSINESS SERVICES:</b>			
Bookkeeper	94,800	85,203	9,597
Employee benefits	46,756	47,768	(1,012)
Conferences & workshops	-	-	-
Postage	842	841	1
Contracted services	26,537	26,536	1
Office supplies	3,760	3,765	(5)
Interest Expense	-	-	-
Other expenses	5,979	5,977	2
	<u>178,674</u>	<u>170,090</u>	<u>8,584</u>
Total Fiscal & Other Business Services			
	<u>178,674</u>	<u>170,090</u>	<u>8,584</u>
<b>OPERATION &amp; MAINTENANCE:</b>			
Custodial wages	242,600	241,755	845
Employee benefits	392,035	384,130	7,905
Conferences & workshops	-	-	-
Postage	3,035	3,026	9
Telephone	59,500	59,420	80
Heating	125,243	124,546	697
Electricity	244,141	243,635	506
Water/sewer	38,200	37,806	394
Maintenance of equipment	75,400	73,879	1,521
Contracted services	4,500	4,270	230
Supplies	59,900	58,965	935
Capital outlay	-	-	-
	<u>1,244,554</u>	<u>1,231,432</u>	<u>13,122</u>
Total Operation & Maintenance			
	<u>1,244,554</u>	<u>1,231,432</u>	<u>13,122</u>

**CARO COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
<b>SUPPORTING SERVICES, (Continued):</b>			
<b>PUPIL TRANSPORTATION:</b>			
Salaries:			
Supervisor	\$ 51,663	\$ 51,663	-
Mechanics	111,570	111,565	\$ 5
Vehicle operator	310,250	309,881	369
Secretary	32,700	32,633	67
Employee benefits	208,340	207,742	598
Conferences & workshops	6,700	6,203	497
Contracted services	38,091	37,909	182
Gas & oil	-	-	-
Repairs	66,840	63,235	3,605
Supplies & materials	61,995	60,049	1,946
Capital outlay	6,600	6,600	-
Other expenses	10,645	10,279	366
Total Pupil Transportation	<u>905,394</u>	<u>897,759</u>	<u>7,635</u>
<b>INFORMATION SERVICES:</b>			
Postage	1,700	1,660	40
Printing	-	-	-
Photography	4,400	4,613	(213)
Capital outlay	-	-	-
Total Information Services	<u>6,100</u>	<u>6,273</u>	<u>(173)</u>
<b>IMPROVEMENT OF PROPERTY:</b>			
Capital outlay	-	-	-
<b>TOTAL SUPPORTING SERVICES</b>	<u>4,661,905</u>	<u>4,607,693</u>	<u>54,212</u>

**CARO COMMUNITY SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
COMMUNITY SERVICES:			
COMMUNITY EDUCATION:			
Salaries:			
Supervisor	\$ 64,651	\$ 64,651	-
Secretary	1,580	1,576	\$ 4
Teachers	25,390	24,886	
Employee benefits	32,851	32,548	303
Conferences & workshops	-	-	-
Postage	-	-	-
Contracted services	3,000	2,750	250
Office supplies	1,569	1,564	5
Other expenses	640	627	13
	<u>129,681</u>	<u>128,602</u>	<u>1,079</u>
Total Community Education			
	<u>129,681</u>	<u>128,602</u>	<u>1,079</u>
DRIVER'S ROAD TESTING:			
Salaries	29,126	29,125	1
Employee benefits	7,066	7,065	1
Conferences & workshops	50	50	-
Building & maintenance supplies	-	-	-
Contracted services	-	-	-
Other expenses	462	461	1
	<u>36,704</u>	<u>36,701</u>	<u>3</u>
Total Driver's Road Testing			
	<u>36,704</u>	<u>36,701</u>	<u>3</u>
TOTAL COMMUNITY SERVICES	<u>166,385</u>	<u>165,303</u>	<u>1,082</u>
OUTGOING TRANSFERS AND OTHER:			
Land contract principal payments	38,421	38,421	-
Land contract interest & fees	37,145	37,145	-
Transfers to other funds	386,833	381,228	5,605
Transfers to other districts	3,000	2,340	660
	<u>465,399</u>	<u>459,134</u>	<u>6,265</u>
TOTAL OUTGOING TRANSFERS AND OTHER			
	<u>465,399</u>	<u>459,134</u>	<u>6,265</u>
TOTAL EXPENDITURES	<u>\$ 17,061,097</u>	<u>\$ 16,929,761</u>	<u>\$ 131,336</u>

**CARO COMMUNITY SCHOOLS  
ALL SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
June 30, 2007**

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTAL</u>	
			<u>2007</u>	<u>2006</u>
<b><u>ASSETS</u></b>				
Cash and equivalents	\$ 92,193	\$ 1,000	\$ 93,193	\$ 196,201
Accounts receivable	-	-	-	-
Prepaid expenses	(779)	-	(779)	7,572
Inventory	-	-	-	-
Due from other governmental units	18,938	-	18,938	6,601
<b>TOTAL ASSETS</b>	<b><u>\$ 110,352</u></b>	<b><u>\$ 1,000</u></b>	<b><u>\$ 111,352</u></b>	<b><u>\$ 210,374</u></b>
 <b><u>LIABILITIES &amp; FUND EQUITY</u></b>				
<b>LIABILITIES:</b>				
Accounts payable	-	-	-	-
Accrued payroll taxes	-	-	-	-
Benefits payable	\$ 5,314	-	\$ 5,314	\$ 10,561
Retirement payable	-	-	-	535
Salaries payable	4,280	-	4,280	3,301
Social Security - third party	-	-	-	-
Deferred revenue	-	-	-	13,000
Other current liabilities	5,833	-	5,833	5,006
<b>TOTAL LIABILITIES</b>	<b><u>15,427</u></b>	<b><u>-</u></b>	<b><u>15,427</u></b>	<b><u>32,403</u></b>
 <b>FUND BALANCE:</b>				
Fund Balance	94,925	\$ 1,000	95,925	177,971
<b>TOTAL FUND BALANCE</b>	<b><u>94,925</u></b>	<b><u>1,000</u></b>	<b><u>95,925</u></b>	<b><u>177,971</u></b>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<b><u>\$ 110,352</u></b>	<b><u>\$ 1,000</u></b>	<b><u>\$ 111,352</u></b>	<b><u>\$ 210,374</u></b>

**CARO COMMUNITY SCHOOLS**  
**ALL SPECIAL REVENUE FUNDS**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>FOOD</u> <u>SERVICES</u>	<u>ATHLETIC</u> <u>ACTIVITIES</u>	<u>TOTAL</u>	
			<u>2007</u>	<u>2006</u>
REVENUES:				
Sales	\$ 307,498	\$ 68,627	\$ 376,125	\$ 351,384
State sources	24,800		24,800	32,653
Federal sources	374,608		374,608	329,659
<b>TOTAL REVENUES</b>	<u>706,906</u>	<u>68,627</u>	<u>775,533</u>	<u>713,696</u>
EXPENDITURES:				
Salaries and wages	208,082		208,082	183,783
Employee benefits	78,209		78,209	90,333
Purchased services	6,595		6,595	6,495
Food and supplies	299,935		299,935	290,981
Commodities	64,235		64,235	26,161
Capital outlay	116,076		116,076	-
Athletic activities		448,855	448,855	415,566
Travel & workshops	820		820	2,067
Utilities	16,000		16,000	16,000
<b>TOTAL EXPENDITURES</b>	<u>789,952</u>	<u>448,855</u>	<u>1,238,807</u>	<u>1,031,386</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(83,046)</u>	<u>(380,228)</u>	<u>(463,274)</u>	<u>(317,690)</u>
OTHER FINANCING SOURCES (USES):				
Fund transfers in		381,228	381,228	371,673
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)</b>	<u>(83,046)</u>	<u>1,000</u>	<u>(82,046)</u>	<u>53,983</u>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>177,971</u>	<u>-</u>	<u>177,971</u>	<u>123,988</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 94,925</u>	<u>\$ 1,000</u>	<u>\$ 95,925</u>	<u>\$ 177,971</u>

**CARO COMMUNITY SCHOOLS**  
**2005 AND 1990 DEBT SERVICE FUND**  
**BALANCE SHEET**  
 June 30, 2007  
 With Comparative Totals for June 30, 2006

		<b>TOTAL</b>	
		<u>2007</u>	<u>2006</u>
<b><u>ASSETS</u></b>			
Cash		\$ 820,107	\$ 672,794
Accounts receivable		-	-
Interest receivable		-	-
<b>TOTAL ASSETS</b>		<b><u>\$ 820,107</u></b>	<b><u>\$ 672,794</u></b>
<b><u>LIABILITIES &amp; FUND BALANCE</u></b>			
LIABILITIES:			
Accounts Payable			-
Due to other funds		-	
FUND BALANCE:			
Fund balance		\$ 820,107	\$ 672,794
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>		<b><u>\$ 820,107</u></b>	<b><u>\$ 672,794</u></b>

**CARO COMMUNITY SCHOOLS**  
**DEBT SERVICE FUNDS**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**YEAR ENDED JUNE 30, 2007**  
With Comparative Totals for the Year Ended June 30, 2006

	<u>2005 AND 1990 DEBT</u>	<u>DURANT DEBT</u>	<u>TOTAL 2007</u>	<u>TOTAL 2006</u>
<b>REVENUES:</b>				
Local Sources:				
Property taxes	\$ 1,046,294		\$ 1,046,294	\$ 1,026,691
Interest	30,578		30,578	20,779
Total Local Sources	1,076,872		1,076,872	1,047,470
State Sources		-	-	16,717
<b>TOTAL REVENUES</b>	<u>1,076,872</u>	<u>-</u>	<u>1,076,872</u>	<u>1,064,187</u>
<b>EXPENDITURES:</b>				
Debt Service:				
Principal repayment	440,000	-	440,000	431,523
Bond Issuance costs		-	-	-
Interest and other fiscal charges	489,559	-	489,559	420,441
<b>TOTAL EXPENDITURES</b>	<u>929,559</u>	<u>-</u>	<u>929,559</u>	<u>851,964</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>147,313</u>	<u>-</u>	<u>147,313</u>	<u>212,223</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bond proceeds	-		-	148,904
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>		<u>-</u>	<u>148,904</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)</b>	<u>147,313</u>		<u>147,313</u>	<u>361,127</u>
<b>FUND BALANCES:</b>				
Beginning of Year	672,794	-	672,794	311,667
End of Year	<u>\$ 820,107</u>	<u>-</u>	<u>\$ 820,107</u>	<u>\$ 672,794</u>

**CARO COMMUNITY SCHOOLS**  
**AGENCY FUND**  
**SCHEDULE OF RECEIPTS, DISBURSEMENTS,**  
**AND CHANGES IN LIABILITIES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>BALANCE AT</u> <u>6/30/2006</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE AT</u> <u>6/30/2007</u>
<u>ELEMENTARY</u>				
Schall student council	\$ 877	\$ 2,753	\$ 2,135	\$ 1,495
Growlers wrestling club	9	-	-	9
McComb playground	6	-	-	6
McComb office fund	7,076	14,484	13,991	7,569
McComb lounge	(731)	3,566	2,481	354
McComb Music	-	10,365	10,233	132
McComb Fun Friday	368	-	-	368
McComb Guidance	(809)	9,764	6,624	2,331
McComb young authors	89	-	-	89
McComb library	5,342	5,763	5,920	5,185
Ford Recycling	5	-	-	5
Peterhans kindergarten fund	57	-	-	57
Play and learn	43	-	43	-
Schall Art Club	73	49	49	73
Schall Character Counts	-	8,189	-	8,189
Schall Science Club	200	394	409	185
Schall Young Authors	781	-	-	781
Schall book fair	1,727	12,114	13,251	590
Schall field trips	149	-	-	149
Schall book orders	113	-	60	53
Schall lounge fund	1,085	1,045	1,196	934
Schall office fund	3,045	4,332	6,621	756
Chapter I - Schall	786	-	-	786
Schall 3rd grade	944	908	778	1,074
Schall 4th grade	1,100	15,398	7,709	8,789
Schall 5th grade	592	3,543	3,558	577
Schall playground	-	-	-	-
Schall gift fund	405	737	358	784
Schall birdseed fund	244	-	-	244
	<u>23,576</u>	<u>93,404</u>	<u>75,416</u>	<u>41,564</u>
Total Elementary				
<u>MIDDLE SCHOOL</u>				
Middle school Character Counts	151	130	-	281
Middle school lounge	852	266	591	527
Middle school student council	17,427	52,401	58,235	11,593
Middle school locks	308	-	-	308
Middle school 6th grade	283	-	-	283
Middle school student special services	1,362	686	1,283	765
Middle school book club	-	-	-	-
Middle school guidance	962	99	-	1,061
Middle school library	-	4,343	3,252	1,091
Middle school newspaper	-	107	-	107
Sutherland memorial	2,200	-	-	2,200
Phillips Grant	250	-	-	250
	<u>23,795</u>	<u>58,032</u>	<u>63,361</u>	<u>18,466</u>
Total Middle School				

**CARO COMMUNITY SCHOOLS**  
**AGENCY FUND**  
**SCHEDULE OF RECEIPTS, DISBURSEMENTS,**  
**AND CHANGES IN LIABILITIES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>BALANCE AT</u> <u>6/30/2006</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE AT</u> <u>6/30/2007</u>
<b><u>DISTRICT</u></b>				
ABE lounge fund	\$ 906	\$ 57	\$ 256	\$ 707
Secretaries lounge fund	(23)	-	-	(23)
Teachers study center	1,956	2,294	2,729	1,521
Donations	305	30	-	335
Recycling	35	-	-	35
Caro Tiger Sharks	2,632	14,499	11,039	6,092
Volleyball Club	418	-	418	-
Athletic department	-	962	932	30
Transportation	565	-	-	565
	<hr/>	<hr/>	<hr/>	<hr/>
Total District	6,489	17,842	15,374	9,262
	<hr/>	<hr/>	<hr/>	<hr/>
<b><u>HIGH SCHOOL</u></b>				
Andrews Foundation	85	-	-	85
Photo/Graphic Arts	166	401	361	206
Earl Branding Scholarship	14,760	461	300	14,921
Close Up	48	-	-	48
Band	705	3,409	2,463	1,651
Angeline Bennick Memorial	6,732	814	400	7,146
Cheerleaders	3,802	4,509	4,595	3,716
Class of 1997	3,954	-	-	3,954
Class of 2000	4,710	-	-	4,710
Class of 2001	4,550	-	-	4,550
Class of 2003	4,048	-	-	4,048
Class of 2004	3,267	-	-	3,267
Class of 2005	2,171	-	-	2,171
Class of 2006	1,135	-	1,135	-
Class of 2007	6,669	29,519	25,742	10,446
Class of 2008	1,482	3,195	1,142	3,535
Class of 2009	350	7,145	3,721	3,774
Class of 2010	-	1,029	142	887
Deborah Colling Memorial	1	-	-	1
Justin Decker Memorial	15	-	15	-
Computer supplies	140	-	-	140
Cross country	4,722	3,337	4,437	3,622
Debate	63	-	-	63
Drama	5,298	11,690	9,267	7,721
English account	720	11,741	12,594	(133)
Envirothon Team	649	2,995	3,538	106
Foreign language - French	1,591	2,815	2,134	2,272
Spanish club	647	1,116	849	914
German club	833	180	451	562
Solar Coaster	5,880	-	-	5,880

**CARO COMMUNITY SCHOOLS**  
**AGENCY FUND**  
**SCHEDULE OF RECEIPTS, DISBURSEMENTS,**  
**AND CHANGES IN LIABILITIES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

<u>HIGH SCHOOL, (Continued)</u>	<u>BALANCE AT</u> <u>6/30/2006</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE AT</u> <u>6/30/2007</u>
P.E. Locks	\$ 925	\$ 610	\$ 770	\$ 765
Golsch Athletic Fund	49	-	-	49
Guidance department	3,702	4,465	5,293	2,874
SADD/Project Graduation	903	200	350	753
Hasse Scholarship	11,856	365	500	11,721
Helping hands	394	1,085	844	635
Peer Meditation	437	-	-	437
High school supply	2,136	812	-	2,948
Industrial arts	287	-	-	287
Industrial arts safety glasses	545	69	193	421
Library	95	47	111	31
John Markham Memorial	164	-	-	164
McDurmon Scholarship	2,945	74	800	2,219
Miscellaneous	1,819	5,326	5,267	1,878
National Honor Society	1,152	2,033	1,931	1,254
Newspaper	465	-	-	465
Prep Sales	72	-	-	72
Science	816	62	-	878
HS Rocket Club	1,106	600	660	1,046
Ski Club	485	1,015	1,015	485
Boys' Soccer	247	-	-	247
Girls' Soccer	332	-	-	332
Don Stamats Fund	1,705	45	400	1,350
State Athletic Tournament	10,845	16,091	22,711	4,225
Student Council	584	5,172	3,219	2,537
Synchronized Swim Club	925	2,228	1,154	1,999
Teachers Scholarship Fund	1,485	-	600	885
High school special ed	395	-	-	395
Varsity Boys' Basketball	1,330	6,731	8,062	(1)
Varsity Football	2,109	11,243	13,409	(57)
Varsity Girls Basketball	1,733	2,871	4,012	592
Varsity Girls Softball	993	977	192	1,778
Varsity Girls Track	814	4,688	3,917	1,585
Varsity Wrestling	1,116	10,344	8,404	3,056
Tennis - Boys	22	-	-	22
Tennis - Girls	21	781	760	42
Vocal Music	1,216	2,613	2,897	932
Volleyball	4,055	6,003	5,319	4,739
Yearbook	20,987	20,410	26,726	14,671
Golf - Boys	(254)	255	-	1
Golf - Girls	255	-	255	-

**CARO COMMUNITY SCHOOLS**  
**AGENCY FUND**  
**SCHEDULE OF RECEIPTS, DISBURSEMENTS,**  
**AND CHANGES IN LIABILITIES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>BALANCE AT</u> <u>6/30/2006</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE AT</u> <u>6/30/2007</u>
<u>HIGH SCHOOL. (Continued)</u>				
Youth in Government	\$ 124	\$ 7,404	\$ 7,405	\$ 123
Janks Foundation Grant	20	-	-	20
Baseball	378	2,183	1,314	1,247
Gene H. Riggs - Athletic	3,137	101	-	3,238
Weightlifting	25	2,500	-	2,525
MESPA Flower Fund	50	-	-	50
HS spirit club	248	-	-	248
Operation graduation	363	7,879	5,345	2,897
Varsity Boys swimming	185	682	701	166
Varsity Girls swimming	151	-	151	-
Raymond Scholarship	10,666	417	3,750	7,333
	<u>175,808</u>	<u>212,737</u>	<u>211,723</u>	<u>176,822</u>
Total High School	<u>175,808</u>	<u>212,737</u>	<u>211,723</u>	<u>176,822</u>
Total Agency Fund	<u>\$ 229,973</u>	<u>\$ 382,015</u>	<u>\$ 365,874</u>	<u>\$ 246,114</u>

**CARO COMMUNITY SCHOOLS**  
**SCHEDULE OF BONDED DEBT - 1990, 1998, 2004, 2005 & 2006 ISSUES**  
 June 30, 2007

The bond issues dated November 7, 1990 were for the purpose of erecting and equipping additional classrooms at the Caro Middle School; erecting and equipping additional classrooms at the McComb Elementary School; partially remodeling and equipping the Caro High School; and remodeling and partially equipping the Schall Elementary School and playground area. On February 23, 1994, serial bonds in the amount of \$2,015,000 were issued to refinance certain capital appreciation and term bonds. On February 4, 2004 serial bonds in the amount of \$1,535,000 were issued to refund the balance left on the 1994 serial bonds. On November 24, 1998 Durant Bonds in the amount of \$238,062 were issued for erecting, furnishing & equipping additions to the existing school buildings and developing and improving the site. On May 1, 2006 Limited tax general obligation bonds (QZAB) in the amount of \$4,000,000 were issued for various improvements to school buildings. On November 1, 2005, serial bonds in the amount of \$10,650,000 were issued for funding of the capital project. The limited tax general obligation bonds (QZAB) issued August 23, 2006 for \$1,000,000 were for various improvements to school buildings and other projects.

The bonds consist of the following issues:

<u>TYPES OF BONDS</u>	<u>INTEREST RATE</u>	<u>MATURITY</u>	<u>ORIGINAL PRINCIPAL</u>	<u>CURRENT MATURITY</u>
Serial Bonds - 2004 refunding	2.00-2.50	2005-2009	\$ 1,535,000	\$ 770,000
Durant Bonds - 1998	4.76	1998-2013	238,062	140,567
QZAB - 2005	0	2019	4,000,000	4,000,000
QZAB - 2006	0	2021	1,000,000	1,000,000
Building & Site Bonds - 2005	3.00-5.00	2005-2025	10,650,000	10,490,000
			<u>\$17,423,062</u>	<u>\$16,400,567</u>

**CARO COMMUNITY SCHOOLS**  
**SCHEDULE OF BONDED DEBT - 2004 REFUNDING**  
 June 30, 2007

Refunding serial bonds in the amount of \$1,535,000 were issued February 4, 2004 to refinance 1994 serial bonds (due to mature in the years 2005-2010) .

<u>PRINCIPAL DUE MAY 1</u>	<u>RATE</u>	<u>INTEREST DUE</u>		<u>DEBT SERVICE REQUIREMENT FOR FISCAL YEAR JUNE 30</u>		<u>AMOUNT</u>
		<u>MAY 1</u>	<u>NOVEMBER 1</u>			
\$ 380,000	2.20	\$ 9,055	\$ 9,055	2008		\$ 398,110
<u>390,000</u>	2.50	<u>4,875</u>	<u>4,875</u>	2009		<u>399,750</u>
<u>\$ 770,000</u>		<u>\$ 13,930</u>	<u>\$ 13,930</u>			<u>\$ 797,860</u>

**CARO COMMUNITY SCHOOLS**  
**SCHEDULE OF BONDED DEBT - 1998 ISSUE**  
 June 30, 2007

\$238,062 Durant Bond issued November 24, 1998:

<u>PRINCIPAL DUE</u> <u>MAY 15</u>	<u>INTEREST DUE</u> <u>MAY 15</u>	<u>DEBT SERVICE REQUIREMENT</u> <u>FOR FISCAL YEAR</u>	
		<u>JUNE 30</u>	<u>AMOUNT</u>
-	-	2008	-
\$ 13,249	\$ 3,469	2009	\$ 16,718
13,879	2,838	2010	16,717
14,540	2,177	2011	16,717
15,232	1,485	2012	16,717
83,667	28,654	2013	112,321
<u>\$ 140,567</u>	<u>\$ 38,623</u>		<u>\$ 179,190</u>

The above bond issue bears interest at 4.76%. The bond proceeds were used for erecting, furnishing and equipping additions to the existing school buildings and developing and improving the site.

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 State Aid Payments directly to the Authority's Depository.

**CARO COMMUNITY SCHOOLS**  
**SCHEDULE OF BONDED DEBT - QZAB**  
 June 30, 2007

Date of Issue: May 1, 2006

Original Amount of Issue: \$4,000,000

Purpose of Issue: Limited tax general obligation bonds (Qualified Zone Academy Bonds)  
 for various improvements to the school buildings and other projects

Fiscal Year	Annual Payment May 1
2020	<u>\$ 4,000,000</u>

As additional security for the Bonds, the School District shall agree to deposit fourteen equal annual sinking fund installments of \$230,974, or such amount as is determined to be necessary to accumulate the principal amount of \$4,000,000 in the sinking fund on May 1, 2019 at the rate specified below, beginning May 1, 2006. Such funds will be deposited in an account with Chemical Bank and Trust Company. The School District shall receive interest at a rate of 2.96% per annum compounded semi-annually on the sinking fund account.

**CARO COMMUNITY SCHOOLS**  
**SCHEDULE OF BONDED DEBT - Building and Site Bonds - 2005**  
**June 30, 2007**

\$10,650,000 bond issued November 1, 2005 for funding of Capital Projects

PRINCIPAL DUE MAY 1	RATE	INTEREST DUE		DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
		MAY 1	NOVEMBER 1	JUNE 30	AMOUNT
\$ 80,000	3.000	\$ 230,667	\$ 230,667	2008	\$ 541,334
85,000	3.000	229,467	229,467	2009	543,934
485,000	3.000	228,192	228,192	2010	941,384
505,000	3.500	220,917	220,917	2011	946,834
520,000	3.500	212,079	212,079	2012	944,158
540,000	3.500	202,979	202,979	2013	945,958
560,000	3.500	193,529	193,529	2014	947,058
585,000	5.000	183,729	183,729	2015	952,458
615,000	5.000	169,104	169,104	2016	953,208
645,000	5.000	153,729	153,729	2017	952,458
675,000	5.000	137,604	137,604	2018	950,208
710,000	5.000	120,729	120,729	2019	951,458
725,000	4.050	102,979	102,979	2020	930,958
735,000	4.125	88,298	88,298	2021	911,596
745,000	5.000	73,139	73,139	2022	891,278
755,000	5.000	54,514	54,514	2023	864,028
760,000	5.000	35,639	35,639	2024	831,278
765,000	4.350	16,639	16,639	2025	798,278
<u>\$ 10,490,000</u>		<u>\$ 2,653,933</u>	<u>\$ 2,653,933</u>		<u>\$ 15,797,866</u>

**CARO COMMUNITY SCHOOLS**  
**SCHEDULE OF BONDED DEBT - 2006 QZAB**  
 June 30, 2007

Date of Issue: August 23, 2006

Original Amount of Issue: \$1,000,000

Purpose of Issue: Limited tax general obligation bonds (Qualified Zone Academy Bonds)  
 for various improvements to the school buildings and other projects

<u>Fiscal Year</u>	<u>Annual Payment August 31</u>
2012	\$ 185,000
2014	450,000
2021	365,000
	<u>1,000,000</u>

As additional security for the Bonds, the School District shall agree to deposit annual sinking fund installments in the amount of \$71,976 for the first eight years and \$47,165 for the remaining seven years, or such amounts as determined to be necessary to accumulate the principal amount of \$1,000,000 in the sinking fund on August 31, 2021 at the rate specified below, beginning August 31, 2007. Such funds will be deposited in an account with Chemical Bank and Trust Company. The School District shall receive interest at a rate of 3.30% per annum compounded semi-annually on the sinking fund account.

**CARO COMMUNITY SCHOOL DISTRICT**

ADDITIONAL REPORTS REQUIRED  
BY OMB CIRCULAR A-133

YEAR ENDED JUNE 30, 2007

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Valerie Jamieson Hartel, CPA  
Jamie L. Peasley, CPA

**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 24, 2007

To the Board of Education  
Caro Community Schools  
Caro, MI 48723

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Caro Community Schools as of and for the year ended June 30, 2007, which collectively comprise Caro Community School's basic financial statements and have issued our report thereon dated August 24, 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 Caro 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 Caro Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Caro Community Schools' internal control over financial reporting.

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.

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

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

**COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether Caro 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 that are required to be reported under *Government Auditing Standards*.

To the Board of Education  
August 24, 2007

We noted certain matters that we reported to management of Caro Community Schools in a separate letter dated August 24, 2007.

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

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

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



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

August 24, 2007

To the Board of Education  
Caro Community Schools  
Caro, MI 48723

**COMPLIANCE**

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Caro 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 Caro Community Schools' compliance with those requirements.

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

**INTERNAL CONTROL OVER COMPLIANCE**

The management of Caro 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 Caro 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 the effectiveness of Caro 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 24, 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 a 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 that we consider to be material weaknesses, as defined above.

#### **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Caro Community Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated August 24, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Caro 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 solely for the information and use of the board of education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

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

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

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	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 - part A	84.010	71530 0607	\$ 348,234	-	-	\$ 315,271	\$ 348,234	\$ 32,963
Title V	84.298	70250 0607	1,634	-	-	1,634	1,634	-
Technology Literacy Challenge	84.318	74290 0607	3,545	-	-	3,545	3,545	-
Drug-Free	84.186	72860 0607	9,896	-	-	8,846	7,516	(1,330)
Title IIA - Teacher Quality	84.367	70520 0607	121,198	-	-	82,956	121,198	38,242
<b>Total Passed Through Michigan Dept. of Education</b>			<b>484,507</b>	<b>-</b>	<b>-</b>	<b>412,252</b>	<b>482,127</b>	<b>69,875</b>

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

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	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
<b>TRANSFERS FROM OTHER GOVERNMENTAL UNITS</b>								
Tuscola Intermediate School District: Tech Prep	84.243	0735407014-11 0607	\$ 2,842			\$ 2,842	\$ 2,842	-
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>								
Passed through Michigan Dept. of Education:								
National School Lunch	10.555		289,908			278,816	289,908	11,092
National School Lunch Breakfast	10.553		47,678			45,676	47,679	2,003
Food Distribution Entitlement	10.550		37,022			37,022	37,022	-
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u>374,608</u>	-		<u>361,514</u>	<u>374,609</u>	<u>13,095</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<u>\$ 861,957</u>	-	<u>\$ -</u>	<u>\$ 776,608</u>	<u>\$ 859,578</u>	<u>\$ 82,970</u>

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

**NOTES:**

1. The accompanying schedule of expenditures of federal awards includes the federal grant activity of Caro 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, *Audits of States, Local Governments, and Non-Profit Organization* and reconciles with the amounts presented in, or used in the preparation of, the financial statements.
2. Title I Part A, CFDA #84.010 was audited as a major program representing 41% of federal expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the R7120, Grant Section Auditors' Report, in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the basic financial statements:

General Fund	\$484,970
Special Revenue Fund	<u>374,608</u>
Subtotal	<b><u>\$859,578</u></b>

**CARO COMMUNITY SCHOOL DISTRICT, CARO, 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      X   No
- Significant deficiency(ies) that are not considered to be material weaknesses? \_\_\_\_\_ Yes      X   None reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ Yes      X   No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified: \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) that are not considered to be material weaknesses? \_\_\_\_\_ Yes      X   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      X   No

Identification of major programs:

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

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

Auditee qualified as low-risk auditee?   X   Yes    \_\_\_\_\_ No

**Section II – Financial Statement Findings**

None

**Section III – Federal Award Findings and Questioned Costs**

None

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

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

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.**  
Certified Public Accountants



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

August 24, 2007

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

To the Board of Education  
Caro Community Schools  
Caro, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of Caro 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 school district's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control. Accordingly, we do not express an opinion on the effectiveness of the school district'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.

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.

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 school district's internal control.

Our consideration of internal control over financial reporting and internal control over compliance was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

The following comments relate to certain of the school district's accounting, financial and administrative policies and procedures that we observed during the course of our audit. These matters are not considered control deficiencies or material weaknesses as defined by professional standards.

**IRS 403(b) Final Regulations**

**Intent**

The intent of the regulations is to consolidate guidance on §403(b) plans issued since 1964.

**Effective Date**

These regulations are generally effective for taxable years beginning after December 31, 2008. Plan documents should be in place December 31, 2008 to be implemented as of January 1, 2009.

### **Written Plan Document**

The IRS is working on a model plan document and guidance for school districts. This should contain the provisions necessary for compliance with the new rules.

A plan may consist of several documents, or make reference to other documents, such as annuity contracts and custodial agreements. The employer must ensure that there are no conflicts or inconsistencies between the documents.

The document must contain eligibility rules, benefits available, limitations, allowable vendors, and time and form distributions.

The document must allocate administrative and compliance responsibilities to the employer and/or designated third parties. The plan may not allocate compliance responsibilities to the participants.

### **Other Provisions**

- Exchange of investment products
- Universal availability
- Distributions
- Terminations

### **Suggestions**

Set up a committee of benefit officials and participants to review the current plan and design the future plan.

Determine if you need a third party administrator (TPA) to administer the plan and create a request for proposal (RFP) for services.

Offer employee education. The IRS is developing this type of information as well as a model plan for school districts.

### **New Auditing Standards**

Recently, 10 new auditing standards have been released and are effective, or will become effective for your June 30, 2008 year-end. In reviewing the new standards, they will have an impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach. One area that will continue to be emphasized is your internal controls.

### **New Interpretation Of Deferred Compensation Rules Applicable To Teachers And Similar Employees**

In August of 2007, the IRS issued new questions and answers related to deferred compensation that can affect teachers and similar employees.

When employees can elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation under the Internal Revenue Code. These payments could be subject to an additional 20% tax if the specified procedures are not followed. For example, school employees who work 10 months but are paid over 12 months would be deferring compensation into a future year.

These rules are not applicable unless an election must be made. If a school district provides that all employees must spread their pay over 12 months, these rules do not apply.

In order to avoid imposition of extra taxes, the employees must give a written or electronic election to notify the employer that they want to spread out the compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid (for example, ratably over the 12 months starting with the beginning of the school year). This election does not need to be made for

future years if the arrangement provides that the election will remain in place until the employee elects a change. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 – 2009 school year.

We appreciate the opportunity to be of service to the school district. The cooperation extended to us by your staff throughout the audit was greatly appreciated. We look forward each year to continuing our relationship with Caro Community Schools. Should you wish to discuss any item included in this letter further, we would be happy to do so.

This communication is intended solely for the information and use of management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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

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