

ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2007

CONTENTS

	<u>Page</u>
Independent auditors' report	iii - iv
Management's Discussion and Analysis	v - xii
Basic financial statements	
Government-wide financial statements	
Statement of net assets	1
Statement of activities.....	2
Fund financial statements	
Balance sheet - governmental funds	3
Statements of revenues, expenditures and changes in fund balances - governmental funds.....	4
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	5
Notes to financial statements.....	6 - 20
Required supplementary information	21
Budgetary comparison schedule - general fund	22
Budgetary comparison schedule - special education fund.....	23
Budgetary comparison schedule - technical education fund	24
Budgetary comparison schedule - cooperative programming fund.....	25
Additional information	26
Nonmajor governmental fund types	
Combining balance sheet	27
Combining statement of revenues, expenditures and changes in fund balances.....	28



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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Allegan Area Educational Service Agency
Allegan, Michigan

November 6, 2007

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2007, on our consideration of Allegan Area Educational Service Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through xii and 22 through 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Allegan Area Educational Service Agency's basic financial statements. The additional information on pages 27 and 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mayer, Costeniser & Ellis, P.C.

Certified Public Accountants

**Allegan Area Educational Service Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007**

As management of the Allegan Area Educational Service Agency, we offer readers of the Service Agency's financial statements this narrative overview and analysis of the financial activities of the Service Agency for the fiscal year ended June 30, 2007.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the Service Agency's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the Service Agency's revenue and expenditures by program.

Financial Highlights

Our financial statements provide these insights into the results of this year's operations.

- The assets of the Service Agency exceeded its liabilities at the close of the most recent fiscal year by \$9,269,960 (*net assets*). Of this amount, \$3,989,155 (*unrestricted net assets*) may be used to meet the Service Agency's ongoing obligations for general Service Agency programs.
- The Service Agency's total net assets decreased by \$205,369.
- As of the close of the current fiscal year, the Service Agency's governmental funds reported combined ending fund balances of \$3,997,112, a decrease of \$616,754 in comparison with the prior year.
- At the end of the current fiscal year, the aggregated fund balances for the Service Agency's operating funds (general fund, special education fund, technical education fund and cooperative programming fund) was \$3,935,353 or 16.5% of the total expenditures of these operating funds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of the Service Agency's basic financial statements. The Service Agency's basic financial statements comprise 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.

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

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

The *statement of activities* presents information showing how the Service Agency'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 government-wide financial statements display functions of the Service Agency that are principally supported by taxes and intergovernmental revenues (governmental activities). The activities of the Service Agency include instruction, support services, community service and transfers to locals and other services. The Service Agency has no business-type activities as of and for the year ended June 30, 2007.

The government-wide financial statements can be found on pages 1 and 2 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 Service Agency, 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 Service Agency fall within the governmental fund type category.

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 the Service Agency's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Service Agency'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 Service Agency maintains numerous 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, special education fund, career technical education fund, and cooperative programming fund, each of which are considered to be a major fund. Data from the other 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 Service Agency adopts annual appropriated budgets for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 3 and 4 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 government-wide and fund financial statements. The notes to the financial statements can be found on pages 6 through 20 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary information for the Service Agency's major funds. Required supplementary information can be found on pages 22 through 25 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the supplementary information. Combining fund statements can be found on pages 27 through 28 of this report.

Our auditor has provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Additional Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the other parts in the financial section.

Government-wide Financial Analysis

The Service Agency's net assets were \$9,269,960 at June 30, 2007. Of this amount, \$3,989,155 was unrestricted, a decrease of \$616,787 from last fiscal year. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Service Agency's ability to use those net assets for day-to-day operations.

The following table shows the Service Agency's net assets in 2007 and 2006.

Service Agency's Net Assets

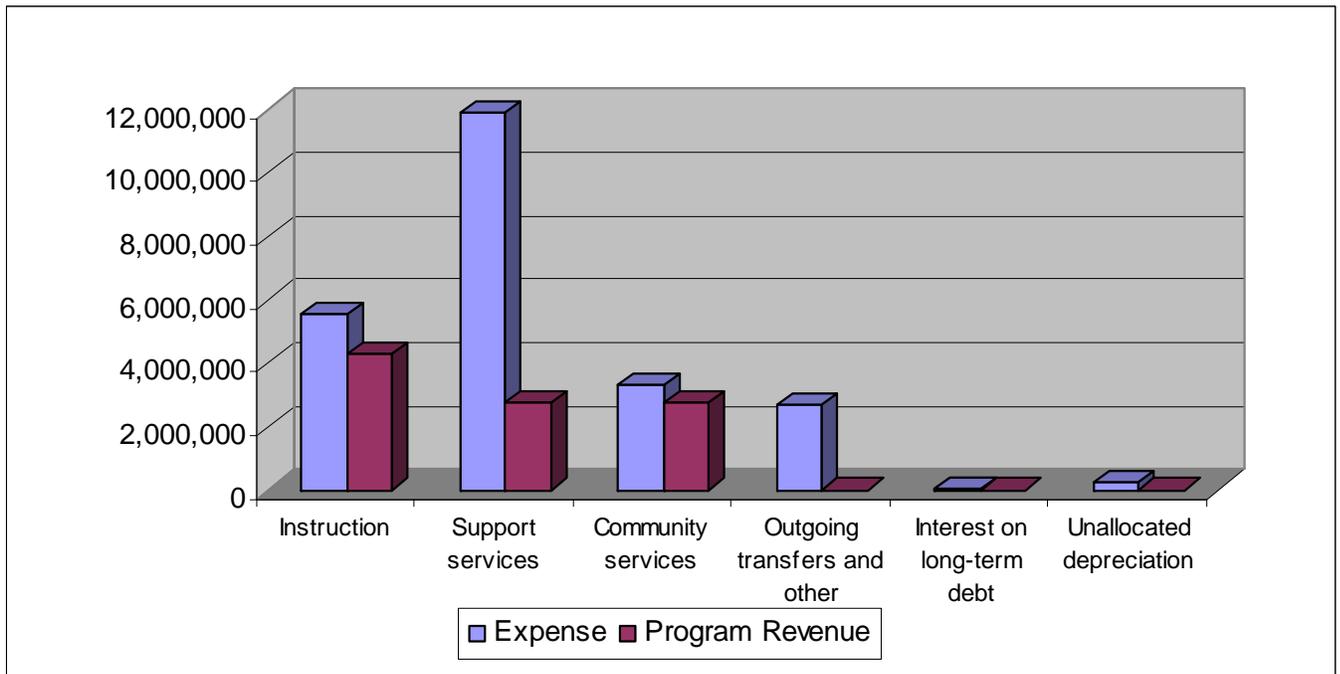
Allegan Area Educational Service Agency		
	2007	2006
Current assets	\$ 6,581,690	\$ 7,079,017
Noncurrent assets	5,885,272	5,332,346
Total Assets	12,466,962	12,411,363
Current liabilities	2,889,043	2,564,541
Noncurrent liabilities	307,959	371,493
Total Liabilities	3,197,002	2,936,034
Net Assets:		
Invested in capital assets, net of related debt	5,280,805	4,869,387
Unrestricted	3,989,155	4,605,942
Total Net Assets	\$ 9,269,960	\$ 9,475,329

**Allegan Area Educational Service Agency
Service Agency's Changes in Net Assets**

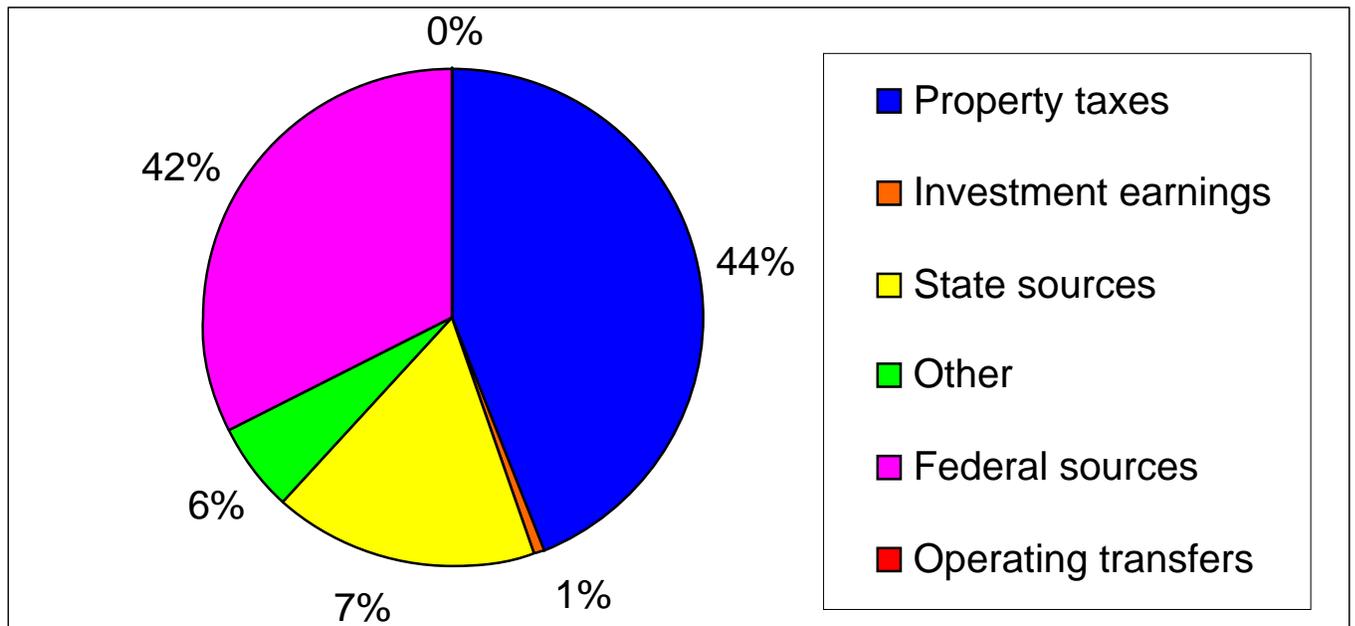
	Governmental Activities	
	2007	2006
Revenue:		
Program revenue:		
Charges for services	\$ 102,405	\$ 244,323
Operating grants	9,789,501	10,240,690
General revenue:		
Property taxes	10,322,368	9,626,523
Investment earnings	185,210	168,046
State sources	1,744,679	1,744,679
Other	1,313,303	700,509
Total Revenue	<u>23,457,466</u>	<u>22,724,770</u>
Expenses:		
Instruction	5,557,090	5,377,587
Supporting services	11,907,298	11,382,712
Community services	3,292,216	3,231,220
Outgoing transfers and other	2,664,757	2,309,414
Interest on long-term debt	14,342	24,831
Unallocated depreciation	227,132	222,287
Total Expenses	<u>23,662,835</u>	<u>22,548,051</u>
Increase (decrease) in net assets	(205,369)	176,719
Net assets, beginning of year	<u>9,475,329</u>	<u>9,289,610</u>
Net assets, end of year	<u><u>\$ 9,269,960</u></u>	<u><u>\$ 9,466,329</u></u>

Governmental Activities. Net assets decreased \$205,369. Key elements of this decrease was because state aid revenue for transportation services won't be received until the 2007-08 school year. If this money would have been received this fiscal year, there would have been an increase in net assets.

**Expenses and Program Revenues – Governmental Activities
Year ended June 30, 2007**



**Revenues by Source – Service Agency Activities
Year ended June 30, 2007**



Major Governmental Funds Budgeting and Operating Highlights

The Service Agency's budgets are prepared according to Michigan law. The most significant budgeted funds are the general fund, special education fund, technical education fund, and cooperative programming fund.

During the fiscal year ended June 30, 2007, the Service Agency amended the budgets of these major governmental funds three times.

General Fund - The general fund actual revenue was \$3.09 million. That amount is above the original budget estimate of \$3.06 million and above the final budget amendment of \$3.01 million. The variance between the actual revenue and final budget was the result of higher than expected property tax collections and higher than expected state aid for MSRP.

The actual expenditures of the general fund were \$3.25 million, which is below the original budget of \$3.43 million and below the final amendment of \$3.30 million. The variance between the actual revenue and final budget was the result of additional administration expenditures being billed to grants.

The general fund had total revenues of \$3.09 million and total expenditures of \$3.25 million with an ending fund balance of \$1.44 million.

Special Education Fund - The special education fund actual revenue was \$12.6 million. That amount is below the original budget of \$12.7 million and below the final amendment of \$13 million. The variance was the result state aid revenue for transportation services. The expenses were incurred in 2006-07 however the revenue from the state won't be received until 2007-08.

The actual expenditures of the special education fund were \$13 million, which is above the original budget of \$12.4 million and agrees to the final amendment of \$13 million.

The special education fund had total revenue of \$12.6 million and total expenditures of \$13 million with an ending fund balance of \$1.1 million.

Technical Education Fund - The technical education fund actual revenue was \$4.78 million. That amount is below the original budget of \$4.8 million and above the final amendment of \$4.67 million. The variance was the result of higher than expected property tax revenue.

The actual expenditures were \$4.71 million, which is above the original budget of \$4.6 million and above the final amendment of \$4.67 million. The variance was the result of higher than expected program, school administration, business, and operation and maintenance expenditures.

The technical education fund had total revenue of \$4.78 million and total expenditures of \$4.71 million with an ending fund balance of \$1.37 million.

Cooperative Programming Fund - The cooperative programming fund actual revenue was \$2.8 million. That amount is above the final amendment of \$2.25 million and above the original budget estimate of \$2.4 million. The variance was the result of additional grant funds received that weren't anticipated.

The actual expenditures of the cooperative programming fund were \$2.78 million, which is above the final budget amendment of \$2.25 million and above the original budget of \$2.4 million. The variance was the result of additional grant funds received and expended that weren't anticipated.

The cooperative programming fund had total revenue of \$2.8 million and total expenditures of \$2.78 million with an ending fund balance of \$.02 million.

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

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

The general fund is the chief operating fund of the Service Agency. At the end of the current fiscal year, unreserved fund balance and total fund balance of the general fund was \$1,444,048. As a measure of the general fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent approximately 44.3% of total general fund expenditures and operating transfers out.

The fund balance of the Service Agency’s general fund decreased by \$259,017 during the current fiscal year. The largest revenue source in this fund is state revenue which includes state aid. Expenditures consist primarily of costs associated with supporting early education, learning resources, and a portion of the executive administration and fiscal services of the Service Agency.

The special education fund had a total fund balance of \$1,103,644, which decreased \$469,018 from the prior year. These resources are restricted for special education programs administered by the Service Agency and transfers to local service agencies for special education programs. The largest portion of this fund’s revenues come from property taxes while the largest expenditures are for the programs at Hillside Learning and Behavior Center and pupil support services to the local service agencies. Unreserved fund balance and total fund balance represent approximately 8.6% of total special education fund expenditures.

The technical education fund has a total fund balance of \$1,367,704, which increased \$29,565 from the prior year. These resources are restricted for technical education purposes. The largest portion of this fund’s revenues come from property taxes while the expenditures are for the programs at the Technical Center.

The cooperative programming fund has a total fund balance of \$19,957, which increased \$19,957 from prior year. The largest portion of this fund’s revenue comes from federal sources.

Capital Asset and Debt Administration

Capital Assets – At the end of fiscal year 2007, the Service Agency had \$10.38 million invested in land, buildings, and office and instructional equipment. Of this amount, \$4.7 million in depreciation has been taken over the years. The Service Agency has net capital assets of \$5.66 million.

Service Agency's Capital Assets
(Net of depreciation)
June 30, 2007

	2007	2006
Land	\$ 391,509	\$ 391,509
Buildings and improvements	8,365,177	7,917,193
Office and instructional equipment	1,621,732	1,506,166
Subtotal	10,378,418	9,814,868
Accumulated depreciation	4,709,654	4,482,522
Total	\$ 5,668,764	\$ 5,332,346

Additional information on the Service Agency's capital assets can be found in Note 4 of this report.

Long-term Debt- at the end of the current fiscal year, the Service Agency had a total bonded debt outstanding of \$387,959. Of this balance, \$132,959 is not a general obligation of the Service Agency and does not constitute an indebtedness of the Service Agency within any constitutional or statutory limitation, and is payable solely from state aid payments from the State of Michigan. The remaining balance of \$255,000 represents general obligation bonds of the Service Agency.

The Service Agency's total debt decreased by \$75,000 during the current fiscal year, with no new debt issuances. Additional information on the Service Agency's long-term debt can be found in Note 6 of this report.

Economic Factors and Next Year's Budget

At the time these financial statements were prepared and audited, the Service Agency was aware of existing circumstances that could affect its financial health in the future.

The Senate and House Fiscal Agencies recently released a report that State Aid revenue collections were below anticipated amounts. If in fact the State Aid budget finishes in a deficit, there is the possibility of a proration of state aid. State aid represents 17% of the Service Agency's revenue.

For the first time in many years, the Service Agency was forced to borrow money for short-term cash flow purposes. This is an indication that the continued depletion of fund balance has had an effect on Service Agency finances. The Service Agency has lost \$1,366,157 in fund balance over the past five years. The general fund is expected to have zero fund balance remaining within three years. If this pattern should continue, the Service Agency will be forced to reduce expenditures by cutting services or search for new revenue sources.

Although the Service Agency faces the above mentioned challenges, it remains in good financial shape. The 16.6% fund balance provides safety against economic down turns and provides funds to start new programs and support current programs and services.

Requests for information

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the Service Agency's finances and to demonstrate the Service Agency's accountability for the money it receives. If you have questions about this report or need additional information, contact Mike Hagerty, Assistant Superintendent, Allegan Area ESA, 310 Thomas St., Allegan, MI 49010.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	<u>Governmental activities</u>
ASSETS	
CURRENT ASSETS:	
Cash and investments	\$ 3,552,381
Receivables:	
Accounts receivable	302,993
Taxes receivable	107,826
Other governmental units	1,959,450
Local districts	72,170
Prepaid expenses	154,996
Inventory	431,874
	<hr/>
TOTAL CURRENT ASSETS	6,581,690
NONCURRENT ASSETS:	
Receivables from local districts	216,508
Capital assets	10,378,418
Less accumulated depreciation	(4,709,654)
	<hr/>
TOTAL NONCURRENT ASSETS	5,885,272
	<hr/>
TOTAL ASSETS	\$ 12,466,962
	<hr/> <hr/>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 549,097
Accrued salaries and related items	1,512,791
Accrued interest	7,957
Due to other governmental units	533,156
Deferred revenue	206,042
Current portion of long-term obligations	80,000
	<hr/>
TOTAL CURRENT LIABILITIES	2,889,043
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	307,959
	<hr/>
TOTAL LIABILITIES	3,197,002
	<hr/>
NET ASSETS:	
Invested in capital assets net of related debt	5,280,805
Unrestricted	3,989,155
	<hr/>
TOTAL NET ASSETS	9,269,960
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 12,466,962
	<hr/> <hr/>

See notes to financial statements.

ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net assets</u>
Governmental activities:				
Instruction	\$ 5,557,090	\$ 65,722	\$ 4,284,364	\$ (1,207,004)
Support services	11,907,298	36,683	2,734,011	(9,136,604)
Community services	3,292,216		2,771,126	(521,090)
Outgoing transfers and other	2,664,757			(2,664,757)
Interest on long-term debt	14,342			(14,342)
Unallocated depreciation	227,132			(227,132)
Total governmental activities	<u>\$ 23,662,835</u>	<u>\$ 102,405</u>	<u>\$ 9,789,501</u>	(13,770,929)
General revenues:				
Property taxes, levied for general purposes				289,758
Property taxes, levied for special education				6,335,371
Property taxes, levied for technical education				3,697,239
Interest earnings				185,210
State sources				1,744,679
Other				1,313,303
Total general revenues				<u>13,565,560</u>
CHANGE IN NET ASSETS				(205,369)
NET ASSETS, beginning of year				<u>9,475,329</u>
NET ASSETS, end of year				<u>\$ 9,269,960</u>

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	Special revenue				Other nonmajor governmental funds	Total governmental funds
	General fund	Special education fund	Technical education fund	Cooperative programming fund		
ASSETS						
ASSETS:						
Cash and investments	\$ 1,320,551	\$ 1,201,953	\$ 1,024,931	\$ 4,946	\$	\$ 3,552,381
Receivables:						
Accounts receivable	97,376	117,864	33,520	54,233		302,993
Taxes receivable	3,027	66,178	38,621			107,826
Due from other funds	1,183,667	1,234,842	437,081	236,331	178,570	3,270,491
Other governmental units	166,129	948,538	151,318	679,481	13,984	1,959,450
Local districts	288,678					288,678
Prepaid expenditures	154,996					154,996
Inventory			431,874			431,874
	<u>\$ 3,214,424</u>	<u>\$ 3,569,375</u>	<u>\$ 2,117,345</u>	<u>\$ 974,991</u>	<u>\$ 192,554</u>	<u>\$ 10,068,689</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 62,449	\$ 67,071	\$ 214,009	\$ 205,568	\$	\$ 549,097
Accrued salaries and related items	229,692	981,359	254,331	43,279	4,130	1,512,791
Due to other funds	1,276,638	932,465	257,127	677,596	126,665	3,270,491
Due to other governmental units	21,696	478,487	9,374	23,599		533,156
Deferred revenue	179,901	6,349	14,800	4,992		206,042
	<u>1,770,376</u>	<u>2,465,731</u>	<u>749,641</u>	<u>955,034</u>	<u>130,795</u>	<u>6,071,577</u>

	Special revenue				Other nonmajor governmental funds	Total governmental funds
	General fund	Special education fund	Technical education fund	Cooperative programming fund		
FUND BALANCES:						
Reserved for prepaid expenditures	\$ 154,996	\$	\$	\$	\$	\$ 154,996
Reserved for inventory			431,874			431,874
Unreserved:						
Designated for subsequent years expenditures	420,517					420,517
Undesignated	868,535	1,103,644	935,830	19,957	61,759	2,989,725
	<u>1,444,048</u>	<u>1,103,644</u>	<u>1,367,704</u>	<u>19,957</u>	<u>61,759</u>	<u>3,997,112</u>
	<u>\$ 3,214,424</u>	<u>\$ 3,569,375</u>	<u>\$ 2,117,345</u>	<u>\$ 974,991</u>	<u>\$ 192,554</u>	<u>\$ 10,068,689</u>

Total governmental fund balances						\$ 3,997,112
Amounts reported for governmental activities in the statement of net assets are different because:						
Capital assets used in governmental activities are not financial resources and are not reported in the funds						
The cost of the capital assets is					\$ 10,378,418	
Accumulated depreciation is					(4,709,654)	
						5,668,764
Long-term liabilities are not due and payable in the current period and are not reported in the funds						
Bonds payable						(387,959)
Accrued interest is not included as a liability in government funds, it is recorded when paid						(7,957)
Net assets of governmental activities						<u>\$ 9,269,960</u>

ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	Special revenue				Other nonmajor governmental funds	Total governmental funds
	General fund	Special education fund	Technical education fund	Cooperative programming fund		
REVENUES:						
Local sources:						
Property taxes	\$ 289,758	\$ 6,335,371	\$ 3,697,239	\$	\$	\$ 10,322,368
Interest	69,060	62,684	53,466			185,210
Other	501,966	477,189	334,134	35,870	66,549	1,415,708
Total local sources	860,784	6,875,244	4,084,839	35,870	66,549	11,923,286
State sources	1,785,120	1,583,880	466,026	5,446	101,876	3,942,348
Federal sources	451,314	4,146,869	227,969	2,765,680		7,591,832
Total revenues	3,097,218	12,605,993	4,778,834	2,806,996	168,425	23,457,466
EXPENDITURES:						
Instruction:						
Added needs		3,604,402	2,453,208			6,057,610
Support services:						
Pupil		3,127,490	153,618			3,281,108
Instruction	1,919,543	9,615				1,929,158
General administration	708,893	1,467,846	197,840			2,374,579
School administration		488,445	484,130			972,575
EXPENDITURES (Concluded):						
Support services (Concluded):						
Business	\$ 191,851	\$ 309,403	\$ 120,908	\$	\$	\$ 622,162
Operation and maintenance	104,514	495,782	835,826			1,436,122
Math/science program					173,088	173,088
Transportation		937,712				937,712
Technology services		126,301				126,301
Community services	150,219		354,958	2,787,039		3,292,216
Outgoing transfers and other	179,069	2,485,688				2,664,757
Capital outlay			117,523			117,523
Debt service:						
Principal repayment					75,000	75,000
Interest expense					14,309	14,309
Total expenditures	3,254,089	13,052,684	4,718,011	2,787,039	262,397	24,074,220
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(156,871)	(446,691)	60,823	19,957	(93,972)	(616,754)
OTHER FINANCING SOURCES (USES):						
Operating transfers in						
Operating transfers out	(102,146)	(22,327)	(31,258)		155,731	(155,731)
Total other financing sources (uses)	(102,146)	(22,327)	(31,258)		155,731	
NET CHANGE IN FUND BALANCES	(259,017)	(469,018)	29,565	19,957	61,759	(616,754)
FUND BALANCES:						
Beginning of year	1,703,065	1,572,662	1,338,139			4,613,866
End of year	\$ 1,444,048	\$ 1,103,644	\$ 1,367,704	\$ 19,957	\$ 61,759	\$ 3,997,112

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Net change in fund balances total governmental funds \$ (616,754)

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

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(227,132)
Capital outlay	563,550

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

Accrued interest payable beginning of the year	7,924
Accrued interest payable end of the year	(7,957)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)

75,000

Change in net assets of governmental activities \$ (205,369)

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Allegan Area Educational Service Agency (the "District") is governed by the Allegan Area Educational Service Agency Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Nos. 14 and 39.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, property taxes and other unrestricted items are not included as program revenues but instead as *general revenues*.

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

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The District first utilizes restricted resources to finance qualifying activities.

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

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

The District does not allocate indirect costs.

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

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

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

The District reports the following major governmental funds:

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

The *special education special revenue fund* which accounts for special education programs.

The *technical education special revenue fund* which accounts for technical education programs.

The *cooperative programming special revenue fund* which accounts for cooperative programs.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Concluded)

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its math and science program in a special revenue fund.

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

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

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

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

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

Modified Accrual Method (Concluded)

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

State Revenue

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

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

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

For the year ended June 30, 2007, approximately \$130,000 of non cash transactions from the Michigan Department of Education (MDE) has been recorded as state aid revenue and pension expenditures as a result of a change in funding by the MDE.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies

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

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

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

2. Property taxes

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

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

Fund	Mills
General fund	0.1157
Special revenue funds:	
Special education fund	2.5297
Technical education fund	1.4763

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

3. Inventories and prepaid expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption and a residential residence and property for resale, 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 expenditures.

4. 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 either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital assets

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

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

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

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

6. Long-term obligations

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

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

7. Use of estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue and capital projects funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general, special revenue and debt service funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The District does not consider these amendments to be significant.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

Investment Type	Fair value	Weighted average maturity (years)	Standard & Poor's Rating	%
MILAF External Investment pool -MIMAX	\$ 5,281	0.0027	AAAm	100%
Portfolio weighted average maturity		0.0027		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds, which included money market funds. The pooled investment funds utilized by the District are the Michigan Investment Liquid Asset Funds (MILAF). These are external pooled investment funds of "qualified" investments for Michigan school districts. MILAF is not regulated nor are they registered with the SEC. MILAF reports as of June 30, 2007, the fair value of the District's investments is the same as the value of the pool shares.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, \$3,589,694 of the District's bank balance of \$3,789,694 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount after recording outstanding checks and other items is \$3,547,100.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

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

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

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)

The above amounts as previously reported in Note 3:

Deposits	\$ 3,547,100
Investments	5,281
	\$ 3,552,381
	\$ 3,552,381

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

Cash and investments - district-wide	\$ 3,552,381
	\$ 3,552,381

NOTE 4 - RECEIVABLES FROM LOCAL DISTRICTS

The District purchased Data Warehouse software and Pinnacle Plus products on behalf of the local districts. Each participating local district capitalized and will repay their proportionate share based on a repayment schedule.

The following is a summary of the repayment schedule from the local districts.

Year ending June 30,		
2008	\$	72,170
2009		72,169
2010		72,170
2011		72,169
		72,169
	\$	288,678

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2006	Additions	Reclassifications/ deletions	Balance June 30, 2007
Assets not being depreciated - land	\$ 391,509	\$	\$	\$ 391,509
Other capital assets:				
Buildings and improvements	7,917,193	447,984		8,365,177
Office and instructional equipment	1,506,166	115,566		1,621,732
Subtotal	9,423,359	563,550		9,986,909
Accumulated depreciation:				
Buildings and improvements	3,549,508	165,296		3,714,804
Office and instructional equipment	933,014	61,836		994,850
Total accumulated depreciation	4,482,522	227,132		4,709,654
Net other capital assets	4,940,837	336,418		5,277,255
Net capital assets	<u>\$ 5,332,346</u>	<u>\$ 336,418</u>	<u>\$</u>	<u>\$ 5,668,764</u>

Depreciation for the fiscal year ended June 30, 2007 amounted to \$227,132. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 6 - LONG-TERM DEBT

The District issues bonds to provide funds for the acquisition, construction and improvement of major facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

2001 general obligation - limited tax bonds (face amount \$650,000) due in annual installments ranging from \$55,000 to \$80,000 through November 1, 2011, with interest at 4.2% to 4.6%	\$ 255,000
1998 limited obligation bonds (Durant bonds) (face amount \$324,401) due in annual installments ranging from \$16,446 to \$21,744 through May 15, 2013 with interest at 4.76%. Certain state aid payments are security used to pay these bonds.	<u>132,959</u>
Total general long-term debt	<u>\$ 387,959</u>

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term obligations as of June 30, 2007, including interest of \$53,720 are as follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 80,000	\$ 11,196	\$ 91,196
2009	55,000	7,836	62,836
2010	78,054	10,157	88,211
2011	78,913	6,627	85,540
2012	19,813	2,967	22,780
2013 through 2014	76,179	14,937	91,116
	<u>\$ 387,959</u>	<u>\$ 53,720</u>	<u>\$ 441,679</u>

Interest expense (all funds) for the year ended June 30, 2007 was approximately \$25,000.

At June 30, 2007, net assets of \$0 are available in the debt service fund to service the general obligation debt.

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2007.

Long-term debt, June 30, 2006	\$ 462,959
Deductions:	
Bond principal payments	<u>75,000</u>
Long-term debt, June 30, 2007	387,959
Less current portion	<u>(80,000)</u>
	<u>\$ 307,959</u>

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Amounts due from and due to other funds at June 30, 2007 are as follows:

	Due from other funds	Due to other funds
General fund	\$ 1,183,667	\$ 1,276,638
Special revenue funds:		
Special education fund	1,234,842	932,465
Cooperative programming fund	236,331	677,596
Technical education fund	437,081	257,127
Math/science fund	178,570	126,665
	\$ 3,270,491	\$ 3,270,491

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

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

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

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

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)

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

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2007 were 16.34% of payroll through September 2006 and 17.74% effective October 1, 2006 through June 30, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2007, 2006 and 2005 were \$1,953,256, \$1,578,341 and \$1,416,811, respectively, and were equal to the required contribution for those years.

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

The District is not responsible for the payment of retirement benefits and post-employment benefits which is the responsibility of the State of Michigan.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2007 or any of the prior three years.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - RISK MANAGEMENT (Concluded)

The District is self insured for dental and vision coverage. The current year expense for June 30, 2007 was \$201,841 for dental and \$34,818 for vision coverages. A liability for incurred and unreported benefits is not considered material.

NOTE 10 - TRANSFERS

The general fund transferred \$35,724 to the debt service fund, \$66,422 to the special revenue math & science fund and the special education fund transferred \$22,327 to the debt service fund, the technical education fund transferred \$31,258 to the debt service fund. The transfer to special revenue math & science fund was to provide funding. The transfer to the debt service fund was to provide resources for debt service payments for the current year. Similar transfers are expected in future years.

REQUIRED SUPPLEMENTARY INFORMATION

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2007**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local sources	\$ 785,623	\$ 839,809	\$ 860,784	\$ 20,975
State sources	1,830,106	1,729,873	1,785,120	55,247
Federal sources	445,764	442,964	451,314	8,350
	<u>3,061,493</u>	<u>3,012,646</u>	<u>3,097,218</u>	<u>84,572</u>
EXPENDITURES:				
Support services:				
Instruction	2,180,491	1,857,041	1,919,543	(62,502)
General administration	490,321	790,216	708,893	81,323
Business	195,669	210,878	191,851	19,027
Operation and maintenance	104,102	102,241	104,514	(2,273)
Community services	172,583	153,570	150,219	3,351
Outgoing transfers and other	289,018	186,930	179,069	7,861
	<u>3,432,184</u>	<u>3,300,876</u>	<u>3,254,089</u>	<u>46,787</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(370,691)</u>	<u>(288,230)</u>	<u>(156,871)</u>	<u>131,359</u>
OTHER FINANCING USES:				
Operating transfers out	<u> </u>	<u>(102,145)</u>	<u>(102,146)</u>	<u>(1)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (370,691)</u>	<u>\$ (390,375)</u>	<u>(259,017)</u>	<u>\$ 131,358</u>
FUND BALANCE:				
Beginning of year			<u>1,703,065</u>	
End of year			<u>\$ 1,444,048</u>	

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
YEAR ENDED JUNE 30, 2007**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance with final budget positive (negative)
REVENUES:				
Local sources	\$ 6,779,324	\$ 6,716,432	\$ 6,875,244	\$ 158,812
State sources	1,985,713	2,143,536	1,583,880	(559,656)
Federal sources	3,943,823	4,143,161	4,146,869	3,708
	<u>12,708,860</u>	<u>13,003,129</u>	<u>12,605,993</u>	<u>(397,136)</u>
EXPENDITURES:				
Instruction:				
Added needs	3,311,691	3,584,755	3,604,402	(19,647)
Support services:				
Pupil	3,434,768	3,337,549	3,127,490	210,059
Instruction	14,500	7,974	9,615	(1,641)
General administration	1,478,165	1,454,940	1,467,846	(12,906)
School administration	457,592	468,595	488,445	(19,850)
Business	279,195	305,831	309,403	(3,572)
Operation and maintenance	526,284	493,662	495,782	(2,120)
Transportation	468,874	906,980	937,712	(30,732)
Technology services	120,312	128,000	126,301	1,699
Outgoing transfers and other	2,326,011	2,367,256	2,485,688	(118,432)
	<u>12,417,392</u>	<u>13,055,542</u>	<u>13,052,684</u>	<u>2,858</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>291,468</u>	<u>(52,413)</u>	<u>(446,691)</u>	<u>(394,278)</u>
OTHER FINANCING USES:				
Operating transfers out		(22,327)	(22,327)	
NET CHANGE IN FUND BALANCE	<u>\$ 291,468</u>	<u>\$ (74,740)</u>	<u>(469,018)</u>	<u>\$ (394,278)</u>
FUND BALANCE:				
Beginning of year			<u>1,572,662</u>	
End of year			<u>\$ 1,103,644</u>	

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
TECHNICAL EDUCATION FUND
YEAR ENDED JUNE 30, 2007**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES:				
Local sources	\$ 3,976,772	\$ 3,982,948	\$4,084,839	\$ 101,891
State sources	536,866	442,639	466,026	23,387
Federal sources	290,065	244,833	227,969	(16,864)
	<u>4,803,703</u>	<u>4,670,420</u>	<u>4,778,834</u>	<u>108,414</u>
EXPENDITURES:				
Instruction:				
Added needs	2,345,742	2,415,908	2,453,208	(37,300)
Support services:				
Pupil	351,214	153,620	153,618	2
Instruction	99,275			
General administration	184,873	192,452	197,840	(5,388)
School administration	443,729	464,708	484,130	(19,422)
Business	106,642	108,732	120,908	(12,176)
Operation and maintenance	692,684	817,823	835,826	(18,003)
Community services	267,018	366,901	354,958	11,943
Capital outlay		115,000	117,523	(2,523)
Outgoing transfers and other	115,000			
	<u>4,606,177</u>	<u>4,635,144</u>	<u>4,718,011</u>	<u>(82,867)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>197,526</u>	<u>35,276</u>	<u>60,823</u>	<u>25,547</u>
OTHER FINANCING USES:				
Operating transfers out		(34,212)	(31,258)	2,954
NET CHANGE IN FUND BALANCE	<u>\$ 197,526</u>	<u>\$ 1,064</u>	<u>29,565</u>	<u>\$ 28,501</u>
FUND BALANCE:				
Beginning of year			<u>1,338,139</u>	
End of year			<u>\$1,367,704</u>	

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 COOPERATIVE PROGRAMMING FUND
 YEAR ENDED JUNE 30, 2007**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local sources	\$	\$	\$ 35,870	\$ 35,870
State sources			5,446	5,446
Federal sources	2,403,301	2,257,324	2,765,680	508,356
	2,403,301	2,257,324	2,806,996	549,672
EXPENDITURES:				
Community services	2,403,301	2,257,324	2,787,039	(529,715)
NET CHANGE IN FUND BALANCE				
	\$	\$	19,957	\$ 19,957
FUND BALANCE:				
Beginning of year				
End of year			\$ 19,957	

ADDITIONAL INFORMATION

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUND TYPES
 JUNE 30, 2007**

	<u>Special revenue Math & Science</u>	<u>Debt service</u>	<u>Total nonmajor governmental funds</u>
ASSETS			
ASSETS:			
Receivables:			
Due from other funds	\$ 178,570	\$	\$ 178,570
Other governmental units	13,984		13,984
TOTAL ASSETS	<u>\$ 192,554</u>	<u>\$</u>	<u>\$ 192,554</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accrued salaries and related items	\$ 4,130	\$	\$ 4,130
Due to other funds	126,665		126,665
TOTAL LIABILITIES	130,795		130,795
FUND BALANCES:			
Unreserved, undesignated	61,759		61,759
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 192,554</u>	<u>\$</u>	<u>\$ 192,554</u>

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUND TYPES
 YEAR ENDED JUNE 30, 2007**

	Special revenue Math & Science	Debt service	Total nonmajor governmental funds
REVENUES:			
Local sources:			
Other	\$ 66,549		\$ 66,549
State sources	101,876		101,876
Total revenues	<u>168,425</u>		<u>168,425</u>
EXPENDITURES:			
Support services:			
Math/science program	173,088		173,088
Debt service:			
Principal repayment		75,000	75,000
Interest expense		14,309	14,309
Total expenditures	<u>173,088</u>	<u>89,309</u>	<u>262,397</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(4,663)	(89,309)	(93,972)
OTHER FINANCING SOURCES:			
Operating transfers in	<u>66,422</u>	<u>89,309</u>	<u>155,731</u>
NET CHANGE IN FUND BALANCES	61,759		61,759
FUND BALANCES:			
Beginning of year			
End of year	<u>\$ 61,759</u>	<u>\$</u>	<u>\$ 61,759</u>

ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2007

CONTENTS

	<u>Page</u>
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	1 - 2
Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133	3 - 5
Schedule of expenditures of federal awards	6 - 12
Notes to schedule of expenditures of federal awards.....	13
Schedule of findings and questioned costs	14
Schedule of prior audit findings.....	15



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Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

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

To the Board of Education
Allegan Area Educational Service Agency
Allegan, Michigan

November 6, 2007

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan Area Educational Service Agency as of and for the year ended June 30, 2007, which collectively comprise Allegan Area Educational Service Agency's basic financial statements and have issued our report thereon dated November 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Allegan Area Educational Service Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Allegan Area Educational Service Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Allegan Area Educational Service Agency's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.



To the Board of Education
Allegan Area Educational Service Agency
Allegan, Michigan

November 6, 2007

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies 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 Allegan Area Educational Service Agency's 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 Allegan Area Educational Service Agency in a separate letter dated November 6, 2007.

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

A handwritten signature in black ink that reads "Mamer, Costenison & Ellis, P.C." The signature is written in a cursive style.

Certified Public Accountants



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

To the Board of Education
Allegan Area Educational Service Agency
Allegan, Michigan

November 6, 2007

Compliance

We have audited the compliance of Allegan Area Educational Service Agency with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Allegan Area Educational Service Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of Allegan Area Educational Service Agency's management. Our responsibility is to express an opinion on Allegan Area Educational Service Agency's 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 Allegan Area Educational Service Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Allegan Area Educational Service Agency's compliance with those requirements.

To the Board of Education
Allegan Area Educational Service Agency
Allegan, Michigan

November 6, 2007

In our opinion, Allegan Area Educational Service Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Allegan Area Educational Service Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Allegan Area Educational Service Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Allegan Area Educational Service Agency' internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

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

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

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

To the Board of Education
Allegan Area Educational Service Agency
Allegan, Michigan

November 6, 2007

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Allegan Area Educational Service Agency as of for the year ended June 30, 2007, and have issued our report thereon dated November 6, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Allegan Area Educational Service Agency's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Mama, Costenaro & Ellis, P.C.

Certified Public Accountants

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Award amount	Accrued (deferred) 7/1/2006	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) 6/30/2007
<u>U.S. Department of Labor:</u>								
Passed through Area Community Services Employment and Training Council:								
Employment Services	17.207	ES-135-05 ES-135-06	\$ 494,393 676,423	\$114,007	\$ 694,287	\$ 234,636 531,154	\$ 104,676 676,423	\$ (15,953) 145,269
			1,170,816	114,007	694,287	765,790	781,099	129,316
Workforce Investment Act Cluster:								
Workforce Investment Act Adult Program	17.258	AC-142-07 AC-142-06 AC-133-06	51,007 51,007 30,000	13,999	50,272	13,999 35,246 33,615	48,195 38,637	12,949 5,023
			132,014	13,999	50,272	82,860	86,832	17,972
Workforce Investment Act Youth Activities	17.259	AC-053-05 AC-053-06	467,714 318,400	152,865	424,705	152,865 222,294	310,881	88,586
			786,114	152,865	424,705	375,159	310,881	88,586
Workforce Investment Act Dislocated Workers	17.260	AC-132-06 AC-132-06 AC-144-06 AC-144-06	562,163 562,163 67,208 60,577	142,340	562,245	142,340 438,801 13,413 46,646	586,471	147,670 13,931
			1,252,111	155,753	629,453	641,200	647,048	161,601
Total Workforce Investment Act Cluster			2,170,239	322,617	1,104,430	1,099,219	1,044,761	268,159

The accompanying notes are an integral part of this schedule.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Award amount	Accrued (deferred) 7/1/2006	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) 6/30/2007
<u>U.S. Department of Labor (Concluded):</u>								
Passed through Area Community Services Employment and Training Council (Concluded):								
Incumbent Worker Program	17.267	IW-03-05	\$ 49,423	\$ 13,190	\$ 49,071	\$ 22,031	\$	\$ (8,841)
Incumbent Worker Program		IW-03-06	34,209			22,031	34,209	12,178
			83,632	13,190	49,071	44,062	34,209	3,337
Total U.S. Department of Labor			3,424,687	449,814	1,847,788	1,909,071	1,860,069	400,812
<u>U.S. Department of Education:</u>								
Passed through State Department of Education:								
Title I Part D	84.013	071700-0607	53,008			53,008	53,008	
Title II	84.367	070520-0607	435			435	435	
Title V	84.298	070250-0607	405			405	405	
Special Education Cluster:								
IDEA	84.027	070450-0607	2,731,747			2,207,409	2,731,750	524,341
		070490-TS	70,000			50,522	70,000	19,478
		070480-EOSD	50,000			50,000	50,000	
Total CFDA #84.027			2,851,747			2,307,931	2,851,750	543,819

The accompanying notes are an integral part of this schedule.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Award amount	Accrued (deferred) 7/1/2006	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) 6/30/2007
<u>U.S. Department of Education (Concluded):</u>								
Passed through State Department of Education (Concluded):								
Special Education grants to states	84.173	070460-0607	\$ 94,763	\$	\$	\$ 94,763	\$ 94,763	\$
Total Special Education Cluster			2,946,510			2,402,694	2,946,513	543,819
Vocational Education	84.048	9213	147,000			80,843	147,000	66,157
Infants/Toddlers	84.181	071340-190	177,454			172,827	177,455	4,628
Even Start Early Education	84.213	070390-C0725CES	225,000			225,000	225,000	
Vocational Education	84.243	2713-0506 2713-0607	35,750 45,853	37,284	35,587	37,284 11,754	45,795	34,041
			81,603	37,284	35,587	49,038	45,795	34,041
Passed through Michigan Jobs Commission: Rehabilitation Services	84.126	N/A	232,489	13,209	151,840	33,463	30,000	9,746
Total U.S. Department of Education			3,863,904	50,493	187,427	3,017,713	3,625,611	658,391

The accompanying notes are an integral part of this schedule.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Award amount	Accrued (deferred) 7/1/2006	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) 6/30/2007
<u>U.S. Department of Health and Human Services:</u>								
Passed through Family Independence Agency								
0-3 Secondary Prevention	93.556	SFSC-06-03002	\$ 1,766	\$	\$	\$ 1,766	\$ 1,766	\$
		CTFPR05-03001	116,583			85,153	108,263	23,110
			118,349			86,919	110,029	23,110
Passed through the Area Community Services Employment and Training Council:								
Work First	93.558	WR-010-05	827,006	173,744	595,722	387,490	213,746	
		WR-010-06	827,006			421,979	644,601	222,622
		FA-032-05	9,300	717	717	717		
		FA-032-06	9,300			1,482	1,482	
			1,672,612	174,461	596,439	811,668	859,829	222,622
0-3 Secondary Prevention	93.558	SFSC-06-03002	344			344	344	
		CTFPR06-03001	22,704			16,583	21,083	4,500
			23,048			16,927	21,427	4,500
FIA-CAN	93.558	CAN-06-03001	75,474	44,691	70,425	49,740	5,049	
		CAN-06-03001-2	88,969			77,826	88,969	11,143
			164,443	44,691	70,425	127,566	94,018	11,143
Total CFDA # 93.558			1,860,103	219,152	666,864	956,161	975,274	238,265

The accompanying notes are an integral part of this schedule.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Award amount	Accrued (deferred) 7/1/2006	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) 6/30/2007
<u>U.S. Department of Health and Human Services (Concluded):</u>								
Passed through the Tuscola Intermediate School District:								
Medicaid Health Services	93.778	N/A	\$ 11,339	\$ 5,059	\$ 21,251	\$ 10,649	\$ 11,339	\$ 5,749
Total U.S. Department of Health and Human Services			1,989,791	224,211	688,115	1,053,729	1,096,642	267,124
<u>U.S. Department of Transportation</u>								
Passed through Michigan Department of Education								
Motorcycle safety	99.667	QI-689 QI-689	130,079	39,985		39,985		
			80,969			80,969	80,969	
Total U.S. Department of Transportation			211,048	39,985		120,954	80,969	
TOTAL FEDERAL AWARDS			\$9,489,430	\$764,503	\$ 2,723,330	\$6,101,467	\$6,663,291	\$ 1,326,327

The accompanying notes are an integral part of this schedule.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PASS THROUGH AMOUNTS
YEAR ENDED JUNE 30, 2007**

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Subrecipient award/contract amount</u>	<u>Due to (from) subrecipient July 1, 2006</u>	<u>(Memo only) Subrecipient prior year expenditures</u>	<u>Subrecipient current year expenditures</u>	<u>Current year cash transferred to subrecipient</u>	<u>Due to (from) subrecipient June 30, 2007</u>
WIA summer youth: WIA-053-05	17.259						
Passed through to: Allegan Public Schools		\$	\$	\$	\$ 30	\$ 30	\$
Total WIA summer youth passed through to subrecipients		<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 30</u>	<u>\$ 30</u>	<u>\$</u>
Transition services: 060490-TS	84.027						
Passed through to: Allegan Public Schools		\$	\$	\$	\$ 104	\$ 104	\$
Hopkins Public Schools					1,273	1,273	
Martin Public Schools					702	702	
Wayland Public Schools					630	630	
Total transition services passed through to subrecipients		<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,709</u>	<u>\$ 2,709</u>	<u>\$</u>
Vocational education: 4003	84.048						
Otsego Public Schools		\$	\$	\$	\$ 1,361	\$ 1,361	\$
Allegan Public Schools					92	92	
Wayland Public Schools					7,131	7,131	
Total vocational education passed through to subrecipients		<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 8,584</u>	<u>\$ 8,584</u>	<u>\$</u>

The accompanying notes are an integral part of this schedule.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PASS THROUGH AMOUNTS
YEAR ENDED JUNE 30, 2007**

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Subrecipient award/contract amount</u>	<u>Due to (from) subrecipient July 1, 2006</u>	<u>(Memo only) Subrecipient prior year expenditures</u>	<u>Subrecipient current year expenditures</u>	<u>Current year cash transferred to subrecipient</u>	<u>Due to (from) subrecipient June 30, 2007</u>
PL-94-142 Preschool Incentive: 060460/1	84.173						
Passed through to:							
Allegan Public Schools		\$	\$	\$	\$ 9,902	\$ 9,902	\$
Fennville Public Schools					11,738	11,738	
Hopkins Public Schools					7,836	7,836	
Otsego Public Schools					7,401	7,401	
Plainwell Public Schools					17,073	17,073	
Wayland Public Schools					9,518	9,518	
Total PL-94-142 Preschool Incentive passed through to subrecipients		<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 63,468</u>	<u>\$ 63,468</u>	<u>\$</u>

The accompanying notes are an integral part of this schedule.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

NOTES:

1. Basis of Presentation – The accompanying schedule of expenditures of federal awards includes the federal grant activities of Allegan Area Educational Service Agency and is presented on the modified accrual basis of accounting. 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, and reconciles with the amounts in the preparation of the financial statements.

2. CFDA Programs Special Education Cluster 84.027 and 84.173 and the Employment Services Cluster 17.207 and the Work First Cluster 93.558 were audited as the major programs representing 71% of expenditures.

3. The threshold for distinguishing Type A and Type B programs was \$300,000.

4. The expenditures on the schedule of expenditures of federal awards do not include local match.

5. Expenditures in this schedule have been reconciled with Michigan Department of Education financial reports (DS4044, DS4092A, and other applicable reports).

6. Management has utilized the Grant Section Auditors Report (R7120) and the Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.

7. Federal revenue per financial statements \$ 7,591,832
Less:
Federal Medicaid receipts not subject to the Single Audit 928,541
Expenditures per Schedule of Expenditures of Federal Awards \$ 6,663,291

8. Subrecipients - Of the federal expenditures presented in the schedule of expenditures of federal awards, Allegan Area Educational Service Agency provided federal awards to subrecipients reported in the enclosed schedule of pass through amounts.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

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 deficiency(ies) identified that are not considered to be material weaknesses? Yes X None reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027 and 84.173	Special Education Cluster
17.207	Employment Services Cluster
93.558	Work First Cluster

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

Auditee qualified as low-risk auditee? X Yes No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

There were no findings for the prior two years.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

November 6, 2007

To the Board of Education
Allegan Area Educational Service Agency
Allegan, Michigan

In planning and performing our audit of the financial statements of Allegan Area Educational Service Agency as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Allegan Area Educational Service Agency'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 Service Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Service Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated November 6, 2007 on the financial statements of Allegan Area Educational Service Agency. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows.

Prior Year Comments Resolved:

Salary Charges

We noted that the Service Agency no longer codes charges for non-salaried items, such as payment to outside contractors for services, to salary accounts.

OMB Circular A-87 - Teacher Certifications

Certifications were completed for all required employees for the year ended June 30, 2007.

Outstanding Checks

There is now a policy in place to review outstanding checks and identify any over six months old for necessary action to be taken.

Journal Entry Review

The Service Agency has implemented an appropriate review and documentation process.

Cash Reconciliations

All accounts are now reconciled on a monthly basis and recorded in the general ledger.

Accounts Receivable Aging

The accounting department has implemented a process to reconcile accounts receivable on a periodic basis. We recommend this process be continued monthly and extended to include the due from governmental units.

Repeat Comments:

Grant Expenditure Reconciliation

We noted improvement in this area; however, certain grant expenditures are still not reconciled from the general ledger to the close-out reports that are submitted to the granting authorities. Reconciliation of all grant expenditures per the requests done by the grant administrator to the general ledger expenditure accounts should be done annually, at a minimum, in order to ensure proper reporting to federal, state and local authorities. It would benefit the Service Agency to track all requests for reimbursement to the actual receipt in order to ensure that all requested reimbursement amounts were received. The Service Agency has made great strides in reconciling federal grants in the past year, and we noted that more progress has been made in this area subsequent to year-end.

Current Year Comments:

Accounting System

It is our understanding that the Service Agency will be transitioning to a new software package/upgrade from the existing software. We strongly encourage a proper oversight by management during the upgrade phase.

Please be aware of the following points before, during, and after the implementation process:

- Document all processes performed with the upgraded software and create/update the accounting procedures manual.
- Perform a formal testing of the upgrades to check functionality and review all internal control aspects during and after the upgrade process so that no controls are circumvented.
- Update all safeguards and password-protect all data.
- Review all accounts before and after the upgrade process to obtain assurance that all accounts have maintained their integrity.

- Be aware of any limitations of duties by personnel with the upgrades and prepare to shift responsibilities if the need arises.
- Perform training for employees to ease transition.
- Review/create a disaster recovery plan for all data.

New Notification Requirements for Related Not-for-Profit Organizations with Gross Receipts of \$25,000 or less Such as Booster Groups and PTO's

The Pension Protection Act of 2006 requires these organizations to file an annual electronic notice for tax periods beginning after December 31, 2006, if these organizations are not required to file Form 990 (or 990-EZ), Return of Organization Exempt From Income Tax because their gross receipts are normally \$25,000 or less.

If they are a section 509(a)(3) supporting organization, generally, they must file a paper or electronic Form 990 (or Form 990-EZ) even if their gross receipts are normally \$25,000 or less. However, if they are a supporting organization of a religious organization and their gross receipts are normally \$5,000 or less they may file an annual electronic notice instead of Form 990 (or Form 990-EZ).

The annual electronic notice is due by the 15th day of the fifth month after the close of their tax period. For example, if their tax period ends on December 31, 2007, the annual electronic notice is due May 15, 2008.

The notice will require these organizations to provide the following information:

- Organization's legal name,
- Any other names your organization uses,
- Organization's mailing address,
- Organization's website address (if applicable),
- Organization's employer identification number (EIN),
- Name and address of a principal officer of your organization.
- Organization's annual tax period,

- Verify that your organization's annual gross receipts are still normally \$25,000 or less, and
- Indicate if your organization has terminated (is no longer in business).

IRS 403(b) Final Regulations

Intent

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

Effective Date

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

Written Plan Document

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

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

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

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

We understand the Service Agency already has a plan document. This document will need to be updated.

Other Provisions

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

Suggestions

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

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

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

New Auditing Standards

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

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

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

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

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

In order to avoid imposition of extra taxes, the employees must give a written or electronic election to notify the employer that they want to spread out the compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid (for example, ratably over the 12 months starting with the beginning of the school year). This election does not need to be made for future years if the arrangement provides that the election will remain in place until the employee elects a change. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 - 2009 school year.

Conclusion

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various district personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

To the Board of Education
Allegan Area Educational Service Agency
Allegan, Michigan

8

November 6, 2007

This report is intended solely for the information and use of Allegan Area Educational Service Agency management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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

Very truly yours,

Mama, Costenison & Ellis, P.C.



Lamonte T. Lator
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November 6, 2007

To the Board of Education
Allegan Area Educational Service Agency
Allegan, Michigan

We have audited the financial statements of Allegan Area Educational Service Agency (AAESA) for the year ended June 30, 2007, and have issued our report thereon dated November 6, 2007. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated May 22, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Allegan Area Educational Service Agency. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. 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 Allegan Area Educational Service Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, 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 Allegan Area Education Service Agency'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 Allegan Area Education Service Agency's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Allegan Area Education Service Agency's compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for 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 Allegan Area Educational Service Agency 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 2007. We noted no transactions entered into by Allegan Area Educational Service Agency during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

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. No estimates are considered sensitive.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Allegan Area Educational Service Agency's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the school district, either individually or in the aggregate, indicate matters that could have a significant effect on the Allegan Area Educational Service Agency's financial reporting process. Management has approved all adjustments.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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.

6. 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 governmental unit'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.

7. Issues Discussed Prior to Retention of Independent Auditors

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 Allegan Area Educational Service Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We have discussed SAS #112 and the ability of the Service Agency's personnel to independently prepare the external audit report including all required financial statement disclosures.

8. Difficulties Encountered in Performing the Audit

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

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

Very truly yours,

Mayer, Costenizer & Ellis, P.C.