

### Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Delton Kellogg Schools	County Barry
Fiscal Year End June 30, 2007	Opinion Date September 20, 2007	Date Audit Report Submitted to State November 26, 2007	

We affirm that:

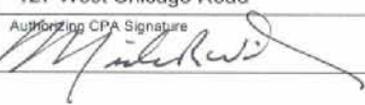
We are certified public accountants licensed to practice in Michigan.

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	Internal Control letter under GAS
Other (Describe)	<input type="checkbox"/>	
Certified Public Accountant (Firm Name) Norman & Paulsen, P.C.	Telephone Number 269-651-3228	
Street Address 127 West Chicago Road	City Sturgis	State Zip MI 49091
Authorizing CPA Signature 	Printed Name Michael R. Wilson	License Number 1101017570

DELTON KELLOGG SCHOOLS

**FINANCIAL REPORT  
WITH SUPPLEMENTAL INFORMATION**

**JUNE 30, 2007**

**Delton Kellogg Schools**

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**Delton Kellogg Schools**

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## INDEPENDENT AUDITOR'S REPORT

Board of Education  
Delton Kellogg Schools, Michigan

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 Delton Kellogg Schools as of June 30, 2007, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The administration's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but is supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education  
Delton Kellogg Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Delton Kellogg Schools basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2007, on our consideration of Delton Kellogg School's internal control over financial reporting and on our tests of it's 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.

*Norman i Paulson, P.C.*

September 20, 2007

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS  
YEAR ENDED June 30, 2007

This section of Delton Kellogg Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Delton Kellogg Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, the Capital Projects Fund and the Debt Service Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

*Management's Discussion and Analysis (MD&A)*  
*(Required Supplemental Information)*

Basic Financial Statements

*District-wide Financial Statements*

*Fund Financial Statements*

*Notes to the Basic Financial Statement*

*(Required Supplemental Information)*

*Budgetary Information for the General Fund and Major Special Revenue Funds*

*Other Supplemental Information*

**Reporting the School District as a whole - District-wide Financial Statements**

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)  
YEAR ENDED June 30, 2007

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

**Reporting the School District's Most Significant Funds - Fund Financial Statements**

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)  
 YEAR ENDED June 30, 2007

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

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

**The School District as a Whole**

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2007 and 2006:

TABLE I	June 30	
	<u>2007</u>	<u>2006</u>
Assets		
Current and other assets	\$ 5,761,015	\$ 6,127,638
Capital assets - Net of accumulated depreciation	<u>15,239,617</u>	<u>15,523,666</u>
Total assets	21,000,632	21,651,304
Liabilities		
Current liabilities	4,476,673	4,294,343
Long-term liabilities	<u>12,515,031</u>	<u>13,385,081</u>
Total liabilities	16,991,704	17,679,424
Net Assets		
Invested in property and equipment - net of related debt	2,321,107	2,389,903
Restricted for debt service	398,717	433,835
Unrestricted	<u>1,289,104</u>	<u>1,148,142</u>
Total net assets	<u>\$ 4,008,928</u>	<u>\$ 3,971,880</u>

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)  
 YEAR ENDED June 30, 2007

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$4,008,928 at June 30, 2007. Capital assets, net of related debt totaling \$2,321,107 compares the original cost, less depreciation of the School District's capital assets to long-term debt. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$1,289,104 was unrestricted.

The \$1,289,104 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years ended June 30, 2007 and 2006.

TABLE 2

	June 30	
	<u>2007</u>	<u>2006</u>
Revenue		
Program revenue:		
Charges for services	\$ 731,110	\$ 748,045
Grants and categoricals	2,351,840	2,340,737
General revenue:		
Property taxes	3,155,392	2,947,981
State foundation allowance	10,872,543	11,158,800
Interest earnings and other	<u>196,183</u>	<u>226,370</u>
Total revenue	17,307,068	17,421,933
<b>Function/Program Expenses</b>		
Instruction	\$ 9,803,761	\$ 10,576,944
Support services	4,821,130	6,273,216
Community services	117,252	114,748
Food services	686,219	783,072
Athletics	383,592	438,152
Interest on long-term debt	527,685	613,258
Depreciation (unallocated)	<u>930,381</u>	<u>298,090</u>
Total expenses	<u>17,270,020</u>	<u>19,097,480</u>
Increase in net assets	<u>\$ 37,048</u>	<u>\$ (1,675,547)</u>

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)  
YEAR ENDED June 30, 2007

As reported in the statement of activities, the cost of all governmental activities this year was \$17,270,020. Certain activities were partially funded from those who benefited from the programs \$(731,110) or by other governments and organizations that subsidized certain programs with grants and categoricals \$(2,351,840). We paid for the remaining "public benefit" portion of our governmental activities with \$3,155,392 in taxes, \$10,872,543 in State foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets of \$37,048. Key reasons for the change in net assets were capitalizable expenditures and the repayment of bond principal. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 15.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted sources.

**The School District's Funds**

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$2,246,572, which is a decrease of \$487,760 from last year. In the General Fund, our principal operating fund, the fund balance decreased \$107,242 to \$1,492,371. In the Capital Projects Fund the fund balance decreased \$469,747 to \$203,792. The purpose of the Capital Projects Fund is to continue to spend the fund balance to complete the voter approved building renovation projects. In the Debt Service Fund the fund balance increased \$50,467 to \$484,302. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Fund fund balance is reserved since it can only be used to pay debt service obligations.

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)  
 YEAR ENDED June 30, 2007

**General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

Budgeted revenues were decreased by \$28,873. This was primarily to decrease the projected State Aid (foundation allowance) revenue based on a reduction in student count.

Budgeted expenditures were increased by \$297,442.

Actual revenues were within \$116,406 of final budgeted revenues or .8% which is immaterial.

Actual expenditures ended the year under the final budget by \$163,575 or 1.0% which is immaterial.

**Capital Asset and Debt Administration**

Capital Assets

At June 30, 2007, the School District had \$30,935,859 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net increase (including additions and disposals) of \$540,814, or 1.8 percent, from last year. The majority of this increase was construction in progress funded out of the Capital Projects Fund.

	<u>2007</u>	<u>2006</u>
Land	\$ 911,103	\$ 870,250
Buildings and improvements	27,540,404	27,046,187
Buses and other vehicles	1,256,216	1,286,448
Furniture and equipment	<u>1,228,136</u>	<u>1,192,160</u>
Total capital assets	30,935,859	30,395,045
Less accumulated depreciation	<u>15,696,242</u>	<u>14,871,379</u>
Net capital assets	<u>\$ 15,239,617</u>	<u>\$ 15,523,666</u>

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)  
YEAR ENDED June 30, 2007

Debt

At the end of this year, the School District had \$13,122,302 in bonds outstanding versus \$13,807,302 in the previous year - a decrease of \$685,000. This change was the result of scheduled principal payments.

	<u>2007</u>	<u>2006</u>
General Obligation Bonds	<u>\$ 13,122,302</u>	<u>\$ 13,807,302</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$13.1 million is significantly below the statutorily imposed limit.

**Factors Bearing on the District's Future**

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

A reduction in student count will result in a decrease in State Aid (foundation allowance) revenue.

Increases in the employer contribution to the Michigan Public School Employees Retirement System, as well as increased premiums for health insurance will significantly affect the District's finances.

Increases in heating fuel costs and transportation fuel costs.

**Contacting the School District's Financial Management**

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Department, 327 North Grove Street, Delton, Michigan 49046.

DELTON KELLOGG SCHOOLS

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current Assets	
Cash and cash equivalents	\$ 3,297,112
Accounts receivable	214,797
Taxes receivable (net)	-
Due from other governmental units	2,227,695
Prepaid expenses	-
Inventories	<u>21,411</u>
Total current assets	5,761,015
Noncurrent Assets	
Capital assets	30,935,859
Less: accumulated depreciation	<u>(15,696,242)</u>
Total noncurrent assets	<u>15,239,617</u>
Total assets	21,000,632
<u>LIABILITIES</u>	
Current Liabilities	
Short-term note payable	1,950,000
Accounts payable	238,859
Accrued payroll	613,452
Accrued benefits	639,973
Accrued interest	157,744
Accrued severance pay	131,645
Bonds payable, due within one year	<u>745,000</u>
Total current liabilities	4,476,673
Noncurrent Liabilities	
Accrued severance pay	137,729
Bonds payable	<u>12,377,302</u>
Total noncurrent liabilities	<u>12,515,031</u>
Total liabilities	16,991,704
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	2,321,107
Restricted for debt service	398,717
Unrestricted	<u>1,289,104</u>
Total net assets	<u>\$ 4,008,928</u>

See Notes to Financial Statements

DELTON KELLOGG SCHOOLS  
STATEMENT OF ACTIVITIES  
YEAR ENDED June 30, 2007

	Program Revenues			Governmental Activities
Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets	
Functions/Programs				
Governmental activities:				
Instruction	\$ 9,803,761	\$ 257,933	\$ 1,971,400	\$ (7,574,428)
Support services	4,821,130	-	-	(4,821,130)
Food services	686,219	374,427	376,050	64,258
Athletics	383,592	98,750	4,390	(280,452)
Community services	117,252	-	-	(117,252)
Interest on long-term debt 527,685	-	-	(527,685)	
Depreciation (unallocated)	930,381	-	-	(930,381)
Total Governmental activities	<u>\$ 17,270,020</u>	<u>\$ 731,110</u>	<u>\$ 2,351,840</u>	(14,187,070)
General revenues:				
Taxes				
Property taxes, levied for general operations				2,002,592
Property taxes, levied for debt service				1,152,800
State aid not restricted to specific purposes				10,872,543
Interest and investment earnings				103,754
Other				<u>92,429</u>
				<u>14,224,118</u>
Change in Net Assets				37,048
Net Assets - Beginning of year				<u>3,971,880</u>
Net Assets - End of year				<u>\$ 4,008,928</u>

See Notes to Financial Statements

DELTON KELLOGG SCHOOLS

GOVERNMENTAL FUNDS  
BALANCE SHEET  
June 30, 2007

<u>ASSETS</u>	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>
Cash and cash equivalents	\$ 2,432,653	\$ 252,996	\$ 484,136
Accounts receivable	214,484	-	263
Due from other governmental units	2,227,695	-	-
Due from other funds	55,340	-	-
Prepaid expenditures	-	-	-
Inventories	<u>13,825</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>\$ 4,943,997</u>	 <u>\$ 252,996</u>	 <u>\$ 484,399</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Short-term note payable	\$ 1,950,000	\$ -	\$ -
Accounts payable	182,759	49,204	97
Accrued payroll	608,552	-	-
Accrued benefits	638,156	-	-
Accrued interest	72,159	-	-
Due to other funds	-	-	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>
 Total liabilities	 3,451,626	 49,204	 97
Fund Balances:			
Reserved:			
Inventories	13,825	-	-
Encumbrances	67,965	-	-
Debt service	-	-	484,302
Capital projects	-	203,792	-
Unreserved:			
Undesignated	<u>1,410,581</u>	<u>-</u>	<u>-</u>
 Total fund balances	 <u>1,492,371</u>	 <u>203,792</u>	 <u>484,302</u>
 Total liabilities and fund balances	 <u>\$ 4,943,997</u>	 <u>\$ 252,996</u>	 <u>\$ 484,399</u>

See Notes to Financial Statements

Other Non-Major Governmental Funds	Total
\$ 127,327	\$ 3,297,112
50	214,797
-	2,227,695
-	55,340
-	-
<u>7,586</u>	<u>21,411</u>
<u>\$ 134,963</u>	<u>\$ 5,816,355</u>

\$ -	\$ 1,950,000
6,799	238,859
4,900	613,452
1,817	639,973
-	72,159
55,340	55,340
-	-
<u>68,856</u>	<u>3,569,783</u>

7,586	21,411
-	67,965
-	484,302
-	203,792
<u>58,521</u>	<u>1,469,102</u>
<u>66,107</u>	<u>2,246,572</u>
<u>\$ 134,963</u>	<u>\$ 5,816,355</u>

DELTON KELLOGG SCHOOLS

GOVERNMENTAL FUNDS  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2007

Total Fund Balances - Governmental Funds \$ 2,246,572

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	30,935,859
Accumulated depreciation is	<u>(15,696,242)</u>
Total	15,239,617

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

Accrued severance pay	(269,374)
Bonds payable	(13,122,302)

Accrued interest payable on long-term liabilities is not  
included as a liability in governmental activities (85,585)

Net assets of governmental activities \$ 4,008,928

See Notes to Financial Statements

DELTON KELLOGG SCHOOLS

GOVERNMENTAL FUNDS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 YEAR ENDED June 30, 2007

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>
Revenues			
Local sources	\$ 2,401,032	\$ 24,470	\$ 1,178,912
State sources	11,875,986	-	-
Federal sources	744,088	-	-
Interdistrict sources	<u>223,869</u>	<u>-</u>	<u>-</u>
Total revenues	15,244,975	24,470	1,178,912
Expenditures			
Instruction	9,894,661	-	-
Supporting services	4,924,653	-	-
Community services	117,252	-	-
Food service	-	-	-
Athletics	-	-	-
Debt service:			
Principal	75,000	-	610,000
Interest and other	90,789	-	518,445
Capital outlay	<u>-</u>	<u>494,217</u>	<u>-</u>
Total expenditures	<u>15,102,355</u>	<u>494,217</u>	<u>1,128,445</u>
Excess (deficiency) of revenues over expenditures	142,620	(469,747)	50,467
Other financing sources (uses)			
Operating transfers in	30,000	-	-
Operating transfers out	<u>(279,862)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(249,862)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(107,242)	(469,747)	50,467
Fund balances, July 1	<u>1,599,613</u>	<u>673,539</u>	<u>433,835</u>
Fund balances, June 30	<u>\$ 1,492,371</u>	<u>\$ 203,792</u>	<u>\$ 484,302</u>

See Notes to Financial Statements

Other Non-Major Governmental Funds	Total
\$ 482,661	\$ 4,087,075
57,691	11,933,677
318,359	1,062,447
-	223,869
858,711	17,307,068
-	9,894,661
-	4,924,653
-	117,252
686,219	686,219
383,592	383,592
-	685,000
-	609,234
-	494,217
1,069,811	17,794,828
(211,100)	(487,760)
279,862	309,862
(30,000)	(309,862)
249,862	-
38,762	(487,760)
27,345	2,734,332
\$ 66,107	\$ 2,246,572



DELTON KELLOGG SCHOOLS

FIDUCIARY FUND  
STATEMENT OF FIDUCIARY NET ASSETS  
June 30, 2007

	<u>Student Activities Agency Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	<u>\$ 145,127</u>
<u>LIABILITIES</u>	
Due to student groups	<u>\$ 145,127</u>

See Notes to Financial Statements

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

The accounting policies of Delton Kellogg Public Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School Districts' reporting entity, and which organizations are legally separate, component units of the school district. Based on the application of the criteria, the district does not contain any component units.

**District-Wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered 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. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

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

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**District-Wide Statements** - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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 revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Amounts reported as program revenue include (1) charges to customer or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

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

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

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The school district reports the following major governmental funds:

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

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

The Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of funds specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. The fund is retained until the purpose for which the fund was created has been accomplished.

The Debt Service Fund is used to record tax, interest, other revenue for payment, principle, and other expenditures on the bond issues.

Additionally, the government reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Athletic Fund and Food Services Fund.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

**Assets, Liabilities, and Net Assets or Equity**

**Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

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 categorical 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.

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The school district does not have infrastructure type assets.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

**Long-Term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized 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.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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

**Comparative Data/Reclassifications** - Comparative data is not included in the district's financial statements.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. There were no significant amendments during the year.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The School district did not have significant expenditure budget variances.

**Capital Projects Fund Compliance** - The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of 1351a of the State of Michigan's School Code.

**NOTE 3 - CASH AND CASH EQUIVALENTS**

The School District's cash and cash equivalents at June 30, 2007, are composed of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Deposits	<u>\$ 3,297,112</u>	<u>\$ 145,127</u>	<u>\$ 3,442,239</u>

Deposits consist of checking, savings, and bank municipal investment funds. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$3,720,700. Of that amount, \$100,000 was covered by federal depository insurance coverage or secured and \$648,050 was uninsured and uncollateralized. The balance of \$2,972,650 was invested in the bank municipal investment funds which are not categorized by risk.

The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The School District evaluates each financial institution it deposits School District funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity of the School District's governmental activities was as follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Disposals and</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2007</u>
Assets not being depreciated - Land	\$ 870,250	\$ 51,503	\$ 10,650	\$ 911,103
Capital assets being depreciated:				
Buildings and building improvements	27,046,187	494,217	-	27,540,404
Buses and other vehicles	1,286,448	75,286	105,518	1,256,216
Furniture and equipment	<u>1,192,160</u>	<u>35,976</u>	<u>-</u>	<u>1,228,136</u>
Subtotal	29,524,795	605,479	105,518	30,024,756
Accumulated depreciation:				
Buildings and building improvements	13,202,470	778,487	-	13,980,957
Buses and other vehicles	966,721	82,904	105,518	944,107
Furniture and equipment	<u>702,188</u>	<u>68,990</u>	<u>-</u>	<u>771,178</u>
Subtotal	<u>14,871,379</u>	<u>930,381</u>	<u>105,518</u>	<u>15,696,242</u>
Net capital assets being depreciated	<u>14,653,416</u>			<u>14,328,514</u>
Net capital assets				<u>\$ 15,239,617</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due To/From Other Funds:		
General Fund	Other governmental funds	<u>\$ 55,340</u>
Interfund Transfers:		
Transfer in:	Transfer Out:	
Other governmental funds	General Fund	
		<u>\$ 249,862</u>

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**NOTE 6 - SHORT-TERM NOTE PAYABLE**

Michigan Municipal Bond Authority  
State Aid note payable on August  
20, 2007 plus interest at 3.94% \$ 1,950,000

**NOTE 7 - LONG-TERM DEBT**

The school district issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the school district. Other long-term obligations include accumulated severance pay.

Long-term obligation activity can be summarized as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds	\$13,807,302	\$ -	\$ 685,000	\$13,122,302	<u>\$ 745,000</u>
Other Obligations	<u>390,571</u>	<u>-</u>	<u>121,197</u>	<u>269,374</u>	<u>\$ 131,645</u>
Totals	<u>\$14,197,873</u>	<u>\$ -</u>	<u>\$ 806,197</u>	<u>\$13,391,676</u>	

The annual requirement to service the bonds outstanding to maturity, including both principal and interest, are as follows:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 745,000	\$ 513,512	\$ 1,258,512
2009	835,438	499,384	1,334,822
2010	802,419	468,479	1,270,898
2011	867,773	442,289	1,310,062
2012	938,142	413,970	1,352,112
Thereafter	<u>8,933,530</u>	<u>1,652,118</u>	<u>10,585,648</u>
	<u>\$13,122,302</u>	<u>\$3,989,752</u>	<u>\$17,112,054</u>

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**NOTE 7 - LONG-TERM DEBT - (Continued)**

Governmental Activities:

General obligation bonds consist of:

2003 General Obligation School Building and Site and Refunding Bonds payable in annual installments of \$185,000 to \$1,540,000 plus interest at 2.00% to 4.50% through May 2019	\$ 12,915,000
1999 General Obligation Energy Conservation Improvement Bonds payable in annual installments of \$75,000 to \$80,000 plus interest at 5.0% through May 2009	155,000
\$127,259 1998 School Improvement Bond (Durant Settlement) payable in annual installments of \$8,936 through May 15, 2013; interest at 4.76%; annual principal and interest payments are to be paid directly by the State of Michigan	<u>52,302</u>
Total bonds payable	<u>\$ 13,122,302</u>

Other governmental activity long-term obligations include:

Accumulated severance pay payable annually from January 2007 through January 2009	<u>\$ 269,374</u>
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**NOTE 8 - RISK MANAGEMENT**

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

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS**

**Plan Description** - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

**Funding Policy** - Employer contributions to the system result from the implementing effect of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 16.34 percent for the period July 1, 2006 through September 30, 2006 and 17.74 percent for the period October 1, 2006 through June 30, 2007 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2007, 2006, and 2005 were \$1,569,593, \$1,543,650, and \$1,341,404.

**Post Employment Benefits** - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

**REQUIRED SUPPLEMENTAL INFORMATION**

DELTON KELLOGG SCHOOLS

REQUIRED SUPPLEMENTAL INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 YEAR ENDED June 30, 2007

	Original Budget	Final Budget	Actual	Over (under) Final Budget
<b>Revenues:</b>				
Local sources	\$ 2,311,994	\$ 2,398,798	\$ 2,401,032	\$ 2,234
State sources	11,859,329	11,779,802	11,875,986	96,184
Federal sources	768,961	732,811	744,088	11,277
Interdistrict sources	<u>217,158</u>	<u>217,158</u>	<u>223,869</u>	<u>6,711</u>
Total revenue	15,157,442	15,128,569	15,244,975	116,406
<b>Expenditures:</b>				
Instruction				
Basic programs	7,947,840	8,032,591	8,001,918	(30,673)
Added needs	1,495,568	1,509,340	1,501,691	(7,649)
Adult/community education	377,656	400,823	391,052	(9,771)
Support services				
Pupil	479,229	421,465	412,642	(8,823)
Instructional staff	199,378	264,618	255,542	(9,076)
General administration	368,656	377,662	376,150	(1,512)
School administration	858,207	900,382	880,813	(19,569)
Business services	362,150	388,820	382,553	(6,267)
Operations and maintenance	1,728,873	1,749,324	1,700,249	(49,075)
Transportation	625,111	724,851	707,064	(17,787)
Technology services	244,494	210,391	209,640	(751)
Community services	115,537	119,874	117,252	(2,622)
Debt service				
Principal 75,000	75,000	75,000	-	-
Interest and other	<u>90,789</u>	<u>90,789</u>	<u>90,789</u>	<u>-</u>
Total expenditures	<u>14,968,488</u>	<u>15,265,930</u>	<u>15,102,355</u>	<u>(163,575)</u>
Excess (deficiency) of revenues over expenditures	188,954	(137,361)	142,620	279,981
Other financing sources (uses)				
Operating transfers in	-	30,000	30,000	-
Operating transfers out	<u>(356,970)</u>	<u>(285,565)</u>	<u>(279,862)</u>	<u>5,703</u>
Total other financing sources (uses)	<u>(356,970)</u>	<u>(255,565)</u>	<u>(249,862)</u>	<u>5,703</u>
Net change in fund balance	(168,016)	(392,926)	(107,242)	285,684
Fund balance, July 1	<u>1,599,613</u>	<u>1,599,613</u>	<u>1,599,613</u>	<u>-</u>
Fund balance, June 30	<u>\$ 1,431,597</u>	<u>\$ 1,206,687</u>	<u>\$ 1,492,371</u>	<u>\$ 285,684</u>

**OTHER SUPPLEMENTAL INFORMATION**

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND  
STATEMENT OF REVENUES  
YEAR ENDED June 30, 2007

Local sources	
Property taxes	\$ 2,002,592
Tuition	67,780
Interest on invested balances	48,078
Sale of school property	190,153
Refunds and reimbursements	18,575
Miscellaneous	<u>73,854</u>
Total local sources	2,401,032
State sources	
Foundation	10,775,410
At risk	288,447
Adult education	246,913
Early childhood education	59,400
Equity payment	42,314
Declining enrollment	54,819
Middle School math	21,626
Vocational education	19,241
Special education	337,426
Other programs	17,664
Durant Settlement	<u>12,726</u>
Total state sources	11,875,986
Federal sources	
Title I Part A	241,295
Title I Part B	30,000
Title II Part D	3,154
Title V LEA allocation	388
Adult basic education	102,500
Service provider self review	4,200
Drug free schools	7,028
I.D.E.A. program	200,500
Title IIA Improving Teacher Quality	107,430
Medicaid outreach	<u>47,593</u>
Total federal sources	744,088
Interdistrict sources	
Durant settlement	7,815
Special education	<u>216,054</u>
Total interdistrict sources	<u>223,869</u>
Total revenues	<u>\$ 15,244,975</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND  
STATEMENT OF EXPENDITURES  
YEAR ENDED June 30, 2007

Instruction	
Basic Programs	
Elementary	
Salaries	\$ 1,716,522
Employee benefits	834,457
Purchased services	12,363
Supplies, material, and other	63,568
Capital outlay	<u>          -</u>
	2,626,910
Middle school	
Salaries	1,458,011
Employee benefits	810,966
Purchased services	33,182
Supplies, material, and other	59,794
Capital outlay	<u>          -</u>
	2,361,953
High school	
Salaries	1,682,522
Employee benefits	864,555
Purchased services	138,486
Supplies, material, and other	201,273
Capital outlay	<u>          -</u>
	2,886,836
Pre-School	
Salaries	85,634
Employee benefits	36,841
Purchased services	516
Supplies, materials, and other	<u>3,228</u>
	<u>126,219</u>
Total basic programs	8,001,918
Added needs	
Special education	
Salaries	838,285
Employee benefits	412,849
Purchased services	-
Supplies, material, and other	<u>12,109</u>
	1,263,243
Compensatory education	
Salaries	151,865
Employee benefits	63,767
Purchased services	35
Supplies, material, and other	<u>22,781</u>
	<u>238,448</u>
Total added needs	1,501,691

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND  
 STATEMENT OF EXPENDITURES (Continued)  
 YEAR ENDED June 30, 2007

Adult education services	
Basic	
Salaries	254,410
Employee benefits	110,705
Purchased services	1,099
Supplies, materials, and other	24,838
Capital outlay	<u>-</u>
Total adult education services	<u>391,052</u>
Total instruction	9,894,661
Supporting services	
Pupil services	
Guidance services	
Salaries	265,110
Employee benefits	139,839
Supplies, materials, and other	<u>6,880</u>
Total pupil services	411,829
Other pupil services	
Salaries	648
Employee benefits	<u>165</u>
Total other pupil services	<u>813</u>
Total pupil services	412,642
Instructional staff services	
Improvement of instruction	
Salaries	31,315
Employee benefits	7,951
Purchased services	1,228
Supplies, materials, and other	-
Capital outlay	<u>-</u>
Total instructional staff services	<u>40,494</u>
Library	
Salaries	122,117
Employee benefits	56,869
Purchased services	678
Supplies, materials, and other	<u>21,576</u>
Total library	201,240
Audio-visual	
Supplies, materials, and other	<u>13,808</u>
Total instructional staff services	255,542

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND  
 STATEMENT OF EXPENDITURES (Continued)  
 YEAR ENDED June 30, 2007

General administrative services	
Board of education	
Salaries	6,720
Purchased services	78,960
Supplies, materials, and other	<u>19,345</u>
	105,025
Executive administration	
Salaries	154,892
Employee benefits	81,606
Purchased services	26,004
Supplies, materials, and other	<u>8,623</u>
	<u>271,125</u>
Total general administrative services	376,150
School administrative services	
Office of the principal	
Salaries	603,505
Employee benefits	261,288
Purchased services	4,749
Supplies, materials, and other	11,271
Capital outlay	<u>-</u>
	880,813
Business services	
Fiscal services	
Salaries	136,836
Employee benefits	77,671
Purchased services	15,780
Supplies, materials, and other	<u>2,876</u>
	233,163
Other services	
Salaries	2,250
Employee benefits	13,376
Purchased services	33,931
Supplies, materials, and other	35,545
Capital outlay	<u>64,288</u>
	<u>149,390</u>
Total business services	382,553

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION  
GENERAL FUND

STATEMENT OF EXPENDITURES (Continued)  
YEAR ENDED June 30, 2007

Operation and maintenance services	
Operation and maintenance	
Salaries	596,981
Employee benefits	464,791
Purchased services	236,874
Supplies, materials, and other	401,603
Capital outlay	<u>-</u>
Total operation and maintenance services	1,700,249
Pupil transportation services	
Pupil transportation	
Salaries	312,617
Employee benefits	185,066
Purchased services	15,953
Supplies, materials, and other	118,142
Capital outlay	<u>75,286</u>
Total pupil transportation services	707,064
Other supporting services	
Technology services	
Salaries	98,625
Employee benefits	55,521
Purchased services	34,963
Supplies, materials, and other	8,531
Capital outlay	<u>12,000</u>
Total technology services	<u>209,640</u>
Total supporting services	4,924,653
Community services	
Community education	
Salaries	83,191
Employee benefits	31,625
Purchased services	1,727
Supplies, materials, and other	<u>709</u>
Total community education	117,252
Debt service	
Principal payments	75,000
Interest	<u>90,789</u>
Total debt service	<u>165,789</u>
Total expenditures	<u>\$ 15,102,355</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2007

	<u>Special Revenue Funds</u>		
	<u>Food</u>		
<u>ASSETS</u>	<u>Services</u>	<u>Athletics</u>	<u>Total</u>
Cash and cash equivalents	\$ 91,108	\$ 36,219	\$ 127,327
Accounts receivable	-	50	50
Due from other governmental units	-	-	-
Due from other funds	-	-	-
Inventory	<u>7,586</u>	<u>-</u>	<u>7,586</u>
Total assets	<u>\$ 98,694</u>	<u>\$ 36,269</u>	<u>\$ 134,963</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 5,843	\$ 956	\$ 6,799
Accrued payroll	389	4,511	4,900
Accrued benefits	29	1,788	1,817
Due to other funds	<u>30,340</u>	<u>25,000</u>	<u>55,340</u>
Total liabilities	36,601	32,255	68,856
Fund balances:			
Reserved:			
Inventory	7,586	-	7,586
Unreserved:			
Undesignated	<u>54,507</u>	<u>4,014</u>	<u>58,521</u>
Total fund balances	<u>62,093</u>	<u>4,014</u>	<u>66,107</u>
Total liabilities and fund balances	<u>\$ 98,694</u>	<u>\$ 36,269</u>	<u>\$ 134,963</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUND  
YEAR ENDED June 30, 2007

	<u>Special Revenue Funds</u>		
	<u>Food Services</u>	<u>Athletics</u>	<u>Total</u>
Revenues:			
Local sources	\$ 378,009	\$ 104,652	\$ 482,661
State sources	57,691	-	57,691
Federal sources	<u>318,359</u>	<u>-</u>	<u>318,359</u>
Total revenues	754,059	104,652	858,711
Expenditures:			
Food services	686,219	-	686,219
Athletics	<u>-</u>	<u>383,592</u>	<u>383,592</u>
Total expenditures	<u>686,219</u>	<u>383,592</u>	<u>1,069,811</u>
Excess (deficiency) of revenues over expenditures	67,840	(278,940)	(211,100)
Other Financing Sources (Uses):			
Operating transfers in	-	279,862	279,862
Operating transfers out	<u>(30,000)</u>	<u>-</u>	<u>(30,000)</u>
Total other financing sources (uses)	<u>(30,000)</u>	<u>279,862</u>	<u>249,862</u>
Net change in fund balances	37,840	922	38,762
Fund balances, July 1	<u>24,253</u>	<u>3,092</u>	<u>27,345</u>
Fund balances, June 30	<u>\$ 62,093</u>	<u>\$ 4,014</u>	<u>\$ 66,107</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

FOOD SERVICE SPECIAL REVENUE FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCES - BUDGET AND ACTUAL  
 YEAR ENDED June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 366,277	\$ 378,009	\$ 11,732
State sources	57,691	57,691	-
Federal sources	<u>303,512</u>	<u>318,359</u>	<u>14,847</u>
Total revenues	727,480	754,059	26,579
Expenditures:			
Salaries	234,170	230,332	(3,838)
Employee benefits	68,537	64,784	(3,753)
Purchased services	22,200	19,749	(2,451)
Supplies, material, and other	347,536	352,164	4,628
Capital outlay	<u>25,000</u>	<u>19,190</u>	<u>(5,810)</u>
Total expenditures	<u>697,443</u>	<u>686,219</u>	<u>(11,224)</u>
Excess (deficiency) of revenues over expenditures	30,037	67,840	37,803
Other Financing Sources (Uses):			
Operating transfers out	<u>(30,000)</u>	<u>(30,000)</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other sources	37	37,840	37,803
Fund balances, July 1	<u>24,253</u>	<u>24,253</u>	<u>-</u>
Fund balances, June 30	<u>\$ 24,290</u>	<u>\$ 62,093</u>	<u>\$ 37,803</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

ATHLETIC SPECIAL REVENUE FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCES - BUDGET AND ACTUAL  
 YEAR ENDED June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 103,285	\$ 104,652	\$ 1,367
Expenditures:			
Salaries	236,590	234,411	(2,179)
Employee benefits	63,560	60,910	(2,650)
Purchased services	47,500	47,044	(456)
Supplies, material, and other	37,662	37,887	225
Capital outlay	<u>3,538</u>	<u>3,340</u>	<u>(198)</u>
Total expenditures	<u>388,850</u>	<u>383,592</u>	<u>(5,258)</u>
Excess (deficiency) of revenues over expenditures	(285,565)	(278,940)	6,625
Other Financing Sources:			
Operating transfers in	<u>285,565</u>	<u>279,862</u>	<u>(5,703)</u>
Excess (deficiency) of revenues over expenditures and other financing sources	-	922	922
Fund balances, July 1	<u>3,092</u>	<u>3,092</u>	<u>-</u>
Fund balances, June 30	<u>\$ 3,092</u>	<u>\$ 4,014</u>	<u>\$ 922</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

STUDENT ACTIVITIES AGENCY FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
YEAR ENDED June 30, 2007

	Balances			Balances
	<u>June 30, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2007</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ <u>154,191</u>	\$ <u>363,312</u>	\$ <u>372,376</u>	\$ <u>145,127</u>
<u>LIABILITIES</u>				
Due to student groups	\$ <u>154,191</u>	\$ <u>363,312</u>	\$ <u>372,376</u>	\$ <u>145,127</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

STATEMENT OF BONDED INDEBTEDNESS  
 \$14,445,000 2003 General Obligation School Building  
 and Site and Refunding Bonds

Year Ended June 30	Rate	Principal		Interest		Total
		May 1	November 1	May 1		
2008	2.50	\$ 670,000	\$ 252,881	\$ 252,881	\$ 1,175,762	
2009	3.00	735,000	244,506	244,506	1,224,012	
2010	3.25	795,000	233,481	233,481	1,261,962	
2011	3.25	860,000	220,563	220,563	1,301,126	
2012	3.75	930,000	206,588	206,588	1,343,176	
2013	4.00	1,005,000	189,150	189,150	1,383,300	
2014	4.00	1,090,000	169,050	169,050	1,428,100	
2015	4.25	1,180,000	147,250	147,250	1,474,500	
2016	4.00	1,270,000	122,175	122,175	1,514,350	
2017	4.375	1,370,000	96,775	96,775	1,563,550	
2018	4.375	1,470,000	66,806	66,806	1,603,612	
2019	4.50	1,540,000	34,650	34,650	1,609,300	
		<u>\$ 12,915,000</u>	<u>\$ 1,983,875</u>	<u>\$ 1,983,875</u>	<u>\$16,882,750</u>	

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

STATEMENT OF BONDED INDEBTEDNESS  
 \$645,000 1999 Energy Conservation Improvement Bonds

Year Ended <u>June 30</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>		<u>Total</u>
		<u>May 1</u>	<u>November 1</u>	<u>May 1</u>	
2008	5.00	\$ 75,000	\$ 3,875	\$ 3,875	\$ 82,750
2009	5.00	<u>80,000</u>	<u>2,000</u>	<u>2,000</u>	<u>84,000</u>
		<u>\$ 155,000</u>	<u>\$ 5,875</u>	<u>\$ 5,875</u>	<u>\$ 166,750</u>

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

STATEMENT OF BONDED INDEBTEDNESS  
YEAR ENDED June 30, 2007

1998 SCHOOL IMPROVEMENT BONDS \$ 127,529

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2009	4.76	\$ 6,372	\$ 20,438	\$ 26,810
2010	4.76	1,517	7,419	8,936
2011	4.76	1,163	7,773	8,936
2012	4.76	794	8,142	8,936
2013	4.76	<u>406</u>	<u>8,530</u>	<u>8,936</u>
Total		<u>\$ 10,252</u>	<u>\$ 52,302</u>	<u>\$ 62,554</u>

Interest and principal on the bonds of the above issue is payable annually on May 15. As part of the Durant Settlement the annual principal and interest payments are to be made directly by the State of Michigan.

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED June 30, 2007

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through State Department of Education:			
Title I - Educationally Deprived	84.010	0715300607 0615300506	\$ 307,209 307,209
Title V LEA allocation	84.298	0702500607	388
Title II Part D	84.318	0742900607	3,154
Title IIA Teacher Quality	84.367	0705200607	107,430
Service Provider Self Review	84.027A	0704400607	4,500
Adult Basic Education Sec. 306 Instruction	84.002	071130710977	102,500
Total passed through MDE			
Passed Through State Department of Labor and Economic Growth:			
Vocational Rehabilitation Services	84.126		30,000
Passed Through Intermediate School District:			
Drug Free Schools	84.186		7,028
IDEA	84.027		102,500
Total passed through ISD			
TOTAL DEPARTMENT OF EDUCATION			

(Continued on next page)

Accrued/ (Deferred) Revenue June 30, 2006	(Memo only) Prior Year Expenditures	<u>Expenditures</u>	<u>Receipts</u>	Accrued/ (Deferred) Revenue June 30, 2007
\$ -		\$ 238,040	\$ 40,000	\$ 198,040
<u>9,745</u>	303,954	<u>3,255</u>	<u>13,000</u>	<u>-</u>
9,745		* 241,295	53,000	198,040
-		388	-	388
-		3,154	-	3,154
-		* 107,430	70,000	37,430
-		4,200	-	4,200
<u>-</u>		<u>102,500</u>	<u>102,500</u>	<u>-</u>
9,745		458,967	225,500	243,212
7,500	30,000	30,000	29,250	8,250
-		7,028	7,028	-
<u>-</u>		<u>200,500</u>	<u>200,500</u>	<u>-</u>
<u>-</u>		<u>207,528</u>	<u>207,528</u>	<u>-</u>
17,245		696,495	462,278	251,462

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued  
 YEAR ENDED June 30, 2007

<u>Federal Grantor/Pass-Through Grantor/ Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through State Department of Education:			
Nutrition Cluster			
National School Lunch Program	10.555	071950	34,355
		061950	41,273
		071960	155,395
		061960	172,865
National School Lunch Breakfast	10.553	071970	59,152
		061970	64,506
Food Distribution			
Entitlement Commodities	10.550		40,312
Bonus Commodities			227

TOTAL DEPARTMENT OF AGRICULTURE

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Passed Through Intermediate School District:

Medicaid Outreach	93.778		-
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TOTAL FEDERAL FINANCIAL ASSISTANCE

Notes:

- 1.\*Designates Major Program
2. Dollar threshold used to distinguish between Type A and Type B programs - \$300,000.
3. Expenditures in this schedule are in agreement with amounts reported in the financial statements.
4. The amounts reported on the R7120 reconcile with this schedule.

Accrued/ (Deferred) Revenue <u>June 30, 2006</u>	(Memo only) Prior Year <u>Expenditures</u>	<u>Expenditures</u>	<u>Receipts</u>	Accrued/ (Deferred) Revenue <u>June 30, 2007</u>
-		34,355	34,355	-
-	36,972	4,301	4,301	-
-		155,395	155,395	-
-	154,535	<u>18,330</u>	<u>18,330</u>	-
-		212,381	212,381	-
-		59,152	59,152	-
-	58,219	<u>6,287</u>	<u>6,287</u>	-
-		65,439	65,439	-
-		40,312	40,312	-
-		<u>227</u>	<u>227</u>	-
-		<u>40,539</u>	<u>40,539</u>	-
-		318,359	318,359	-
-		<u>47,593</u>	<u>47,593</u>	-
<u>\$ 17,245</u>		<u>\$ 1,062,447</u>	<u>\$ 828,230</u>	<u>\$ 251,462</u>



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

To the Board of Education  
Delton Kellogg Schools, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Delton Kellogg Schools as of and for the year ended June 30, 2007, which collectively comprise Delton Kellogg Schools's basic financial statements and have issued our report thereon dated September 20, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered Delton Kellogg Schools's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness on the Delton Kellogg Schools's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Delton Kellogg Schools'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.

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 Delton Kellogg Schools'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*.

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

*Norman J. Paulson, P.C.*

September 20, 2007



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

To the Board of Education  
Delton Kellogg Schools, Michigan

Compliance - We have audited the compliance of Delton Kellogg Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Delton Kellogg Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Delton Kellogg Schools' management. Our responsibility is to express an opinion on Delton Kellogg Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 Delton Kellogg Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Delton Kellogg Schools' compliance with those requirements.

In our opinion, Delton Kellogg Schools 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.

**Norman & Paulsen, P.C.**

*Certified Public Accountants*

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Internal Control over Compliance - The management of Delton Kellogg Schools 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 Delton Kellogg Schools 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 Delton Kellogg Schools' 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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

*Norman J. Paulson, P.C.*

September 20, 2007

DELTON KELLOGG SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED June 30, 2007

1. Summary of auditor's results:

- (i) An unqualified opinion was issued on the financial statements.
- (ii) No reportable conditions in internal control were disclosed by the audit of the financial statements.
- (iii) The audit disclosed no noncompliance.
- (iv) No reportable conditions in internal control over major programs were disclosed by the audit.
- (v) An unqualified opinion was issued on Compliance for major programs.
- (vi) No audit findings were disclosed.
- (vii) Major programs: U.S. Department of Education
  - Title I - Educationally Deprived
  - Title II - Part A - Teacher Quality
- (viii) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- (ix) Delton Kellogg Schools qualified as a low-risk auditee.

2. Findings relating to the financial statements which are required to be reported in accordance with GAGAS.

NONE

3. Findings and questioned costs for Federal awards.

NONE