



**Linden Community Schools
Linden, Michigan**

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2009**

LINDEN COMMUNITY SCHOOLS

For the Year Ended June 30, 2009

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis.....	3-19
Basic Financial Statements:	
District-wide Financial Statements:	
Statement of Net Assets	20
Statement of Activities.....	21
Fund Financial Statements:	
Balance Sheet – Governmental Funds	22
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	23
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	26
Statement of Fiduciary Net Assets.....	27
Statement of Changes in Fiduciary Net Assets – Private-Purpose Trust	28
Notes to the Financial Statements	29-43
Combining Financial Statements:	
Combining Balance Sheet – Nonmajor Governmental Funds	44-45
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	46-47
120-day Bond Audit:	
Independent Auditors' Report.....	48
Schedule of Revenue, Expenditures and Changes in Fund Balances – Capital Projects Fund – 2003 Building and Site Bonds	49-50

LINDEN COMMUNITY SCHOOLS

For the Year Ended June 30, 2009

TABLE OF CONTENTS

	<u>PAGE</u>
Single Audit:	
Schedule of Expenditures of Federal Awards	51
Notes to Schedule of Expenditures of Federal Awards.....	52
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	53-54
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	55-56
Schedule of Findings and Questioned Costs	57-60

* * * * *

INDEPENDENT AUDITORS' REPORT

October 20, 2009

Board of Education
Linden Community Schools
Linden, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **LINDEN COMMUNITY SCHOOLS**, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Linden Community Schools, as of June 30, 2009, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-19 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Linden Community Schools' basic financial statements. The combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Linden Community Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis

As management of Linden Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$8,935,132 (*net assets*). Of this amount, \$939,105 (*unrestricted net assets*) may be used to meet the government's ongoing obligations for district programs.
- The government's total net assets decreased by \$796,431 from the prior year.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,829,187, a decrease of \$1,393,810 in comparison with the prior year. Approximately 99.3% or \$2,779,926 is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,709,812 or 6.8% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The *District-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the District-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, support services, food service, athletics and community service. The District has no business-type activities as of and for the year ended June 30, 2009.

The District-wide financial statements can be found on pages 20-21 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided for the general fund herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 22-26 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are *not* available to support the District’s own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 27-28 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found on pages 29-43 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements and can be found on pages 44-47 of this report.

District-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$8,935,132 at the close of the most recent fiscal year.

By far the largest portion of the District’s net assets (82 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

District’s Net Assets

	Governmental Activities	
	2008-09	2007-08
	<u> </u>	<u> </u>
Current and other assets	\$ 6,802,823	\$ 8,158,428
Capital assets, net	39,108,538	39,333,559
Total assets	<u>45,911,361</u>	<u>47,491,987</u>
Long-term liabilities outstanding	32,956,467	33,792,165
Other liabilities	4,019,762	3,968,259
Total liabilities	<u>36,976,229</u>	<u>37,760,424</u>
Net assets:		
Invested in capital assets, net of related debt	7,327,828	6,797,189
Restricted	668,199	678,534
Unrestricted	939,105	2,255,840
	<u> </u>	<u> </u>
Total net assets	<u>\$ 8,935,132</u>	<u>\$ 9,731,563</u>

An additional portion of the District's net assets (7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (11 percent or \$939,105) may be used to meet the District's ongoing obligations to its programs. Unrestricted net assets fell by 55% or \$1,280,467 from the prior year.

At the end of the current fiscal year, the District was able to report positive balances in all three categories of net assets.

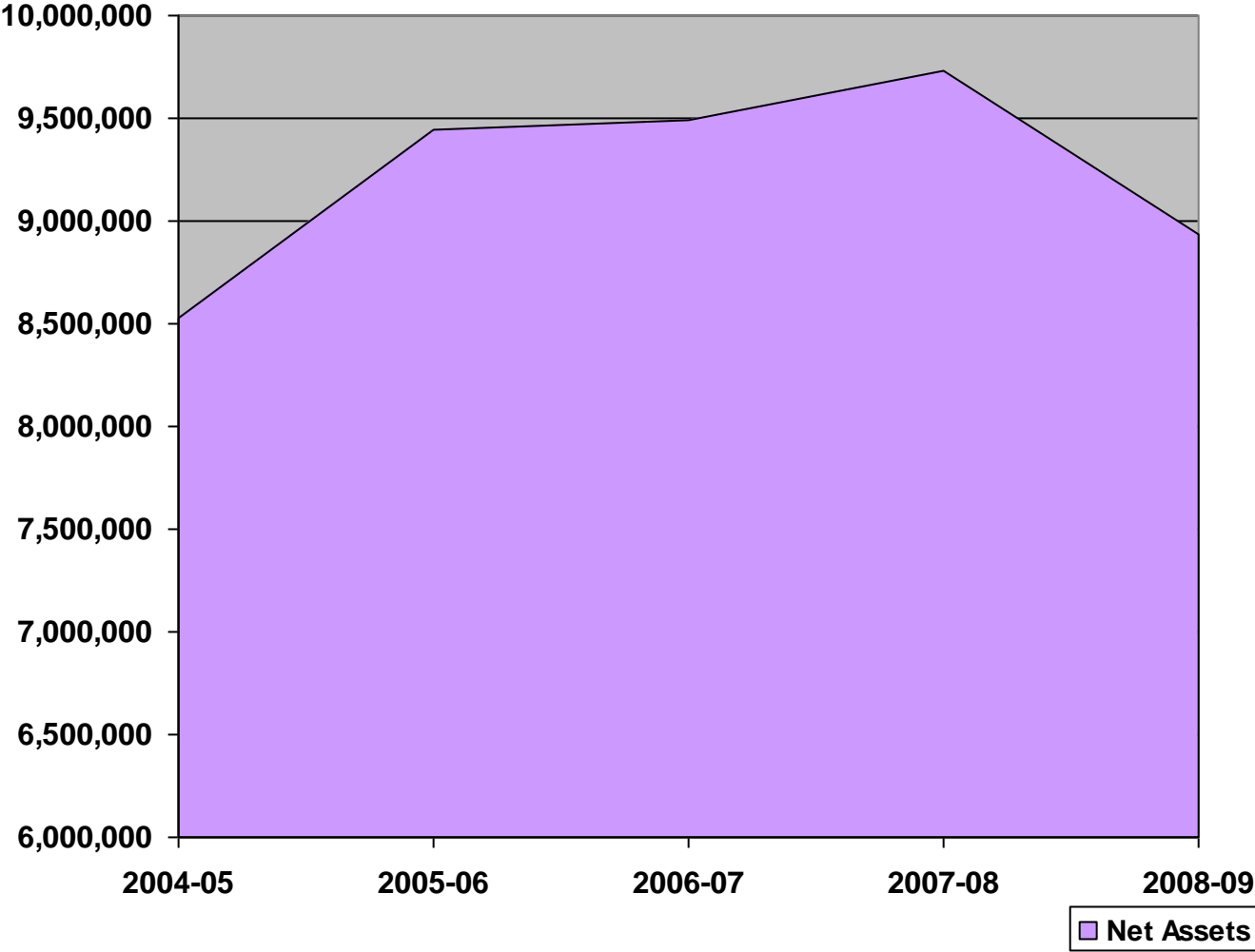
The District's net assets decreased by \$796,431 during the current fiscal year. This is compared to an increase of \$243,558 in the prior year. District-wide expenses exceeded revenue for the first time in the previous five years. This has been expected based on the recent trend in which the increase in expenses outpaces the increase in revenue. The District's largest source of revenue, the Foundation Allowance, is a per-pupil grant funded through a mixture of state aid and local property taxes. Total Foundation Allowance revenue is driven by the number of students enrolled in the District. Enrollment has stagnated and begun to decline with the State's economy and job market worsening. Revenue and net asset growth/decline are closely tied to our enrollment trend.

The economy, job market, and related slumping housing market have begun to reduce local property tax revenue, placing a greater burden on the State of Michigan to fund the Foundation Allowance. In order to fund its portion of the Foundation Allowance the state relies on several factors tied to the economy. The District did initially receive an increase in its per-pupil Foundation Allowance from \$7,204 to \$7,316; however, with the weakening of the state and national economies the state was unable to fund each student at this level. Ultimately, the Foundation Allowance was reduced by \$372, and federal stimulus money was used to make up the loss.

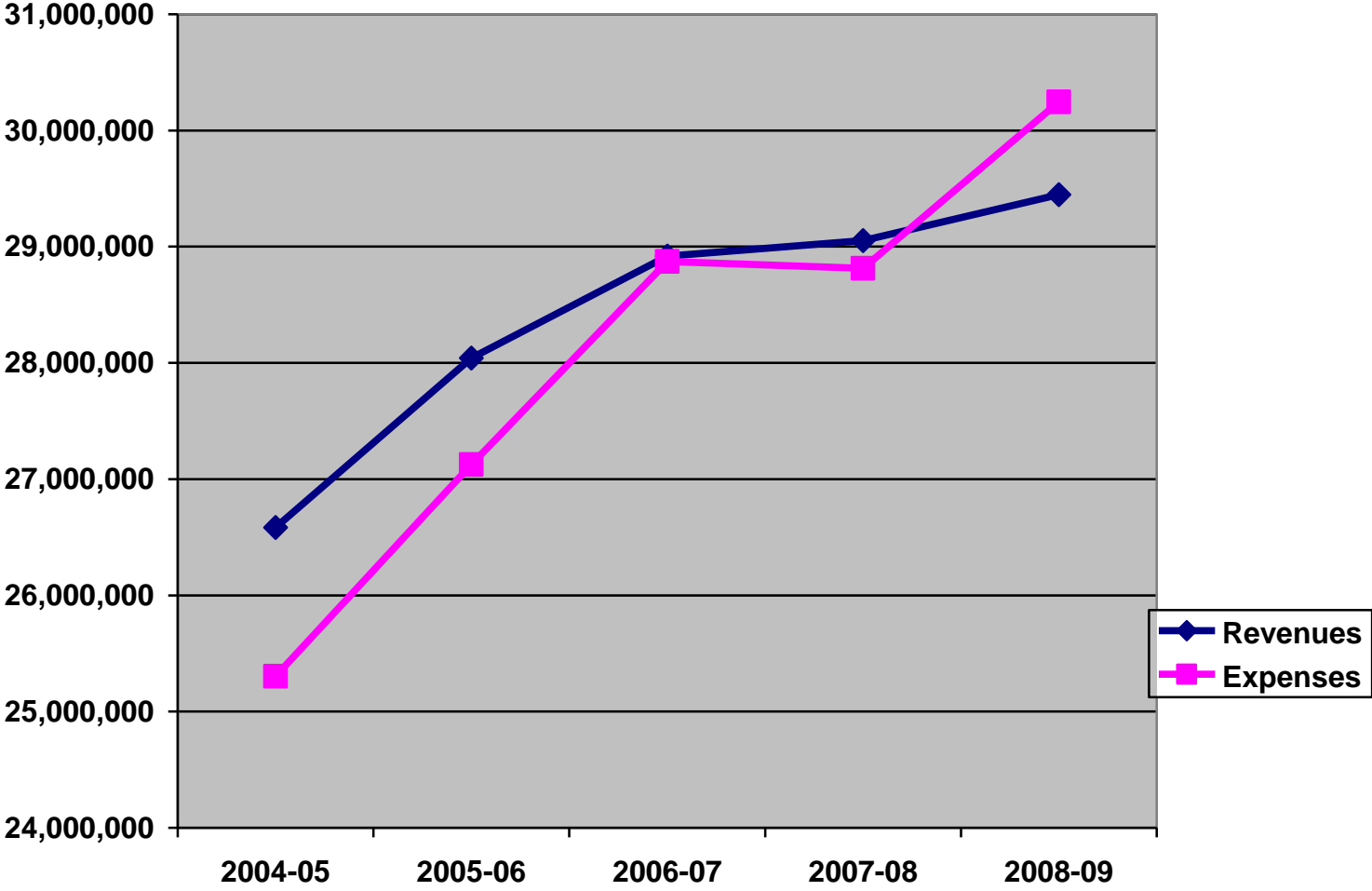
District's Changes in Net Assets

	Governmental Activities	
	<u>2008-09</u>	<u>2007-08</u>
Revenue:		
Program revenue:		
Charges for services	\$ 1,100,351	\$ 1,331,350
Operating grants and contributions	3,202,063	2,020,617
General revenue:		
Property taxes	5,615,932	5,237,569
State school aid	19,255,153	20,177,147
Other	273,939	305,946
Total revenue	<u>29,447,438</u>	<u>29,072,629</u>
Expenses:		
Instruction	15,862,846	14,927,908
Supporting services	9,564,246	9,253,703
Community service	394,600	387,303
Athletics	588,821	611,205
Food service	1,073,676	928,879
Interest on long-term debt	1,501,964	1,524,172
Unallocated depreciation	1,257,716	1,195,901
Total expenses	<u>30,243,869</u>	<u>28,829,071</u>
Increase (decrease) in net assets	(796,431)	243,558
Net assets, beginning of year	<u>9,731,563</u>	<u>9,488,005</u>
Net assets, end of year	<u><u>\$ 8,935,132</u></u>	<u><u>\$ 9,731,563</u></u>

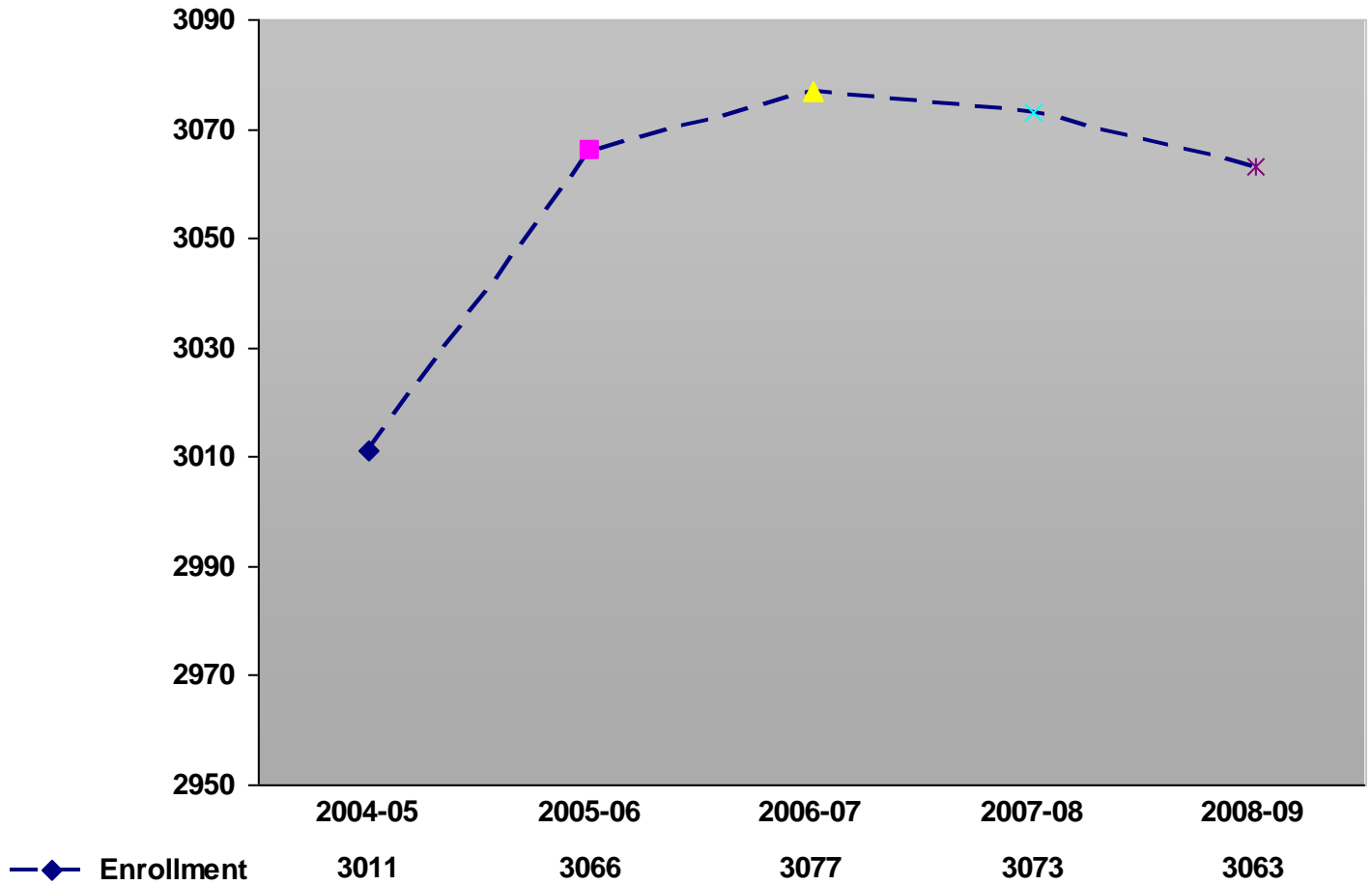
Net Asset Trend – Last Five Years



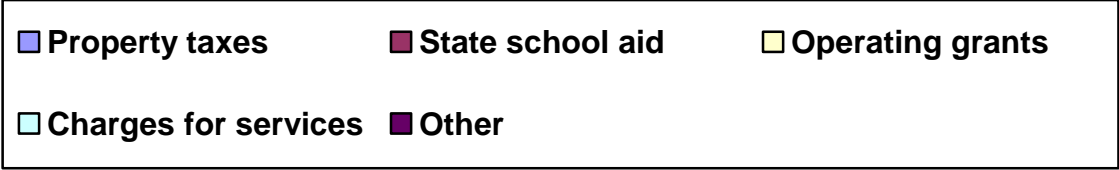
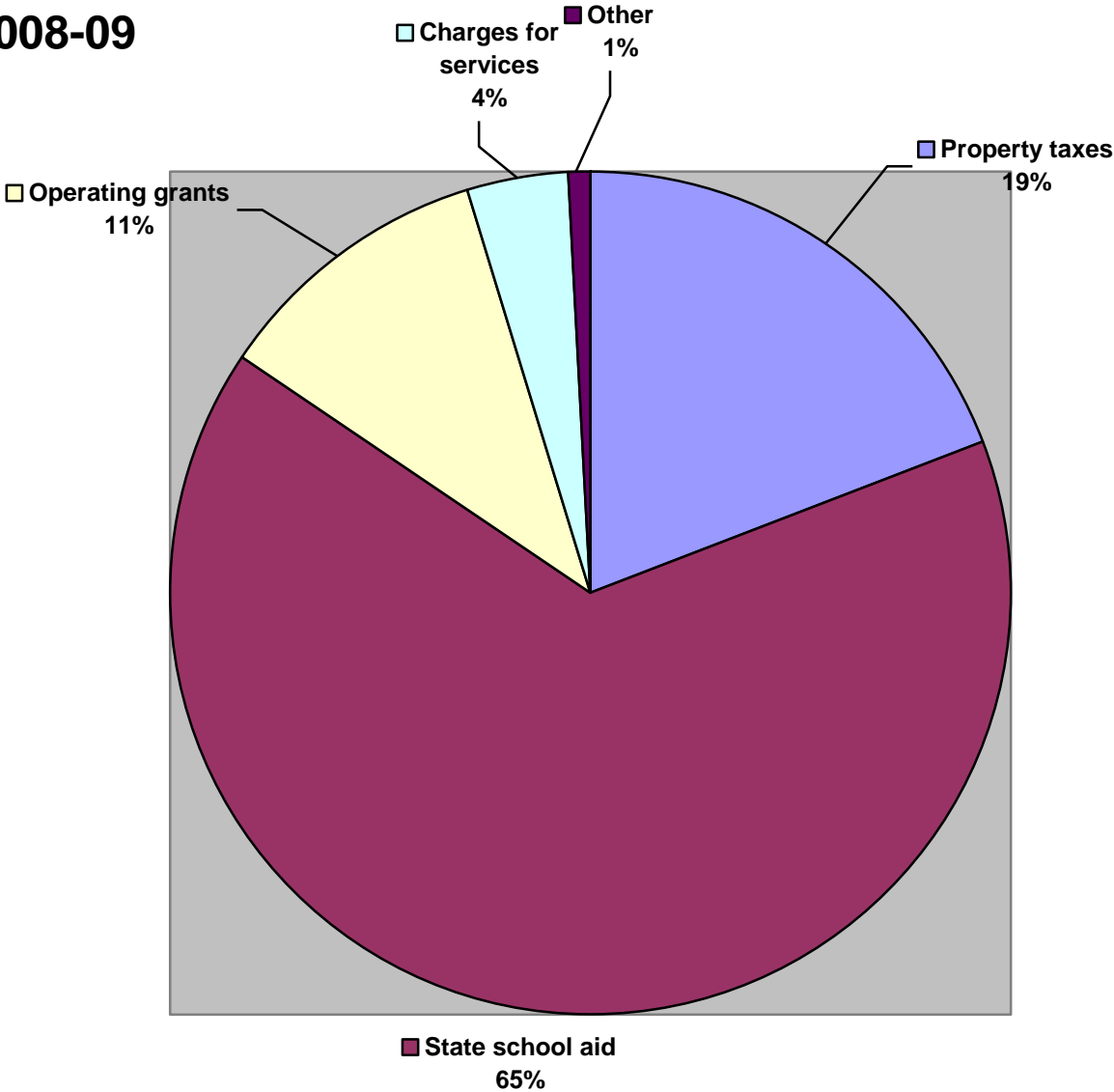
Total Expenses vs. Total Revenue – Governmental Activities (District-wide)



Enrollment - Blended Pupil Counts

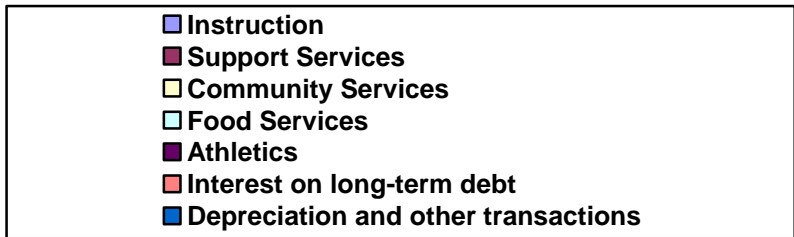
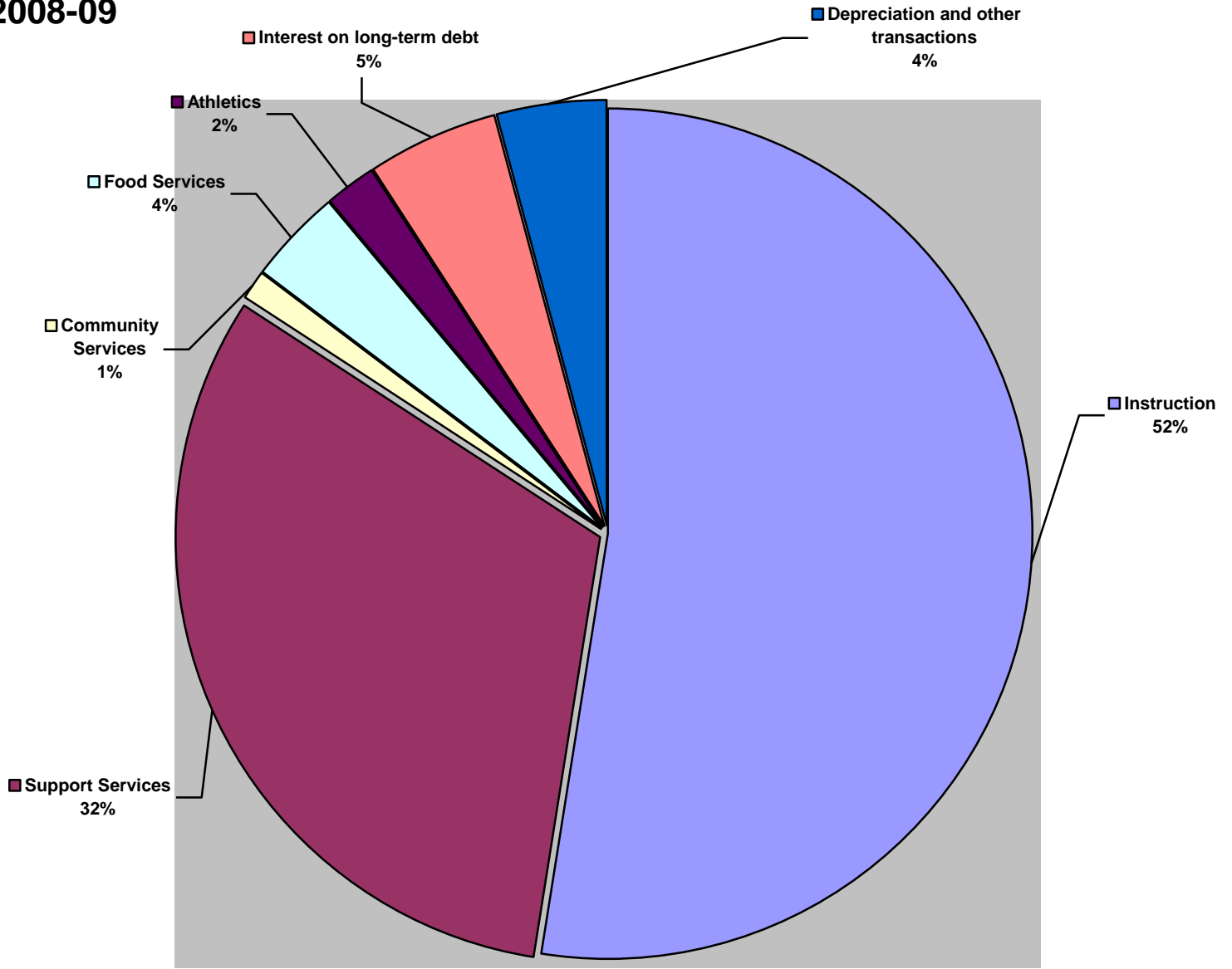


2008-09



Expenses by Function – Governmental Activities (District-wide)

2008-09



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,829,187 a decrease of \$1,393,810 in comparison with the prior year. Approximately 99% of this total amount (\$2.8 million) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are included in inventory and are not available for current expenditure.

The general fund is the chief operating fund of the District, and represents the bulk of the District's unreserved fund balance. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,746,080. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents approximately 6.8 percent, or just less than one month, of total general fund expenditures.

During the current fiscal year, the fund balance in the District's general fund decreased by \$1,108,779. This is a significant change in the fund's financial position and was a larger drop than the District anticipated at the beginning of the fiscal year (see Budgetary Highlights below). The decrease amounts to an approximate 39% change in available resources.

General Fund Budgetary Highlights

Differences between the original and final amended budgets were significant and represented a change in anticipated ending reserves of approximately one million dollars. As additional information became available throughout the year, subsequent budget amendments adjusted revenue as necessary. The largest change in the revenue budgets was the last minute reduction of state aid and the subsequent replacement of it with state budget stabilization funds (federal stimulus dollars). Additional large changes in revenue centered on the elimination of an alternative education consortium, with Fenton and Lake Fenton, and a drop in student enrollment of approximately 30 students from what was originally estimated. Expenditures overall grew from the original to the final budget. Additional cost increases were focused on legal fees/case settlement, contract settlements, and increased special education needs, including additional teacher, speech and paraprofessional support.

Differences between the final amended budget and actual results were significantly less. Both total revenues and total expenditures were off by less than 1%.

General Fund Budget Information

	Original Budget	Final Budget	Actual
Revenue:			
Local sources	\$ 3,264,226	\$ 3,140,935	\$ 2,292,901
State sources	20,965,217	19,633,445	19,589,676
Federal sources	1,235,013	2,376,763	2,065,894
Transfers from other districts	447,438	377,000	466,204
Transfers in (from other funds)	618,063	614,592	101,929
Total revenue	26,529,957	26,142,735	24,516,604
Expenditures:			
Instruction	15,364,047	15,927,024	15,914,893
Supporting services	9,337,263	9,443,159	9,132,627
Debt service	74,240	65,805	61,300
Transfers out (to other funds)	618,492	636,579	516,563
Total expenses	25,394,042	26,072,567	25,625,383
Net change in fund balance	1,135,915	70,168	(1,108,779)
Fund balances, beginning of year	2,854,859	2,854,859	2,854,859
Fund balances, end of year	\$ 3,990,774	\$ 2,925,027	\$ 1,746,080

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets, which includes land, buildings, vehicles and equipment, for its governmental activities as of June 30, 2009, amounted to \$39,108,538 (net of accumulated depreciation), which is a decrease from the prior year's investment of \$39,333,559. The decrease in the District's investment in capital assets was due to depreciation on existing assets outpacing the current year's additions. Additions have slowed as the resources and related capital expenditures from the 2003 Capital Projects Funds continue to taper off.

District's Capital Assets (net of depreciation)

	2008-09	2007-08
Land, Buildings and additions	\$ 33,745,219	\$ 34,085,874
Site improvements	4,649,924	4,730,878
Equipment and furniture	617,838	447,416
Vehicles	10,729	12,517
Construction in progress	84,828	56,874
Total	\$ 39,108,538	\$ 39,333,559

Additional information on the District's capital assets can be found in note III.C on page 37 of this report.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$32,191,218. Of this amount, \$185,460 is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations, and is payable solely from state aid payments from the State of Michigan.

The District's total debt decreased by \$835,698 during the current fiscal year. Total debt outstanding was generally reduced by regularly scheduled principle payments. The District did add additional debt by offering an early retirement incentive that was accepted by thirteen (13) staff members. Terms of the agreement offered each eligible employee \$45,000; payable in three (3) annual installments of \$15,000.

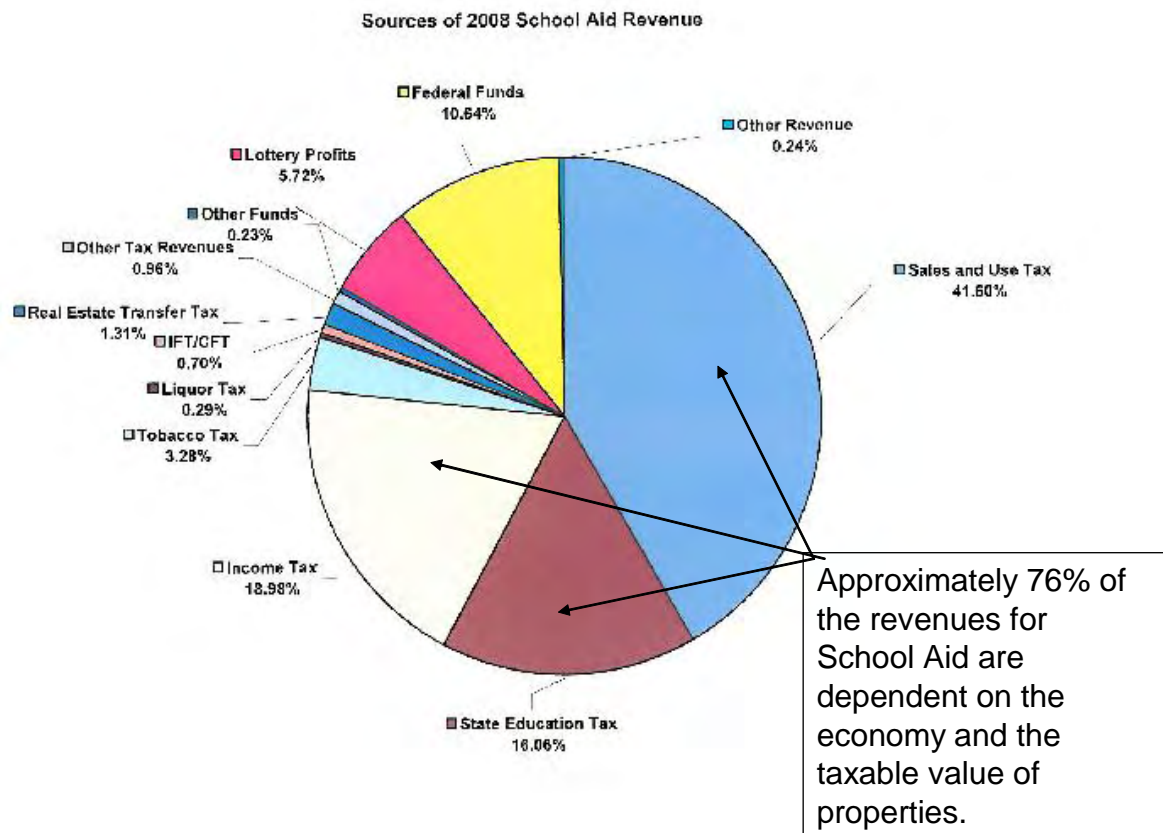
Additional information on the District's long-term debt can be found in note III.F on pages 39-41 of this report.

Factors Bearing on the District's Future

The following factors will affect the District in the future and were considered in preparing the District's budget for the 2009-10 fiscal year:

- Health insurance related benefits (i.e. medical, dental and vision) continues to increase in cost. This is not isolated to the District and can be seen across the country. Management does not anticipate a decline in the cost to provide these benefits in the near future. No full time staff members are currently contributing toward the costs of these benefits. Rate increases for the 2009-10 fiscal year were approximately 8%.
- The contribution rate for retirement services has been increased by the State of Michigan for the State's 2009-10 fiscal year from 16.54% to 16.94% of gross salaries.
- Contract settlements call for wage increases of 1.5%.
- Thirteen (13) took a buyout offered under an Early Separation Incentive Plan to members at the top of the wage scales in the teacher's bargaining unit during the 2008-09 fiscal year. The plan will pay \$15,000 over 3 years (2009, 2010 & 2011). \$195,000 was budgeted for 2009-10. Several of the positions were not replaced, and the remainders were replaced with less highly-paid individuals.
- Kindergarten students for 2009-10 were relocated from Argentine Elementary into the other district elementary buildings. The costs to maintain and operate the building were transferred to the District's fee-based programs (Preschool, Community Education, etc.). Savings in excess of \$400,000 are anticipated in the general fund due to a reduction of utilities and administrative and support personnel.
- Large rate increases in the District's utilities (natural gas, electric, diesel fuel) have been seen in the last few years. These increases are based on market and weather conditions and always place a certain level of uncertainty on the District's budget projections.

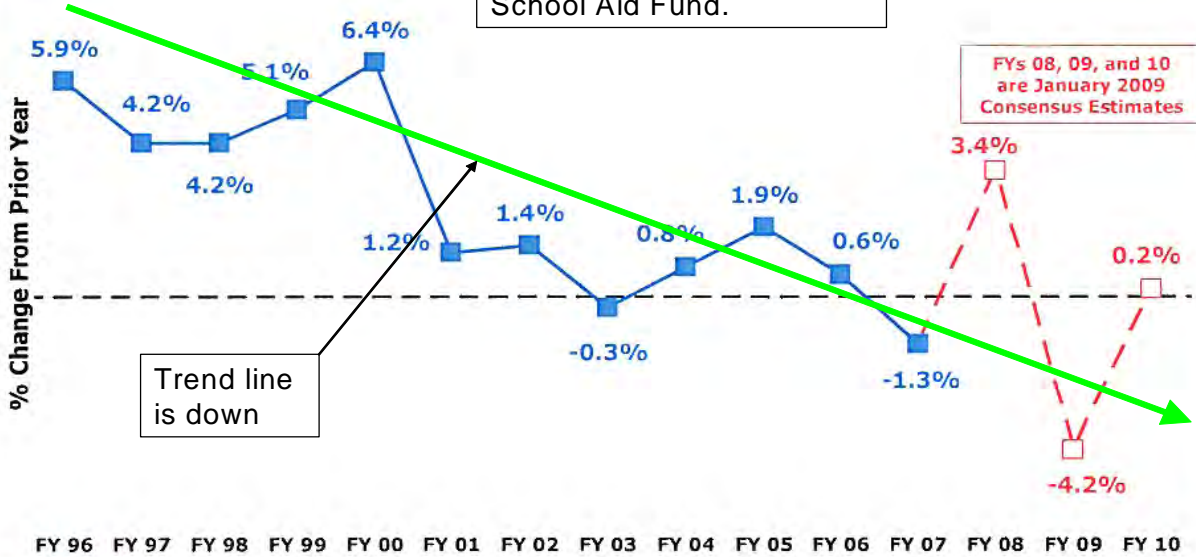
- Local housing data, state economic data and various factors led the District to project a loss of enrollment of 20 students for the 2009-10 budget. The state's economic outlook is bleak and could have an undetermined effect on the enrollment of the District in future years. State-wide pupil enrollment has been declining steadily since 2003.
- The state's economy continues to struggle leaving revenues well below anticipated amounts. Continued economic stagnation threatens the State's ability to adequately fund its local schools at a continued level of support. Continuing reports forced the District to budget for no increase in the per pupil amount determined by the State.





Sales Tax Revenue

Sales taxes are the largest source of revenue for the School Aid Fund.



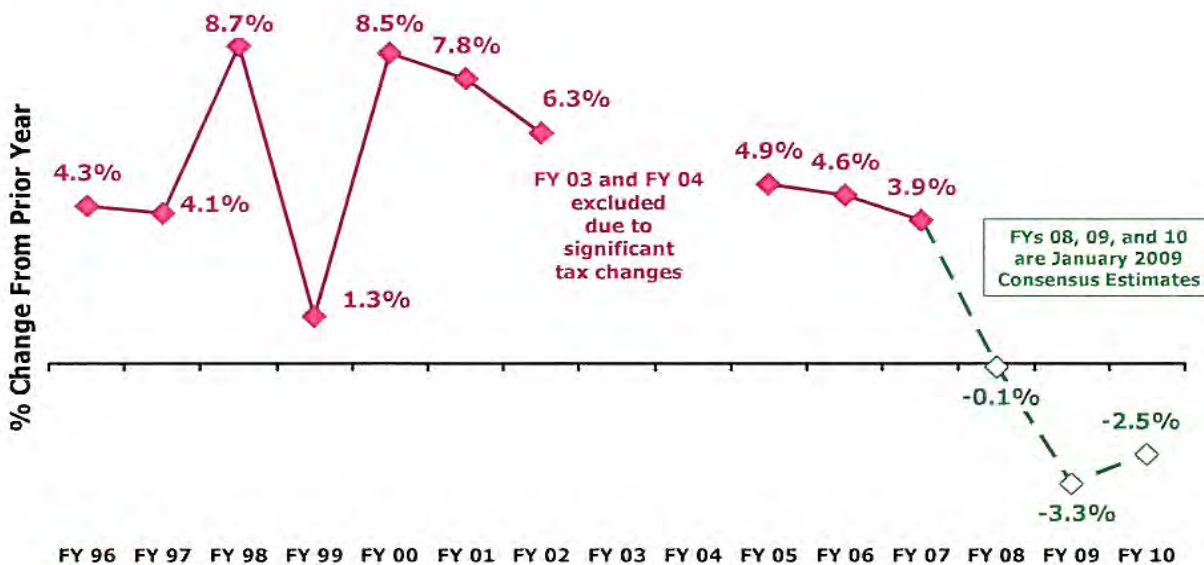
HOUSE OF REPRESENTATIVES
FISCAL
AGENCY

January 2009

29



State Education Tax Revenue



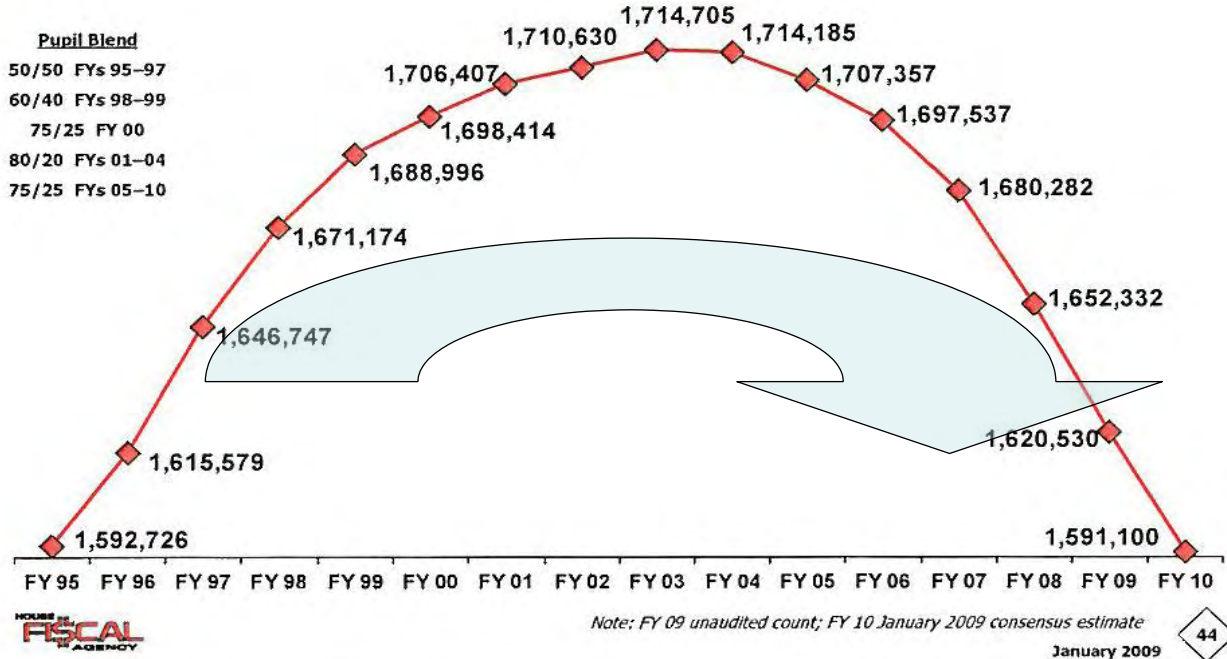
HOUSE OF REPRESENTATIVES
FISCAL
AGENCY

January 2009

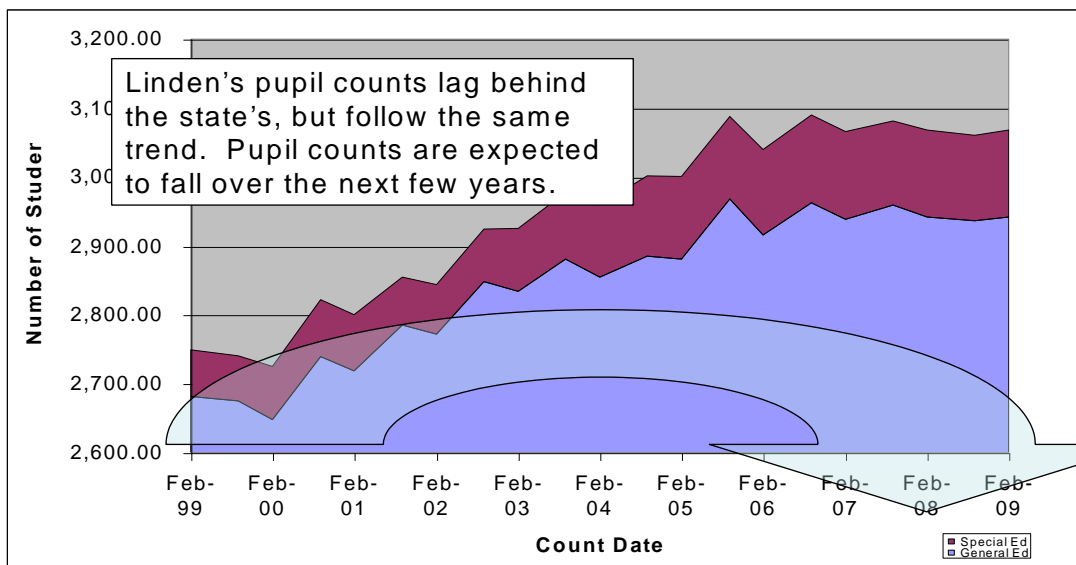
31



Total Membership Pupil Counts



Linden Pupil Count



Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Superintendent, 7205 West Silver Lake Rd, Linden, MI 48451.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

LINDEN COMMUNITY SCHOOLS
Statement of Net Assets
June 30, 2009

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 2,678,799
Receivables	4,074,763
Prepaid items and other assets	49,261
Capital assets not being depreciated	84,828
Capital assets being depreciated, net	<u>39,023,710</u>
Total assets	<u>45,911,361</u>
 Liabilities	
Accounts payable and accrued liabilities	2,461,763
State aid note payable	1,500,000
Unearned revenue	57,999
Noncurrent liabilities:	
Due within one year	1,556,457
Due in more than one year	<u>31,400,010</u>
Total liabilities	<u>36,976,229</u>
 Net assets	
Invested in capital assets, net of related debt	7,327,828
Restricted for:	
Debt service	45,687
Construction projects	418,511
Other purposes	204,001
Unrestricted	<u>939,105</u>
Total net assets	<u><u>\$ 8,935,132</u></u>

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

LINDEN COMMUNITY SCHOOLS

Statement of Activities For the Year Ended June 30, 2009

<u>Functions / Programs</u>	Program Revenues			Net (Expense)
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Revenue</u>
Governmental activities:				
Instruction	\$ 15,862,846	\$ 124,651	\$ 2,568,788	\$ (13,169,407)
Supporting services	9,564,246	-	59,149	(9,505,097)
Community service	394,600	279,009	133,753	18,162
Athletics	588,821	73,018	-	(515,803)
Food service	1,073,676	623,673	435,320	(14,683)
Interest on long-term debt	1,501,964	-	5,053	(1,496,911)
Unallocated depreciation	1,257,716	-	-	(1,257,716)
	<u>\$ 30,243,869</u>	<u>\$ 1,100,351</u>	<u>\$ 3,202,063</u>	<u>(25,941,455)</u>
Total				
General revenues:				
Property taxes				5,615,932
Unrestricted state aid				19,255,153
Grants and contributions not restricted to specific programs				228,343
Unrestricted investment earnings				45,596
				<u>25,145,024</u>
				(796,431)
				<u>9,731,563</u>
				<u>\$ 8,935,132</u>

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

FUND FINANCIAL STATEMENTS

LINDEN COMMUNITY SCHOOLS

Balance Sheet

Governmental Funds

June 30, 2009

	<u>ASSETS</u>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Assets				
Cash and cash equivalents		\$ 1,580,691	\$ 1,098,108	\$ 2,678,799
Accounts receivable		16,585	12,119	28,704
Due from other governments		3,841,124	204,935	4,046,059
Inventory		-	12,993	12,993
Prepaid items		36,268	-	36,268
	<u>TOTAL ASSETS</u>	<u>\$ 5,474,668</u>	<u>\$ 1,328,155</u>	<u>\$ 6,802,823</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable		\$ 39,587	\$ 13,308	\$ 52,895
Salaries and benefits payable		2,159,818	17,464	2,177,282
Deferred revenue		29,183	214,276	243,459
Notes payable		1,500,000	-	1,500,000
	Total liabilities	<u>3,728,588</u>	<u>245,048</u>	<u>3,973,636</u>
 Fund balances				
Reserved for prepaid items		36,268	-	36,268
Reserved for inventory		-	12,993	12,993
Unreserved:				
Designated for capital improvements		606,523	-	606,523
Designated for future operations		207,771	-	207,771
Undesignated		895,518	-	895,518
Undesignated, reported in nonmajor:				
Special revenue funds		-	154,740	154,740
Debt service funds		-	271,815	271,815
Capital projects funds		-	643,559	643,559
	Total fund balances	<u>1,746,080</u>	<u>1,083,107</u>	<u>2,829,187</u>
	<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 5,474,668</u>	<u>\$ 1,328,155</u>	<u>\$ 6,802,823</u>

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

LINDEN COMMUNITY SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2009

Fund balances - total governmental funds	\$ 2,829,187
--	--------------

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 therefore are not reported in the funds.

Add - capital assets	49,075,333
Deduct - accumulated depreciation	(9,966,795)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred long-term receivables	185,460
-------------------------------------	---------

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds and loans payable	(32,697,752)
Deduct - capital leases payable	(202,757)
Add - unamortized bond issuance costs	266,875
Add - unamortized loss on refunding	718,027
Deduct - unamortized bond premium	(503,066)
Add - unamortized bond discount	24,698
Deduct - accrued interest on bonds payable	(231,586)
Deduct - compensated absences	(172,492)
Deduct - early retirement incentives	(390,000)

Net assets of governmental activities	\$ <u>8,935,132</u>
---------------------------------------	---------------------

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

LINDEN COMMUNITY SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	General	Other Governmental Funds	Totals
Revenue			
Local sources	\$ 2,292,901	\$ 4,458,637	\$ 6,751,538
State sources	19,589,676	197,890	19,787,566
Federal sources	2,065,894	395,535	2,461,429
Transfers from other districts	466,204	-	466,204
	<hr/>	<hr/>	<hr/>
Total revenue	24,414,675	5,052,062	29,466,737
Expenditures			
Education:			
Instruction	15,914,893	-	15,914,893
Support services	9,132,627	-	9,132,627
Food service activities	-	1,073,676	1,073,676
Athletic programs	-	588,821	588,821
Community services	-	253,161	253,161
Debt service:			
Principal	48,932	1,202,620	1,251,552
Interest	12,368	1,462,889	1,475,257
Capital outlay	-	1,170,560	1,170,560
	<hr/>	<hr/>	<hr/>
Total expenditures	25,108,820	5,751,727	30,860,547
Revenue under expenditures	<hr/>	<hr/>	<hr/>
	(694,145)	(699,665)	(1,393,810)
Other financing sources (uses)			
Transfers in	101,929	516,563	618,492
Transfers out	(516,563)	(101,929)	(618,492)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(414,634)	414,634	-
Net change in fund balances	(1,108,779)	(285,031)	(1,393,810)
Fund balances, beginning of year	<hr/>	<hr/>	<hr/>
	2,854,859	1,368,138	4,222,997
Fund balances, end of year	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	\$ 1,746,080	\$ 1,083,107	\$ 2,829,187

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

LINDEN COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2009

Net change in fund balances - total governmental funds \$ (1,393,810)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	1,032,695
Deduct - depreciation expense	(1,257,716)

The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.

Deduct - payments received on deferred long-term receivables	(19,299)
--	----------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	1,251,552
---	-----------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest payable on bonds and loans	6,000
Deduct - amortization of bond issuance costs and loss on refunding	(32,707)
Add - decrease in the accrual for compensated absences	6,854
Deduct - increase in early retirement incentives payable	(390,000)

Change in net assets of governmental activities	\$ (796,431)
---	--------------

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

LINDEN COMMUNITY SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund
For the Year Ended June 30, 2009

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Revenue				
Local sources	\$ 3,264,226	\$ 3,140,935	\$ 2,292,901	\$ (848,034)
State sources	20,965,217	19,633,445	19,589,676	(43,769)
Federal sources	1,235,013	2,376,763	2,065,894	(310,869)
Transfers from other districts	447,438	377,000	466,204	89,204
Total revenue	<u>25,911,894</u>	<u>25,528,143</u>	<u>24,414,675</u>	<u>(1,113,468)</u>
Expenditures				
Instruction				
Basic programs	12,369,712	12,750,705	12,743,472	(7,233)
Added needs	2,517,335	2,683,319	2,683,281	(38)
Transfers to other districts	477,000	493,000	488,140	(4,860)
Total instruction	<u>15,364,047</u>	<u>15,927,024</u>	<u>15,914,893</u>	<u>(12,131)</u>
Supporting services				
Pupil services	1,281,871	1,358,230	1,342,865	(15,365)
Instructional support	1,051,233	951,327	944,536	(6,791)
General administration	677,012	859,115	847,452	(11,663)
School administration	1,423,223	1,454,444	1,450,917	(3,527)
Business services	570,721	600,034	597,773	(2,261)
Operations and maintenance	2,214,907	2,146,162	2,143,609	(2,553)
Transportation	1,403,481	1,391,606	1,388,061	(3,545)
Technology	283,151	279,418	275,975	(3,443)
Community Services	431,664	402,823	141,439	(261,384)
Total supporting services	<u>9,337,263</u>	<u>9,443,159</u>	<u>9,132,627</u>	<u>(310,532)</u>
Debt service				
Principal repayment	59,258	52,526	48,932	(3,594)
Interest and fiscal charges	14,982	13,279	12,368	(911)
Total debt service	<u>74,240</u>	<u>65,805</u>	<u>61,300</u>	<u>(4,505)</u>
Total expenditures	<u>24,775,550</u>	<u>25,435,988</u>	<u>25,108,820</u>	<u>(327,168)</u>
Revenue over (under) expenditures	<u>1,136,344</u>	<u>92,155</u>	<u>(694,145)</u>	<u>(786,300)</u>
Other financing sources (uses)				
Transfers in	618,063	614,592	101,929	(512,663)
Transfers out	<u>(618,492)</u>	<u>(636,579)</u>	<u>(516,563)</u>	<u>120,016</u>
Total other financing uses	<u>(429)</u>	<u>(21,987)</u>	<u>(414,634)</u>	<u>(392,647)</u>
Net change in fund balance	1,135,915	70,168	(1,108,779)	(1,178,947)
Fund balances, beginning of year	<u>2,854,859</u>	<u>2,854,859</u>	<u>2,854,859</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 3,990,774</u></u>	<u><u>\$ 2,925,027</u></u>	<u><u>\$ 1,746,080</u></u>	<u><u>\$ (1,178,947)</u></u>

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

LINDEN COMMUNITY SCHOOLS
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2009

	Private- Purpose Trust Fund	Agency Funds
	Scholarships	Funds
Assets		
Cash and cash equivalents	\$ -	\$ 188,015
Investments	198,000	-
Total assets	198,000	\$ 188,015
Liabilities		
Due to student groups	-	\$ 188,015
Net assets		
Restricted - nonexpendable corpus	200,000	
Unrestricted (deficit)	(2,000)	
Total net assets	\$ 198,000	

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

LINDEN COMMUNITY SCHOOLS
Statement of Changes in Fiduciary Net Assets
Private-Purpose Trust Fund
For the Year Ended June 30, 2009

	Scholarships
Additions	
Local revenue - interest / change in investments	\$ (40,537)
Deductions	
Scholarships	375
Decrease in net assets	(40,912)
Net assets, beginning of year	238,912
Net assets, end of year	\$ 198,000

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

NOTES to the FINANCIAL STATEMENTS

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Linden Community Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2009.

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 to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided 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. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

C. Measurement focus, basis of accounting, and financial statement presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. 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.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenue, 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 the government receives cash.

The District reports the following major governmental funds:

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

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations, specifically, athletics, food service and community service (i.e. fee-based early childhood programs).

The *debt service funds* are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The *capital projects funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities and improvements.

The *private-purpose trust funds* account for amounts entrusted to the District for scholarship awards and similar trust activities.

The *agency funds* account for assets held for student activity groups and organizations and are custodial in nature.

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

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

3. Inventories and prepaid items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both District-wide and fund financial statements.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	10-20
Buildings and improvements	25-50
Equipment	5-20
Licensed vehicles	8

5. *Compensated absences*

It is the District's policy to permit employees to accumulate various earned but unused vacation and sick pay benefits. These are accrued when incurred in the District-wide financial statements. A liability for sick pay amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. There are no contract provisions for the payment of unused vacation.

Benefits are accrued based on various contract stipulations and lengths of service. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

6. *Long-term obligations*

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

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 in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Subsequent Events

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2009, the most recent statement of net assets presented herein, through the auditors' report date, the date these financial statements were available to be issued. No significant such events or transactions were identified.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

B. Excess of expenditures over appropriations

P. A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2009, the District incurred no expenditures in excess of the amounts appropriated at the legal level of budgetary control, the functional level.

C. Related Party Transactions

During the fiscal year no material related party transactions were reported.

D. Deficit fund equity

The District's Private Purpose Trust fund had a deficit unrestricted net asset balance of \$2,000, but had a positive overall net asset balance of \$198,000 as of June 30, 2009. The deficit was due to declines in market value of its investments held in trust. The District does not intend to distribute scholarships from this trust until such time as the unrestricted net assets warrant the ability to do so.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets	
Cash and cash equivalents	\$ 2,678,799
Statement of Fiduciary Net Assets	
Cash and cash equivalents	188,015
Investments	<u>198,000</u>
	<u>\$ 3,064,814</u>
Cash on hand	\$ 2,800
Deposits (checking/savings accounts)	1,461,299
Investments	<u>1,600,715</u>
	<u>\$ 3,064,814</u>

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

Statutory Authority

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allow for all of these types of investments.

Investments

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following investments.

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Franklin Templeton Money Market Fund	n/a	\$ 198,000	n/a
Michigan Liquid Asset Fund (MILAF)	n/a	<u>1,402,715</u>	S&P-AAAm
		<u>\$ 1,600,715</u>	

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings on investments are noted above.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$1,592,901 of the District's bank balance of \$1,843,553 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk 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. State law does not require and the District does not have a policy for investment custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

B. Receivables

For the year ended June 30, 2009, receivables for the governmental activities are approximately 99 percent due from the State of Michigan and 1 percent other receivables. Except for \$73,052 of these receivables, the balance is expected to be collected within the next fiscal year.

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2009 the District's governmental funds reported \$185,460 of *deferred revenue* related to long-term receivables recorded in connection with the Durant settlement (see Note III.F - Long-term debt), and \$57,999 of *unearned revenue* from prepayments on fee-based programs.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated -				
Construction in progress	\$ 56,874	\$ 84,828	\$ (56,874)	\$ 84,828
Capital assets being depreciated:				
Land improvements	5,391,647	185,707	-	5,577,354
Construction	41,999,114	557,281	-	42,556,395
Buses and other vehicles	17,881	-	-	17,881
Machinery and equipment	577,122	261,753	-	838,875
Total capital assets being depreciated	<u>47,985,764</u>	<u>1,004,741</u>	<u>-</u>	<u>48,990,505</u>
Less accumulated depreciation for:				
Land improvements	(660,769)	(266,661)	-	(927,430)
Construction	(7,913,240)	(897,936)	-	(8,811,176)
Buses and other vehicles	(5,364)	(1,788)	-	(7,152)
Machinery and equipment	(129,706)	(91,331)	-	(221,037)
Total accumulated depreciation	<u>(8,709,079)</u>	<u>(1,257,716)</u>	<u>-</u>	<u>(9,966,795)</u>
Total capital assets being depreciated, net	<u>39,276,685</u>	<u>(252,975)</u>	<u>-</u>	<u>39,023,710</u>
Governmental activities capital assets, net	<u>\$ 39,333,559</u>	<u>\$ (168,147)</u>	<u>\$ (56,874)</u>	<u>\$ 39,108,538</u>

Depreciation expense of \$1,257,716 was charged to the function "Unallocated Depreciation", and not allocated to other functions.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

D. Payables

For the year ended June 30, 2009, accounts payable and accrued liabilities for the governmental activities are approximately 82 percent salaries and benefits payable, 9 percent due to vendors and 9 percent accrued interest on long-term debt.

E. Interfund receivables, payables and transfers

At June 30, 2009, no interfund receivables and payables were reported.

The District, from time to time, will report interfund balances between some of its funds. These interfund balances result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year ended June 30, 2009, interfund transfers consisted of the following:

	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$ 516,563	\$ 101,929
Non-major governmental funds	<u>101,929</u>	<u>516,563</u>
	<u>\$ 618,492</u>	<u>\$ 618,492</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2009, the District transferred funds to subsidize the athletics program, and to recapture costs incurred by the General Fund for the benefit of other funds.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

F. Long-term debt

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2009:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation bonds	\$ 33,929,759	\$ -	\$ 1,199,299	\$ 32,730,460	\$ 1,338,849
Deferred items	(571,949)	-	32,707	(539,242)	(32,708)
Capital leases	255,010	-	52,253	202,757	55,316
Compensated absences	179,346	-	6,854	172,492	-
Early retirement incentives	-	585,000	195,000	390,000	195,000
	<u>\$ 33,792,166</u>	<u>\$ 585,000</u>	<u>\$ 1,486,113</u>	<u>\$ 32,956,467</u>	<u>\$ 1,556,457</u>

Capital leases, compensated absences and early retirement incentives are typically liquidated by the general fund.

Bonds payable at June 30, 2009, are comprised of the following issues:

General Obligation Bonds:

* \$346,777 1998 Durant School Improvement Bonds, due in annual installments of \$20,217 to \$118,849 through 2013; interest at 4.80%	\$ 185,460
\$1,710,000 2004 Energy Bonds, due in annual installments of \$175,000 to \$200,000 through 2014; interest at 3.58%	935,000
\$35,000,000 2003 Building and Site Bonds, due in annual installments of \$970,000 to \$2,300,000 through 2029; interest at 2.50% to 5.25%	16,280,000
2005 Refunding Bonds, due in annual installments of \$45,000 to \$1,965,000 through 2026; interest at 3.50% to 4.25%	7,670,000
2006 Refunding Bonds, due in annual installments of \$30,000 to \$2,120,000 through 2027, interest at 2.0% to 4.0%.	<u>7,660,000</u>
	<u>\$ 32,730,460</u>

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

* The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,338,849	\$ 1,465,159	\$ 2,804,008
2011	1,281,180	1,380,536	2,661,716
2012	1,322,187	1,333,841	2,656,028
2013	1,383,244	1,284,161	2,667,405
2014	1,410,000	1,229,474	2,639,474
2015-2019	7,055,000	5,130,236	12,185,236
2020-2024	8,605,000	3,379,900	11,984,900
2025-2029	10,335,000	1,469,440	11,804,440
	<u><u>\$ 32,730,460</u></u>	<u><u>\$ 16,672,747</u></u>	<u><u>\$ 49,403,207</u></u>

Annual debt service requirements to maturity for capital leases are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 55,316	\$ 10,145	\$ 65,461
2011	58,559	6,902	65,461
2012	61,992	3,469	65,461
2013	26,890	385	27,275
	<u><u>\$ 202,757</u></u>	<u><u>\$ 20,901</u></u>	<u><u>\$ 223,658</u></u>

Annual debt service requirements to maturity for the remaining early retirement incentives are \$195,000 for 2010 and 2011.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

Advance Refunding

In a prior year, the District defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts for the purpose of generating resources for all future debt service payments on the refunded debt. As a result, the refunded bonds are considered to be defeased and the trust fund assets and related liabilities have been removed from the statement of net assets.

The balance of defeased bonds outstanding as of June 30, 2009 was \$14,410,000, which represents \$7,290,000 and \$7,120,000 placed in escrow as part of the 2005 and 2006 debt refundings, respectively.

G. Short-Term Debt

During the year, the District financed certain of its operations through the issuance of property tax and State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly are recorded as liabilities of the respective funds from which they were issued.

Changes in short-term state aid notes for the year ended June 30, 2009, were as follows:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
State aid note	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method the District must reimburse the Employment Commission for all benefits paid out. No material unemployment expense is recorded in the Statement of Activities and no provision has been made for possible future claims.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

B. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1, and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14, and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

C. Defined benefit pension plan

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems 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, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-6000.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000. Basic Plan members make no contributions. The Linden Community Schools is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The rate from July to September was 16.72% and from October through June was 16.54% of covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPERS for the years ended June 30, 2009, 2008 and 2007 were \$2,324,432, \$2,287,153 and \$2,326,315, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1998 with the vested deferred benefits, are eligible for partially State of Michigan paid health benefit coverage (no payment if less than 21 years of service).

D. Bonded Construction Costs

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code.

E. Sinking Fund

The Sinking Fund Capital Project Fund records capital project activities funded with a Sinking Fund millage. For this fund, the District has complied with the applicable provisions of §1212(1) of the Michigan Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

F. Contingent Liabilities

The District is currently engaged in litigation as one of two plaintiffs against the Genesee County Drain Commissioner and Argentine Township over the formula used to calculate and assess capital connection fees for its new Middle School and various other buildings. The litigation challenges the constitutionality of the formula and seeks a refund of any overcharges.

As a result of the ongoing litigation, under the advice of legal counsel, the District has declined to pay the remaining balance of \$221,666. Throughout this litigation, the Township has threatened to take action to collect this sum, but has taken no such action to date. The District has considered the requirements of Financial Accounting Standards Board Statement No. 5, *Accounting for Contingencies* in determining that no liability for this litigation needs to be recorded in these financial statements.

* * * * *

COMBINING FINANCIAL STATEMENTS

LINDEN COMMUNITY SCHOOLS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2009

	Special Revenue		
<u>ASSETS</u>	Athletics	Food Service	Community Service
Assets			
Cash and cash equivalents	\$ 71	\$ 109,063	\$ 67,318
Accounts receivable	-	4,974	7,145
Due from other governments	-	8,343	11,132
Inventory	-	12,993	-
<u>TOTAL ASSETS</u>	\$ 71	\$ 135,373	\$ 85,595
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ -	\$ 7,026	\$ -
Salaries and benefits payable	-	17,464	-
Deferred revenue	-	7,656	21,160
Total liabilities	-	32,146	21,160
Fund balances			
Reserved for inventory	-	12,993	-
Unreserved, undesignated	71	90,234	64,435
Total fund balances	71	103,227	64,435
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 71	\$ 135,373	\$ 85,595

Debt Service				Capital Projects		Total
2003 Debt Service	2005 Debt Service	2006 Debt Service	Durant Debt Service	Sinking Fund	2003 Capital Projects	
\$ 141,676	\$ 70,463	\$ 59,676	\$ -	\$ 424,793	\$ 225,048	\$ 1,098,108
-	-	-	-	-	-	12,119
-	-	-	185,460	-	-	204,935
-	-	-	-	-	-	12,993
<u>\$ 141,676</u>	<u>\$ 70,463</u>	<u>\$ 59,676</u>	<u>\$ 185,460</u>	<u>\$ 424,793</u>	<u>\$ 225,048</u>	<u>\$ 1,328,155</u>
\$ -	\$ -	\$ -	\$ -	\$ 6,282	\$ -	\$ 13,308
-	-	-	-	-	-	17,464
-	-	-	185,460	-	-	214,276
-	-	-	185,460	6,282	-	245,048
-	-	-	-	-	-	12,993
141,676	70,463	59,676	-	418,511	225,048	1,070,114
141,676	70,463	59,676	-	418,511	225,048	1,083,107
<u>\$ 141,676</u>	<u>\$ 70,463</u>	<u>\$ 59,676</u>	<u>\$ 185,460</u>	<u>\$ 424,793</u>	<u>\$ 225,048</u>	<u>\$ 1,328,155</u>

LINDEN COMMUNITY SCHOOLS
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2009

	<u>Special Revenue</u>		
	<u>Athletics</u>	<u>Food Service</u>	<u>Community Service</u>
Revenue			
Local sources	\$ 73,018	\$ 623,673	\$ 223,988
State aid	-	65,380	108,158
Federal sources	-	369,940	25,595
	<u>73,018</u>	<u>1,058,993</u>	<u>357,741</u>
Expenditures			
Food service activities	-	1,073,676	-
Athletic programs	588,821	-	-
Community services	-	-	253,161
Debt service:			
Principal repayment	3,321	-	-
Interest and fiscal charges	839	-	-
Capital outlay	-	-	-
	<u>592,981</u>	<u>1,073,676</u>	<u>253,161</u>
Revenue over (under) expenditures	<u>(519,963)</u>	<u>(14,683)</u>	<u>104,580</u>
Other financing sources (uses)			
Transfers in	516,563	-	-
Transfers out	-	(22,913)	(79,016)
	<u>516,563</u>	<u>(22,913)</u>	<u>(79,016)</u>
Total other financing sources (uses)	<u>516,563</u>	<u>(22,913)</u>	<u>(79,016)</u>
Net change in fund balances	(3,400)	(37,596)	25,564
Fund balances, beginning of year	<u>3,471</u>	<u>140,823</u>	<u>38,871</u>
Fund balances, end of year	<u>\$ 71</u>	<u>\$ 103,227</u>	<u>\$ 64,435</u>

Debt Service			Capital Projects			
2003 Debt Service	2005 Debt Service	2006 Debt Service	Durant Debt Service	Sinking Fund	2003 Capital Projects	Total
\$ 1,825,744	\$ 428,065	\$ 377,699	\$ -	\$ 901,346	\$ 5,104	\$ 4,458,637
-	-	-	24,352	-	-	197,890
-	-	-	-	-	-	395,535
<u>1,825,744</u>	<u>428,065</u>	<u>377,699</u>	<u>24,352</u>	<u>901,346</u>	<u>5,104</u>	<u>5,052,062</u>
-	-	-	-	-	-	1,073,676
-	-	-	-	-	-	588,821
-	-	-	-	-	-	253,161
945,000	40,000	30,000	19,299	165,000	-	1,202,620
784,918	320,300	312,399	5,053	39,380	-	1,462,889
-	-	-	-	773,824	396,736	1,170,560
<u>1,729,918</u>	<u>360,300</u>	<u>342,399</u>	<u>24,352</u>	<u>978,204</u>	<u>396,736</u>	<u>5,751,727</u>
<u>95,826</u>	<u>67,765</u>	<u>35,300</u>	<u>-</u>	<u>(76,858)</u>	<u>(391,632)</u>	<u>(699,665)</u>
-	-	-	-	-	-	516,563
-	-	-	-	-	-	(101,929)
-	-	-	-	-	-	414,634
95,826	67,765	35,300	-	(76,858)	(391,632)	(285,031)
<u>45,850</u>	<u>2,698</u>	<u>24,376</u>	<u>-</u>	<u>495,369</u>	<u>616,680</u>	<u>1,368,138</u>
<u>\$ 141,676</u>	<u>\$ 70,463</u>	<u>\$ 59,676</u>	<u>\$ -</u>	<u>\$ 418,511</u>	<u>\$ 225,048</u>	<u>\$ 1,083,107</u>

120-DAY BOND AUDIT

INDEPENDENT AUDITORS' REPORT

October 20, 2009

Board of Education
Linden Community Schools
Linden, Michigan

We have audited the accompanying schedule of revenue, expenditures and changes in fund balance of the capital projects fund (the "schedule") which accounts for the proceeds and disbursement of the 2003 Building and Site Bonds of Linden Community Schools, Linden, Michigan, as of and for the six years ended June 30, 2009. This schedule is the responsibility of Linden Community Schools' management. Our responsibility is to express an opinion on this schedule 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 opinion.

The accompanying schedule was prepared for the purpose of complying with the provisions of the Michigan Revised School Code, Public Act 451 of 1976, as amended (MCL 380.1351a).

In our opinion, the schedule referred to above presents fairly, in all material respects, the results of operations of the 2003 Building and Site Bonds of Linden Community Schools for the six years ending June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated October 20, 2009 on our consideration of Linden Community Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



LINDEN COMMUNITY SCHOOLS
2003 Capital Projects Fund
Schedule of Revenue, Expenditures,
and Changes in Fund Balance
For the Six Year Period Ending June 30, 2009

	For the Year Ended June 30,			
	2004	2005	2006	2007
Revenue				
Local sources	\$ 11,742	\$ 808,358	\$ 347,396	\$ 75,873
Expenditures				
Debt service - Bond issuance costs	128,826	-	-	-
Capital outlay	1,899,456	19,892,990	12,102,163	1,787,691
Total expenditures	2,028,282	19,892,990	12,102,163	1,787,691
Revenue under expenditures	(2,016,540)	(19,084,632)	(11,754,767)	(1,711,818)
Other financing sources (uses)				
Issuance of long-term debt	35,000,000	-	-	-
Bond premium	658,806	-	-	-
Total other financing sources (uses)	35,658,806	-	-	-
Net change in fund balance	33,642,266	(19,084,632)	(11,754,767)	(1,711,818)
Fund balance, beginning of year	-	33,642,266	14,557,634	2,802,867
Fund balance, end of year	\$ 33,642,266	\$ 14,557,634	\$ 2,802,867	\$ 1,091,049

<u>2008</u>	<u>2009</u>	<u>Total</u>
\$ 37,570	\$ 5,104	\$ 1,286,043
-	-	128,826
<u>511,939</u>	<u>396,736</u>	<u>36,590,975</u>
<u>511,939</u>	<u>396,736</u>	<u>36,719,801</u>
<u>(474,369)</u>	<u>(391,632)</u>	<u>(35,433,758)</u>
-	-	35,000,000
<u>-</u>	<u>-</u>	<u>658,806</u>
<u>-</u>	<u>-</u>	<u>35,658,806</u>
(474,369)	(391,632)	225,048
<u>1,091,049</u>	<u>616,680</u>	<u>-</u>
<u>\$ 616,680</u>	<u>\$ 225,048</u>	<u>\$ 225,048</u>

SINGLE AUDIT

LINDEN COMMUNITY SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Pass- Through Grantor's Number	Approved Award/Grant Amount	Accrued Revenue Beginning of Year	Current Year Receipts	Current Year Expenditures	Accrued Revenue End of Year
U.S. Department of Agriculture							
Direct Program:							
Food distribution - non-cash assistance:							
Entitlement Commodities	10.555	-n/a-	\$ 55,772	\$ -	\$ 55,772	\$ 55,772	\$ -
Bonus Commodities	10.555	-n/a-	6,893	-	6,893	6,893	-
				-	62,665	62,665	-
Passed-through Michigan Department of Education:							
2007-2008 School Breakfast	10.553	081970	4,180	6,851	11,031	4,180	-
2008-2009 School Breakfast	10.553	091970	40,931	-	40,931	40,931	-
				6,851	51,962	45,111	-
National School Lunch:							
2007-2008 Section 4	10.555	081950	10,421	7,320	17,741	10,421	-
2008-2009 Section 4	10.555	091950	57,745	-	57,745	57,745	-
2007-2008 Section 11	10.555	081960	17,861	31,882	49,743	17,861	-
2008-2009 Section 11	10.555	091960	176,137	-	176,137	176,137	-
				39,202	301,366	262,164	-
Passed-through Genesee Intermediate School District:							
2008-2009 Integrated Nutrition Education & Physical Activity	10.561	61-5050J	61,051	-	25,595	25,595	-
Total U.S. Department of Agriculture				46,053	441,588	395,535	-
U.S. Department of Education							
Passed-through Michigan Department of Education:							
2007-2008 Title I, Part A	84.010	081530-0708	54,174	8,658	34,174	25,516	-
2008-2009 Title I, Part A	84.010	091530-0809	168,436	-	10,000	86,409	76,409
				8,658	44,174	111,925	76,409
2007-2008 Title V, Part A	84.298	081250-0708	628	628	628	-	-
2007-2008 Title II, Part D	84.318	084290-0708	509	509	509	-	-
2008-2009 Title II, Part D	84.318	094290-0809	1,458	-	250	1,458	1,208
				509	759	1,458	1,208
2007-2008 Title II, Part A	84.367	080520-0708	65,201	9,387	35,201	25,814	-
2008-2009 Title II, Part A	84.367	090520-0809	71,449	-	30,000	31,312	1,312
				9,387	65,201	57,126	1,312
2008-2009 State Fiscal Stabilization Fund	84.394	n/a	1,138,862	-	-	1,138,862	1,138,862
Passed-through Genesee Intermediate School District:							
2008-2009 IDEA Flowthrough	84.027	090450-0809	742,564	-	742,564	742,564	-
2008-2009 Title III, Part A	84.365	n/a	565	-	565	565	-
Total U.S. Department of Education				19,182	853,891	2,052,500	1,217,791
U.S. Department of Health and Human Services							
Passed-through Genesee Intermediate School District							
2008-2009 Medicaid Outreach	93.778	n/a	13,394	-	13,394	13,394	-
Total Expenditures of Federal Awards				\$ 65,235	\$ 1,308,873	\$ 2,461,429	\$ 1,217,791

LINDEN COMMUNITY SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

1. SECTION I - SUMMARY OF AUDITORS' RESULTS

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of Linden Community Schools (the "District"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The reporting entity of Linden Community Schools is defined in Note I of the District's basic financial statements.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note I of the District's basic financial statements.

The District has utilized the Michigan Department of Education's Grant Auditor Report and Grant Section Auditors Report (Form R7120) in preparing this schedule.

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

October 20, 2009

Board of Education
Linden Community Schools
Linden, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *LINDEN COMMUNITY SCHOOLS*, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents and have issued our report thereon dated October 20, 2009. 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 Linden 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 Linden Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Linden Community Schools' internal control over financial reporting.

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

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

We noted certain matters that we reported to management of Linden Community Schools in a separate letter dated October 20, 2009.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Lehmann Johnson".

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

October 20, 2009

Board of Education
Linden Community Schools
Linden, Michigan

Compliance

We have audited the compliance of **LINDEN COMMUNITY SCHOOLS** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Linden Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Linden Community Schools' management. Our responsibility is to express an opinion on Linden 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 Linden Community Schools' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Linden Community Schools' compliance with those requirements.

In our opinion the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2009-1 and 2009-2.

Internal Control Over Compliance

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

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-1 and 2009-2 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Linden Community Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Linden Community Schools' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



LINDEN COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2009

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiencies identified
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 deficiencies identified
not considered to be material weaknesses? X yes _____ none reported

Type of auditors' report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)? X yes _____ no

LINDEN COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED JUNE 30, 2009

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553 & 10.555	Child Nutrition Cluster
84.394	State Fiscal Stabilization Fund

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

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2009-1 Child Nutrition Cluster - Eligibility

Immaterial Noncompliance / Significant Deficiency in Internal Controls Over Compliance

Criteria: Guidelines established by the USDA require recipients of funds in the Child Nutrition Cluster to make determinations of eligibility based on income eligibility guidelines. Children belonging to households meeting nationwide income eligibility requirements may receive meals at no charge or at a reduced price.

LINDEN COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

2009-1 Child Nutrition Cluster – Eligibility (Concluded)

Condition: Out of a sample of 40 children receiving free or reduced lunch selected for testing, we identified three instances in which a child received a level of benefit greater than that to which he/she was entitled based on established household income guidelines. In two of these cases, the amount of household income had been incorrectly entered into the District's system. In the remaining case, the District's system had correctly identified the student as ineligible; however, this determination had been manually overridden without appropriate support.

Cause: Information included on the applications used to determine whether a child is eligible for free or reduced was overlooked during the calculation and controls were not in place to provide documentation when overriding the system generated determinations.

Effect: The District provided free and reduced meals to students who were not considered eligible, and received reimbursement from the State of Michigan for such meals.

Questioned costs: No costs were required to be questioned in accordance with OMB circular A-133.

Recommendation: We recommend that management review the applications for accuracy when determining if children are eligible for free and reduced meals.

View of Responsible Officials: The District has put controls in place to check and monitor the free and reduced applications to ensure that students are receiving the proper benefits. Also, the District will require that any overrides in the system be supported by the proper documentation and be approved by an appropriate level of management.

LINDEN COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Concluded)

2009 -2 Child Nutrition Cluster – Special Tests and Provisions

Immaterial Noncompliance / Significant Deficiency in Internal Controls Over Compliance

Criteria: Guidelines established by the USDA require recipients of funds in the Child Nutrition Cluster to complete on-site annual reviews for each building prior to February 1 of each year.

Condition: The District did not complete the required annual on-site reviews.

Cause: The District was aware of the requirement set forth by the USDA, but lacked internal controls to ensure that the on-site reviews took place.

Effect: Requirements set forth by the USDA were not fully met.

Recommendation: We recommend that the District establish internal controls to ensure that on-site reviews are completed and the related documentation is retained as required by the USDA.

View of Responsible Officials:

The District will require that the annual on-site reviews for each building be submitted to the Assistant Superintendent by February 1st for his review and to ensure that this requirement is completed in a timely manner and documentation will be maintained.

SECTION IV – PRIOR YEAR FINDINGS

No matters were reported.

* * * * *

October 20, 2009

To the Governing Body
Linden Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Linden Community Schools* (the “District”) for the year ended June 30, 2009, and have issued our report thereon dated October 20, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated July 14, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District’s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District’s compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District’s compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on August 24, 2009.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We noted no such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated October 20, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the Linden Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Lehmann Johnson".

Linden Community Schools

Comments and Recommendations

For the Year Ended June 30, 2009

In planning and performing our audit of the financial statements of the Linden Community Schools as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the District's Single Audit report.

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.

Other Matters

Food Service Cash Receipts

During our evaluation of the District's cash receipting process in the food service department, we noted an opportunity to enhance internal controls. Currently, the District is printing daily cash register reports; however, the total daily sales for each building is not agreed to these reports before the deposit tickets are created. We recommend that daily cash receipts be reconciled to the cash register reports to ensure that all amount receipted are deposited timely into the District's bank accounts.

* * * * *



7205 Silver Lake Road, Linden, MI 48451

PH: (810) 591-0980 FAX: (810) 591-5587

Corrective Action Plan

2009-1 Child Nutrition Cluster – Eligibility

Immaterial Noncompliance / Significant Deficiency in Internal Controls over Compliance

Upon review of the auditor's findings, the District admits that errors were made on two (2) instances of transferring data from the initial free and reduced application into the District's point-of-service (POS) system. The District also admits that an ineligible case was overridden in the system without maintaining appropriate supporting documentation. Based on these errors, the District provided free and reduced meals to students who were not considered eligible, and received reimbursement through the State of Michigan/USDA.

The District has already made positive steps to reduce these clerical errors in the future. The Food Service Director position has been hired "in-house" as opposed to the consortium arrangement previously used (two (2) directors over three (3) districts). A part-time assistant/billing clerk has been assigned to assist the department/director. These changes were finalized during the month of September 2009.

In addition, the following steps will be made to increase the internal controls over compliance:

- The Food Service Director will double-check the free and reduced applications against the POS system for input and determination errors,
- The Assistant Superintendent will systematically sample a selection of applications and check them against the POS system for accuracy,
- Each case where a determination is overridden in the system will require the signature of the Assistant Superintendent, and a copy of each case will be kept in his/her office.

The District intends to implement these new internal controls by the end of October 2009.

2009-2

Child Nutrition Cluster – Special Tests and Provisions

Immaterial Noncompliance / Significant Deficiency in Internal Controls over Compliance

The District received verbal confirmation from its previous Food Service Director that the annual on-site reviews for each building were completed; however, no documentation could be located to substantiate this assertion. The District will now require the Food Service Director to submit a copy of each building's annual on-site review to the Assistant Superintendent by February 1st. This should ensure timely completion and assist with maintaining appropriate documentation.

Further information, if needed, regarding this Corrective Action Plan can be obtained by contacting the Assistant Superintendent.

Respectfully submitted,



Michael A. Engelter, CPA
Assistant Superintendent