

**KENT CITY
COMMUNITY SCHOOLS**

Comprehensive Annual Financial Report

For the year ended June 30, 2007

KENT CITY COMMUNITY SCHOOLS
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For the year ended June 30, 2007

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

October 22, 2007

The Board of Education
Kent City Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Kent City Community Schools (the "District") 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 the District's elected officials and management. Our responsibility is to express an opinion 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 opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2007 on our consideration of Kent City Community Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Kent City Community Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Aldrin, Nichols & Bente, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis
June 30, 2007



As management of the Kent City Community Schools (“the District”), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the District’s financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District’s operations in more detail than the district-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District’s assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District’s net assets, and how they have changed. Net assets - the difference between the District’s assets and liabilities - is one way to measure the District’s financial health or position.

- Over time, increases or decreases in the District’s net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District’s overall health, one should consider additional non-financial factors such as changes in the District’s property tax-base and the condition of school buildings and other facilities.

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis
June 30, 2007



In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

Condensed District-Wide Financial Information

The Statement of Net Assets provides financial information on the District as a whole:

	<u>2007</u>	<u>2006</u>
Assets		
Current assets	\$ 4,830,764	\$ 5,034,922
Capital assets, net book value	<u>23,369,728</u>	<u>24,651,355</u>
Total Assets	<u>28,200,492</u>	<u>29,686,277</u>
Liabilities		
Current liabilities	3,362,193	3,531,921
Long-term liabilities	<u>24,647,345</u>	<u>24,844,515</u>
Total Liabilities	<u>28,009,538</u>	<u>28,376,436</u>
Net Assets		
Invested in capital assets, net of related debt	(1,507,380)	(390,314)
Restricted	900,664	625,528
Unrestricted	<u>797,669</u>	<u>1,074,627</u>
Total Net Assets	<u>\$ 190,954</u>	<u>\$ 1,309,841</u>

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis
June 30, 2007



The Statement of Activities presents changes in net assets from operating results:

	<u>2007</u>	<u>2006</u>
Program Revenues		
Charges for services	\$ 358,562	\$ 345,240
Operating grants	1,949,650	1,923,277
General Revenues		
Property taxes	2,140,590	2,031,236
State school aid, unrestricted	9,667,062	9,391,185
Interest earnings	99,265	98,628
Loss on disposal of capital assets	(27,200)	
Other	40,107	58,917
Total Revenues	<u>14,228,036</u>	<u>13,848,483</u>
Expenses		
Instruction	8,194,444	7,725,299
Supporting services	4,753,502	4,262,316
Community services	237,720	254,596
Food service	554,030	492,522
Athletics	350,409	327,205
Other	25,571	
Interest expense	1,109,907	976,843
Depreciation - unallocated	121,341	120,333
Total Expenses	<u>15,346,923</u>	<u>14,159,084</u>
Decrease in net assets	(1,118,887)	(310,601)
Net Assets - Beginning of Year	<u>1,309,841</u>	<u>1,620,442</u>
Net Assets - End of Year	<u>\$ 190,954</u>	<u>\$ 1,309,841</u>

Financial Analysis of the District as a Whole

The District's financial position is the product of many factors. District wide revenues increased by \$379,553, but expenses increased (by \$1,187,839) at a faster rate. This combination caused a reduction in net assets of \$1,118,887.

The District's total revenues increased by 2.75 percent to \$14.23 million. Property taxes contributed 15.1 percent of revenue while unrestricted state aid accounted for 67.9 percent of the District's revenue. Another 13.7 percent came from federal and state aid for specific programs and the remainder from fees charged for services, investment income and miscellaneous sources.

The total cost of all programs and services increased 8.4 percent to \$15.35 million. The District's expenses are predominantly related to instructing (53.4 percent) and supporting activities (31 percent). The increase in expenditures is the result of increases in personnel and curriculum materials such as textbooks.

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis
June 30, 2007



The recent condition of the District's finances can be attributed to declining enrollment, State financial troubles and operating costs that affect private sector businesses as well. The Board and Administration have been working to set long term goals and short term priorities. These goals and priorities are a driving force in District expenditures.

- Annually changes are made to programs and expense areas to counter rising costs. The goals of the Board of Education are prioritized before each year and changes in programming and operations are made to fit those goals. These changes can be cost reductions or cost shifts. Over the past seven years numerous cuts have been made to the point where any further cuts would result in harm to the District and its function of educating its students.
- The cost of all governmental activities this year was \$15.35 million.
- Some of the cost was financed by the users of the District's programs (\$358,562).
- The federal and state governments subsidized certain programs with grants and contributions (\$1.95 million).
- Most of the District's costs (\$11.9 million) were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$2.1 million in property taxes, \$9.7 million of state aid based on the statewide education aid formula and the balance with interest earnings and other local sources.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.

Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship and Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it can not use these assets to finance its operations.

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis
June 30, 2007



Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Kent City Community Schools funds are described as follows:

Major Funds

General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of \$12,149,701, total expenditures of \$12,148,018, other financing sources of \$63,300 and other financing uses of \$330,586. It ended the fiscal year with a fund balance of \$1,033,085, down from \$1,298,688 at June 30, 2006.

Building and Site (Sinking) Capital Projects Fund

The Building and Site Fund had total revenues of \$196,389 and expenditures of \$75,481 during the fiscal year. It ended the year with a fund balance of \$763,049, up from \$642,141 at June 30, 2006.

Nonmajor Funds

Special Revenue Funds

The District operates two Special Revenue Funds, for the food service and athletics programs. Total revenues were \$487,971 and other financing sources were \$330,586, with total expenditures of \$821,657. The ending fund balances totaled \$19,780, of which \$8,813 belonged to the Food Service Fund and \$10,967 to the Athletic Fund.

Debt Service Funds

The District operates five Debt Service Funds. Total revenues were \$1,419,956, total financing sources (State school bond loan proceeds) were \$574,568 and total expenditures were \$1,850,270. Ending fund balances totaled \$286,821, up from \$142,567 at June 30, 2006.

Fiduciary Funds

The Scholarship Funds and the Student Activities Fund are operated as Trust and Agency Funds of the District. The assets of these funds are being held for the benefit of the District's students. Balances on hand at June 30, 2007 totaled \$194,303.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget twice. These budget amendments fall into the categories of:

- The first budget revision is done at a time when unknown facts during the initial budget passage have become known and a more accurate picture of the District's financial condition is known.
- Final changes made in June for changes in appropriations to prevent line item budget overruns or large surpluses, make adjustments for unanticipated activities that occurred, and give a more accurate picture of the District's financial condition.
- Although the District's final budget for the General Fund anticipated that expenditures would exceed revenues by \$471,807, the actual results for the year showed a decrease of \$265,603.
- Actual revenues were \$26,099 less than expected.
- Actual expenditures were \$266,889 below budget.

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis
June 30, 2007



Capital Asset and Debt Administration

Capital Assets

By the end of 2007, the District had invested \$35.2 million in a broad range of capital assets, including land and improvements, school buildings, athletic facilities, vehicles, and furniture and equipment. More detailed information regarding capital assets can be found in Note E in the Notes to Basic Financial Statements. Total depreciation expense for the year was \$1,348,234.

At June 30, 2007, the District's investment in capital assets (net of accumulated depreciation) is detailed as follows:

Land	\$ 57,486
Land improvements	1,084,018
Buildings and additions	21,184,118
Furniture and equipment	751,574
Vehicles	292,532
	<hr/>
Net Capital Assets	<u>\$ 23,369,728</u>

Long-Term Debt

At year end, the District had \$21.6 million in general obligation bonds and installment purchase agreements outstanding. The District has also borrowed a total of \$3,725,089 from the State School Bond Loan Program and has an accumulated severance pay liability of \$91,050, accumulated sick leave liability of \$95,803 and early retirement incentive liability of \$76,131.

- The District continued to pay down its debt, retiring \$980,622 of outstanding bonds and installment purchase agreements.

The District's bond rating for General Obligation Tax debt remains "Aa". 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 District's boundaries. The District's other obligations include advances from the State School Bond Loan Program for bond payments in excess of allowable property taxes. We present more detailed information about our long-term liabilities in the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

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

- The condition of the State of Michigan's economy and how it affects the State's funding level for education for not only the 2007-08 fiscal year but also the next several years. With approximately 82% of the District's revenue coming from the State, any reductions made by the State in education funding will have a greater impact on our District.

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis
June 30, 2007



- Due to the slow economy of the area and the State families are starting to move out of the area to areas with better economic opportunities. There is also a reduction in students on a State wide basis as well.
- Enacted legislation such as No Child Left Behind and new State of Michigan High School Graduation requirements continue to be implemented. As implementation of these requirements continues and the need for every increasing student performance becomes more urgent the cost of these new requirements and initiatives are just becoming known. Increased personnel in teaching areas such as Science, Math and English Language Arts will need to be added along with curriculum materials and books.
- Increasing costs of employee benefits, especially health insurance and retirement contributions to the Michigan Public School Employee Retirement System.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Kent City Community Schools 200 N Clover Street, Kent City, MI 49330. Contact through the District's website at www.kentcityschools.org.

BASIC FINANCIAL STATEMENTS

KENT CITY COMMUNITY SCHOOLS
Statement of Net Assets
June 30, 2007

	Governmental Activities
Assets	
Current Assets	
Cash	\$ 450
Cash equivalents, deposits and investments (Note B)	2,227,599
Taxes receivable (Note C)	11,863
Accounts receivable	28,113
Due from other governmental units (Note C)	1,830,635
Inventory (Note A)	3,438
Prepaid expenses	728,666
Total Current Assets	4,830,764
Noncurrent Assets	
Capital assets (Note E)	35,218,556
Less accumulated depreciation	(11,848,828)
Total Noncurrent Assets	23,369,728
Total Assets	28,200,492
Liabilities	
Current Liabilities	
Accounts payable	225,388
State aid anticipation loan payable (Note F)	970,000
Due to other governmental units	282,165
Payroll withholdings payable	681
Accrued interest payable	190,114
Salaries payable	577,842
Deferred revenue	20,108
Current portion of long term obligations	1,095,895
Total Current Liabilities	3,362,193
Noncurrent Liabilities (Notes A, G)	
General obligation bonds payable	21,415,000
Durant non-plaintiff bonds payable	187,428
State school bond loan payable	3,725,089
Installment purchase agreements payable	152,739
Accumulated sick leave	95,803
Severance pay	91,050
Early retirement incentive	76,131
Current portion of long term obligations	(1,095,895)
Total Noncurrent Liabilities	24,647,345
Total Liabilities	28,009,538
Net Assets	
Invested in capital assets, net of related debt	(1,507,380)
Restricted for:	
Debt service	137,165
Capital projects	763,499
Unrestricted	797,669
Total Net Assets	\$ 190,954

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Statement of Activities
For the year ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 8,194,444	\$ 36,183	\$ 1,707,887	\$ (6,450,374)
Supporting services	4,753,502	1,714	6,886	(4,744,902)
Community services	237,720	67,735	-	(169,985)
Food service	554,030	195,473	234,877	(123,680)
Athletics	350,409	57,457	-	(292,952)
Other	25,571	-	-	(25,571)
Interest on long-term debt	1,109,907	-	-	(1,109,907)
Unallocated - depreciation	121,341	-	-	(121,341)
Total Governmental Activities	\$ 15,346,923	\$ 358,562	\$ 1,949,650	(13,038,711)
General Revenues				
Taxes:				
				561,014
				1,408,880
				170,696
				9,667,062
				99,265
				(27,200)
				40,107
				11,919,824
				(1,118,887)
				1,309,841
				\$ 190,954

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2007

	<u>General</u>	<u>Building and Site</u>	<u>Nonmajor</u>	<u>Total</u>
Assets				
Cash	\$ 100	\$ -	350	\$ 450
Cash equivalents, deposits and investments (Note B)	1,134,236	771,468	321,895	2,227,599
Receivables:				
Taxes (Note C)	7,788	450	3,625	11,863
Accounts	28,113	-	-	28,113
Due from other funds (Note D)	102,835	2,189	57,282	162,306
Due from other governmental units (Note C)	1,804,605	2,471	23,559	1,830,635
Inventory (Note A)	-	-	3,438	3,438
Prepaid expenditures	124,217	-	-	124,217
Total Assets	<u>\$ 3,201,894</u>	<u>\$ 776,578</u>	<u>\$ 410,149</u>	<u>\$ 4,388,621</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 218,732	\$ -	\$ 6,656	\$ 225,388
State aid anticipation loan payable (Note F)	970,000	-	-	970,000
Due to other funds (Note D)	59,471	12,699	90,136	162,306
Due to other governmental units	278,654	380	3,131	282,165
Payroll withholdings payable	681	-	-	681
Accrued interest payable	35,533	-	-	35,533
Salaries payable	577,842	-	-	577,842
Deferred revenue	27,896	450	3,625	31,971
Total Liabilities	<u>2,168,809</u>	<u>13,529</u>	<u>103,548</u>	<u>2,285,886</u>
Fund Balances				
Reserved for:				
Debt service	-	-	286,821	286,821
Capital outlay	-	763,049	-	763,049
Unreserved:				
Undesignated, reported in:				
General fund	1,033,085	-	-	1,033,085
Special revenue funds	-	-	19,780	19,780
Total Fund Balances	<u>1,033,085</u>	<u>763,049</u>	<u>306,601</u>	<u>2,102,735</u>
Total Liabilities and Fund Balances	<u>\$ 3,201,894</u>	<u>\$ 776,578</u>	<u>\$ 410,149</u>	<u>\$ 4,388,621</u>

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2007

Total governmental fund balances		\$ 2,102,735
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$35,218,556 and accumulated depreciation is \$11,848,828.		23,369,728
Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.		604,449
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
General obligation bonds	\$(21,415,000)	
Durant non-plaintiff bonds payable	(187,428)	
State school bond loan	(3,725,089)	
Installment purchase agreements payable	(152,739)	
Accumulated sick leave	(95,803)	
Severance pay	(91,050)	
Early retirement incentive	(76,131)	(25,743,240)
Accrued interest is not included as a liability in governmental funds.		(154,581)
Deferred revenue recognized as revenue in the full accrual statements:		
Property taxes		11,863
Total net assets - governmental activities		\$ 190,954

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2007

	General	Building and Site	Nonmajor	Total
Revenues				
Local sources	\$ 767,866	\$ 196,389	\$ 1,673,050	\$2,637,305
State sources	9,984,480	-	23,459	10,007,939
Federal sources	630,895	-	211,418	842,313
Interdistrict sources	766,460	-	-	766,460
Total Revenues	<u>12,149,701</u>	<u>196,389</u>	<u>1,907,927</u>	<u>14,254,017</u>
Expenditures				
Current:				
Instruction	7,626,606	-	-	7,626,606
Supporting services	4,236,643	-	-	4,236,643
Community services	188,375	-	-	188,375
Food service	-	-	528,683	528,683
Athletics	-	-	292,974	292,974
Capital outlay	-	75,481	5	75,486
Debt service:				
Principal repayment	90,622	-	890,000	980,622
Interest and fiscal charges	5,772	-	960,270	966,042
Total Expenditures	<u>12,148,018</u>	<u>75,481</u>	<u>2,671,932</u>	<u>14,895,431</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,683</u>	<u>120,908</u>	<u>(764,005)</u>	<u>(641,414)</u>
Other Financing Sources (Uses)				
Loan proceeds	63,300	-	574,568	637,868
Transfers in	-	-	330,586	330,586
Transfers out	(330,586)	-	-	(330,586)
Total Other Financing Sources (Uses)	<u>(267,286)</u>	<u>-</u>	<u>905,154</u>	<u>637,868</u>
Net Change in Fund Balances	(265,603)	120,908	141,149	(3,546)
Fund Balances, Beginning of Year	<u>1,298,688</u>	<u>642,141</u>	<u>165,452</u>	<u>2,106,281</u>
Fund Balances, End of Year	<u>\$ 1,033,085</u>	<u>\$ 763,049</u>	<u>\$ 306,601</u>	<u>\$ 2,102,735</u>

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2007

Net change in fund balances - total governmental funds \$ (3,546)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

	Capital outlays	\$ 96,177	
	Depreciation expense	<u>(1,348,234)</u>	(1,252,057)

Undepreciated cost of assets disposed during the year (29,570)

As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. 3,589

Proceeds from the sale of bonds or loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets. (790,880)

Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue. (25,571)

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities:

Repayment of bonds	890,000	
Repayment of installment purchase agreements	<u>90,622</u>	980,622

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is paid. 9,148

In the Statement of Net Assets, accumulated sick leave is measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned (\$110,503) exceeded the amounts used/paid (\$99,881). (10,622)

Total changes in net assets - governmental activities \$ (1,118,887)

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$ 767,110	\$ 798,480	\$ 767,866	\$ (30,614)
State sources	9,937,950	9,974,326	9,984,480	10,154
Federal sources	666,235	680,063	630,895	(49,168)
Interdistrict sources	628,000	722,931	766,460	43,529
Total Revenues	11,999,295	12,175,800	12,149,701	(26,099)
Expenditures				
Current:				
Instruction:				
Basic programs	6,065,072	6,253,442	6,176,671	76,771
Added needs	1,321,589	1,501,170	1,449,935	51,235
Supporting services:				
Pupil services	597,640	585,947	569,258	16,689
Instructional staff services	337,450	348,120	336,587	11,533
General administrative services	307,205	298,995	292,840	6,155
School administrative services	597,670	605,732	582,527	23,205
Business services	217,150	220,431	219,658	773
Operation and maintenance services	1,274,295	1,264,190	1,235,290	28,900
Pupil transportation services	826,348	864,680	838,753	25,927
Central services	166,200	166,200	161,730	4,470
Community services	213,605	202,680	188,375	14,305
Debt service:				
Principal repayment	96,625	96,625	90,622	6,003
Interest and fiscal charges	6,695	6,695	5,772	923
Interdistrict	157,050	-	-	-
Total Expenditures	12,184,594	12,414,907	12,148,018	266,889
Excess (Deficiency) Of Revenues Over Expenditures	(185,299)	(239,107)	1,683	240,790
Other Financing Sources (Uses)				
Loan proceeds	63,300	63,300	63,300	-
Transfers out	(235,000)	(296,000)	(330,586)	(34,586)
Total Other Financing Sources (Uses)	(171,700)	(232,700)	(267,286)	(34,586)
Net Change in Fund Balances	(356,999)	(471,807)	(265,603)	206,204
Fund Balances, July 1	1,298,688	1,298,688	1,298,688	-
Fund Balances, June 30	\$ 941,689	\$ 826,881	\$ 1,033,085	\$ 206,204

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Fiduciary Fund
Statement of Fiduciary Net Assets
June 30, 2007

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
Assets		
Cash equivalents, deposits and investments (Note B)	<u>\$ 52,641</u>	<u>\$ 141,662</u>
Liabilities		
Due to student groups	<u>-</u>	<u>\$ 141,662</u>
Net Assets		
Held in trust for: Individuals and organizations	<u>\$ 52,641</u>	

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the year ended June 30, 2007

	Private Purpose Trust Fund
Additions	
Donations	\$ 20,313
Interest earnings	1,256
	<hr/>
Total Additions	21,569
	<hr/>
Deductions	
Endowment activities - scholarships	13,455
	<hr/>
Change In Net Assets	8,114
	<hr/>
Net Assets, Beginning of Year	44,527
	<hr/>
Net Assets, End of Year	<u>\$ 52,641</u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Note A – Summary of Significant Accounting Policies

Kent City Community Schools was organized under the School Code of the State of Michigan and services a population of approximately 1,430 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, vocational education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Kent City Community Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. 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.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-Wide and Fund Financial Statements

District-Wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Separate financial statements are provided for governmental 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. The General Fund and the Building and Site Capital Projects Fund are the District's major funds. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., 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 after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. 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 grantor or provider have been met.

The State of Michigan utilizes 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 revenues in accordance with state law and accounting principles generally accepted in the United States of America.

Governmental Funds

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

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

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

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Athletics Funds.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designed for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code. For capital project activities funded with sinking fund millage, the District has complied with the applicable provisions of Section 1212 (I) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary Fund net assets and results of operations are not included in the district-wide financial statements. Fiduciary funds are reported using the economic resources measurement focus. The District presently maintains scholarship funds for the benefit of students.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

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

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

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Kent City Community Schools has also adopted budgets for its Special Revenue Funds. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Kent City Community Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory

Inventories are valued at cost (first-in, first-out). Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

8. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$2,500 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

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

Land improvements, buildings and improvements, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and improvements	15-50 years
Vehicles	5-10 years
Furniture and equipment	3-10 years

9. Long-Term Obligations

In the district-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, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

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

10. Accumulated Sick Leave/Severance Pay/Early Retirement Incentive

Accumulated sick leave, severance pay and early retirement incentive at June 30, 2007 has been computed and recorded in the basic financial statements of the District. Eligible District employees who retire and/or select early retirement are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2007, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for accumulated sick leave, severance pay and early retirement incentive amounted to \$95,803, \$91,050 and \$76,131, respectively.

11. Fund Equity

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

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

12. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

13. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- United States or federal obligation repurchase agreements.
- Banker's acceptances of United States Banks.
- Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- Surplus funds investment pools.

Balances at June 30, 2007 related to cash equivalents, deposits and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Assets:	
Governmental activities	\$ 2,227,599
Fiduciary Funds:	
Trust and Agency Funds	<u>194,303</u>
	<u>\$ 2,421,902</u>

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Cash Equivalents

Depositories actively used by the District during the year are detailed as follows:

1. Choice One Bank

Cash equivalents consist of bank public funds checking and money market accounts and deposits consist of certificates of deposit.

Balances at June 30, 2007 related to cash equivalents and deposits are detailed in the Basic Financial Statements as follows:

Cash equivalents	\$ 736,442
Deposits	<u>652,088</u>
	<u><u>\$ 1,388,530</u></u>

Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits were \$1,388,530 and the bank balance was \$1,495,790. Of the bank balance, \$100,000 was covered by federal depository insurance and \$1,395,790 was uninsured.

Investments

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

	<u>Fair Value</u>
Pooled Investment Accounts:	
Fifth Third Bank	\$ 73,420
Michigan Liquid Asset Fund Plus	<u>959,952</u>
	<u><u>\$ 1,033,372</u></u>

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimizes custodial credit risk by limiting investments to the types of securities allowed by law.

Credit Risk

The District's investments in the bank and Michigan Liquid Asset Fund investment pools were unrated.

Interest Rate Risk

The District minimizes 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 funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Concentration of Credit Risk

The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

Foreign Currency Risk

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

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2006 ad valorem State Education Taxes generated within the Kent City Community School District, and paid to the State of Michigan, totaled \$1,022,612.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2006 and September 2006. The 2006-07 "Foundation Allowance" for Kent City Community Schools was \$7,085 for 1,425 "Full Time Equivalent" students, generating \$9,979,554 in state aid payments to the District, of which \$1,680,499 was paid to the District in July and August, 2007 and included in "Due From Other Governmental Units" of the General Fund and Food Service Special Revenue Fund of the District.

Property taxes for the District are levied July 1 by the Townships of Solon, Sparta, Tyrone, Casnovia, Grant and Chester. The taxes are then collected by each governmental unit and remitted to the District. The Counties of Kent, Muskegon, Newaygo and Ottawa, through their Delinquent Tax Revolving Funds, advance all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

Year	General Fund	Debt Service Funds	Building and Site Fund	Total
2006	\$ 5,721	\$ 2,666	\$ 320	\$ 8,707
2005	843	393	47	1,283
2004	1,224	566	83	1,873
	\$ 7,788	\$ 3,625	\$ 450	\$ 11,863

Taxes receivable are offset by deferred revenue in the General, Debt Service and Building and Site Funds of the District. Taxes uncollected after three years from the date of levy are written off the books of the District.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

Kent City Community Schools' electors previously (June, 1999) approved a ten year operating millage extension for the 18 mill non-homestead property tax. Only 17.533 mills were levied in 2006 due to reductions caused by the Headlee Amendment.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

The District levied 8.25 mills in 2006 for debt service purposes and 1.0 mill for the building and site (sinking) fund, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage", nor any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

Note D – Interfund Receivables/Payables and Transfers

Amounts due from (to) other funds, representing short-term interfund receivables and payables for year end expenditure reimbursements and property tax allocations at June 30, 2007, are detailed as follows:

	Due From	Due To
General Fund:		
Special Revenue Fund:		
Food Service Fund	\$ —	\$ 38,900
Debt Service Funds:		
1997 Debt Service Fund	24,080	5,143
2001 Debt Service Fund	43,702	8,752
2005 Debt Service Fund	11,444	2,297
2006 Debt Service Fund	10,910	2,190
Capital Projects Fund:		
Building and Site Fund	12,699	2,189
	102,835	59,471
Special Revenue Fund:		
Food Service Fund:		
General Fund	38,900	—
Debt Service Funds:		
1997 Debt Service Fund:		
General Fund	5,143	24,080
2001 Debt Service Fund:		
General Fund	8,752	43,702
2005 Debt Service Fund:		
General Fund	2,297	11,444
2006 Debt Service Fund:		
General Fund	2,190	10,910
	\$ 18,382	\$ 90,136

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

	Due From	Due To
Capital Projects Fund:		
Building and Site Fund:		
General Fund	\$ 2,189	\$ 12,699
Total All Funds	\$ 162,306	\$ 162,306

Transfers between funds during the year ended June 30, 2007 were as follows:

	Transfers In	Transfers Out
General Fund:		
Special Revenue Funds:		
Food Service Fund	\$ —	\$ 94,132
Athletics Fund	—	236,454
	—	330,586
Special Revenue Funds:		
Food Service Fund:		
General Fund	94,132	—
Athletics Fund:		
General Fund	236,454	—
	330,586	—
Total All Funds	\$ 330,586	\$ 330,586

The General Fund transfers were made to support the District food service and athletic programs for the fiscal year.

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balances July 1, 2006	Additions	Deductions	Balances June 30, 2007
Capital assets not depreciated:				
Land	\$ 57,486	\$ —	\$ —	\$ 57,486
Capital assets being depreciated:				
Land improvements	1,914,952	32,800	—	1,947,752
Buildings and additions	30,808,358	—	—	30,808,358
Furniture and equipment	1,086,865	—	—	1,086,865
Vehicles	1,361,860	63,377	107,142	1,318,095
	35,229,521	\$ 96,177	\$ 107,142	35,218,556
Totals at historical cost				

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

	Balances July 1, 2006	Additions	Deductions	Balances June 30, 2007
Less accumulated depreciation for:				
Land improvements	\$ 754,167	\$ 109,567	\$ —	\$ 863,734
Buildings and additions	8,652,856	971,384	—	9,624,240
Furniture and equipment	224,116	111,175	—	335,291
Vehicles	947,027	156,108	77,572	1,025,563
Total accumulated depreciation	10,578,166	\$ 1,348,234	\$ 77,572	11,848,828
Net Capital Assets	\$ 24,651,355			\$ 23,369,728

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	\$ 565,719
Supporting services	529,047
Community services	49,345
Food service	25,347
Athletics	57,435
Unallocated	121,341
	\$ 1,348,234

Note F – Short-term Debt

The \$963,000 August 19, 2005 state aid anticipation loan was repaid on August 18, 2006. On August 18, 2006, the District borrowed \$970,000 in anticipation of state aid (interest at 3.68%), due in full on August 20, 2007. Total interest cost on the loans was \$35,894 for the fiscal year.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Note G – Long-term Debt

Amounts available and to be provided for outstanding long-term debt at June 30, 2007 are summarized as follows:

	General Obligation Bonds	Durant Non-plaintiff Bonds	State School Bond Loan	Installment Purchase Agreements	Accumulated Sick Leave/ Severance/ Early Retirement Incentive Pay	Total
Amount Available For Retirement Of Long-Term Debt						
Debt Service Funds	\$ 286,821	\$ —	\$ —	\$ —	\$ —	\$ 286,821
Amounts To Be Provided For Retirement Of Long-Term Debt						
State of Michigan	—	187,428	—	—	—	187,428
General Fund	—	—	—	152,739	262,984	415,723
Debt Service Funds	21,128,179	—	3,725,089	—	—	24,853,268
Total Amounts Available and To Be Provided	\$21,415,000	\$ 187,428	\$3,725,089	\$ 152,739	\$ 262,984	\$25,743,240

Changes in long-term debt for the year ended June 30, 2007 are summarized as follows:

	Debt Outstanding July 1, 2006	Debt Added	Debt Retired	Debt Outstanding June 30, 2007
General obligation bonds:				
August 1, 1997	\$ 365,000	\$ —	\$ 365,000	\$ —
November 1, 2001	8,570,000	—	500,000	8,070,000
August 4, 2005	4,370,000	—	—	4,370,000
February 7, 2006	9,000,000	—	25,000	8,975,000
Durant non-plaintiff bonds:				
November 13, 1998	187,428	—	—	187,428
State school bond loan	2,997,509	727,580	—	3,725,089
Installment purchase agreements	180,061	63,300	90,622	152,739
Accumulated sick leave	—	95,803	—	95,803
Severance pay	100,100	14,700	23,750	91,050
Early retirement incentive	152,262	—	76,131	76,131
	\$ 25,922,360	\$ 901,383	\$ 1,080,503	\$ 25,743,240

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Long-term bonds, notes and installment purchase agreements at June 30, 2007 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
\$18,150M Building and Site November 1, 2001:				
Annual maturities of \$470M to \$725M	May 1, 2020	4.125 – 4.80	\$ 8,070,000	\$ 550,000
\$4,370M Refunding Dated August 4, 2005:				
Annual maturities of \$360M to \$365M	May 1, 2019	3.25 – 5.00	4,370,000	360,000
\$9,000M Refunding February 7, 2006:				
Annual maturities of \$25M to \$765M	May 1, 2031	3.15 – 4.375	8,975,000	25,000
Durant Non-plaintiff Bonds				
\$900,023 School Improvement Dated November 13, 1998:				
Annual maturities of \$17,666 to \$108,789	May 15, 2013	4.761353	187,428	—
Installment Purchase Agreements				
School Buses:				
\$157,570 July 18, 2002	July 17, 2007	3.875	15,757	15,757
\$55,400 December 18, 2002	Dec. 18, 2007	3.55	5,989	5,989
\$116,238 August 18, 2003	Aug. 18, 2008	3.29	36,884	24,388
\$59,100 August 19, 2004	Aug. 19, 2009	3.44	30,809	12,009
\$63,300 June 22, 2007	June 22, 2012	4.24	63,300	11,621
			<u>21,755,167</u>	<u>\$ 1,004,764</u>

The District is required to obtain loans from the Michigan School Bond Loan Fund (the "Fund") for the payment of the annual maturities of its general obligation bonds. There is no fixed maturity schedule for the repayment of these loans. Instead, the principal and interest are payable when taxes levied for debt service are no longer needed to retire bonded debt. During the year, the District borrowed \$574,568 from the Fund and \$153,012 of accrued interest was added to the District's liability to the Fund. At June 30, 2007, the District owed the Fund a total of \$3,725,089.

The annual requirements to pay principal and interest on long-term bonds and installment purchase agreements outstanding are as follows:

Year Ended June 30	Principal	Interest	Total
2008	\$ 1,004,764	\$ 924,630	\$ 1,929,394
2009	994,706	891,943	1,886,649
2010	1,097,801	890,207	1,988,008
2011	1,002,567	807,801	1,810,368
2012	1,004,053	762,615	1,766,668

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Year Ended June 30	Principal	Interest	Total
2013	\$ 991,276	\$ 717,472	\$ 1,708,748
2014	1,025,000	672,684	1,697,684
2015	1,075,000	625,951	1,700,951
2016	1,125,000	576,351	1,701,351
2017	1,125,000	527,364	1,652,364
2018	1,130,000	477,651	1,607,651
2019	1,130,000	427,014	1,557,014
2020	765,000	376,014	1,141,014
2021	765,000	341,654	1,106,654
2022	760,000	311,054	1,071,054
2023	760,000	280,654	1,040,654
2024	755,000	250,254	1,005,254
2025	745,000	220,054	965,054
2026	765,000	190,254	955,254
2027	760,000	158,889	918,889
2028	755,000	127,349	882,349
2029	745,000	95,638	840,638
2030	740,000	63,976	803,976
2031	735,000	32,156	767,156
	<u>\$ 21,755,167</u>	<u>\$ 10,749,629</u>	<u>\$ 32,504,796</u>

On February 7, 2006, the District defeased 2001 general obligation serial bonds by placing the proceeds of newly issued bonds in an irrevocable trust to provide for all future debt service payments on the old bonds, with final payment scheduled on May 1, 2011. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2007, \$8,380,000 of the 2001 bonds outstanding is considered defeased.

Note H – Retirement Plan

Substantially all District employees participate 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. The District's payroll for employees covered by MPERS for the year ended June 30, 2007 was \$6,809,633. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPSERS plan. The contribution rate was 16.34% for the fiscal year ending September 30, 2006 and 17.74% for the fiscal year beginning October 1, 2006. The District's contributions to the plan for the fiscal years ended June 30, 2007, 2006 and 2005 were \$1,194,153, \$1,047,060 and \$976,856, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPSERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPSERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2005 (the latest reporting date available expressed as \$ in millions) for the MPSERS as a whole, determined through an actuarial valuation performed as of that date, was \$48,206. The MPSERS' net assets available for benefits on that date were \$38,211 leaving an unfunded pension benefit obligation of \$9,995. Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2006 Annual Report of the MPSERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

The total actuarial accrued liability (expressed as \$ in millions) increased by \$2,462 from September 30, 2004 to September 30, 2005. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 3 years.

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees 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 coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Note I – Risk Management and Benefits

The District is a member of the West Michigan Risk Management Trust, a self-insurance program with districts pooling together to insure property, liability and auto exposure. Premiums from members of the Trust are determined through standard underwriting procedures. The members of the Trust have contributed amounts sufficient to fund individual and aggregate losses up to \$175,000 and \$650,000, respectively, on an annual basis. Excess insurance has been purchased to cover claims exceeding those amounts. A \$1,000 per occurrence deductible for property losses is maintained. The District paid \$62,149 in premiums to the Trust for the year ended June 30, 2007.

The District is also a member of the West Michigan Workers' Compensation Fund, a self-insurance program with districts pooling together to insure workers' compensation and employers' liability exposures. The Fund pays the first \$300,000 of any workers' compensation or employers' liability loss out of an \$800,000 loss fund collected from members. Excess insurance has been purchased to cover claims exceeding those amounts. As of June 30, 2007, there were no material pending claims against the District. The District paid \$55,060 in premiums to the Fund for the year ended June 30, 2007.

Health, life and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note J – Stewardship, Compliance and Accountability

The following District fund had actual expenditures exceed final budgeted expenditures for the year ended June 30, 2007, as follows:

	Budget	Actual	Unfavorable Variance
Food Service Fund	\$ 456,728	\$ 528,683	\$ 71,955

SUPPLEMENTAL INFORMATION

GENERAL FUND

To account for resources which are traditionally associated with the general operation of the District and not required to be accounted for in another fund.

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Balance Sheet
June 30, 2007 and 2006

Assets	2007	2006
Cash	\$ 100	\$ 100
Cash equivalents, deposits and investments	1,134,236	1,554,947
Receivables:		
Taxes	7,788	5,421
Accounts	28,113	-
Due from other funds	102,835	10,491
Due from other governmental units	1,804,605	1,986,127
Prepaid expenditures	124,217	10,181
	\$ 3,201,894	\$ 3,567,267
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 218,732	\$ 225,080
State aid anticipation loan payable	970,000	963,000
Due to other funds	59,471	6,220
Due to other governmental units	278,654	465,326
Payroll withholdings payable	681	10,248
Accrued interest payable	35,533	28,041
Salaries payable	577,842	530,155
Deferred revenue	27,896	40,509
	2,168,809	2,268,579
Fund Balances		
Unreserved:		
Undesignated	1,033,085	1,298,688
	\$ 3,201,894	\$ 3,567,267

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2007 and 2006

	2007	2006
Local sources:		
Property taxes:		
Current property taxes	\$ 556,386	\$ 522,698
Delinquent property taxes	-	12
Other taxes	24	24
Interest on delinquent taxes	2,237	2,339
	<u>558,647</u>	<u>525,073</u>
Interest earnings:		
Interest on deposits and investments	61,110	46,757
Other local revenue:		
Community enrichment fees	9,318	32,438
Drivers education	19,425	20,392
Preschool	16,758	8,470
Childcare fees	34,132	-
Transportation fees	1,714	1,500
Pool receipts	24,285	28,497
Rental of school facilities	2,490	3,427
Sale of school property	2,370	7,385
Refunds of expenditures	25,441	35,677
Miscellaneous	12,176	12,428
	<u>148,109</u>	<u>150,214</u>
Total local sources	767,866	722,044
State sources:		
State aid	9,977,594	9,645,790
Special education - itinerants	6,886	26,449
School improvement	-	1,175
	<u>9,984,480</u>	<u>9,673,414</u>
Total state sources	9,984,480	9,673,414
Federal sources:		
Title I	145,786	126,681
Title I - Migrant	163,157	170,932
Title IIA	31,633	56,451
Title IID	-	2,454
Title III - Migrant	13,173	10,626
Title V	294	573
Summer food program	18,888	19,831
I.D.E.A. program	250,781	247,817
Medicaid - school based	58	4,345
Drug free schools	4,339	3,690
Service provider review	2,786	-
	<u>630,895</u>	<u>643,400</u>
Total federal sources	630,895	643,400
Interdistrict sources:		
Special education - county	660,014	616,775
Special education - other districts	-	15,044
Durant settlement reimbursements	3,379	3,379
Medicaid reimbursement	62,315	110,575
School liason program	40,752	16,665
	<u>766,460</u>	<u>762,438</u>
Total interdistrict sources	766,460	762,438
Total Revenues	<u><u>\$ 12,149,701</u></u>	<u><u>\$ 11,801,296</u></u>

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries	\$ 1,741,925	\$ 1,589,561
Employee benefits	818,850	771,147
Purchased services	69,236	17,155
Supplies	40,059	31,713
Miscellaneous	1,078	1,134
	<u>2,671,148</u>	<u>2,410,710</u>
Middle school:		
Salaries	839,942	855,743
Employee benefits	444,756	426,428
Purchased services	28,406	4,218
Supplies	31,006	17,421
Miscellaneous	-	577
	<u>1,344,110</u>	<u>1,304,387</u>
High school:		
Salaries	1,279,902	1,195,648
Employee benefits	673,619	637,049
Purchased services	34,756	19,355
Supplies	50,302	39,990
Capital outlay	1,265	-
Miscellaneous	3,532	4,099
	<u>2,043,376</u>	<u>1,896,141</u>
Preschool:		
Salaries	58,724	32,282
Employee benefits	14,765	7,716
Purchased services	4,529	775
Supplies	14,689	5,555
	<u>92,707</u>	<u>46,328</u>
Driver's education:		
Salaries	20,234	5,993
Employee benefits	5,032	1,437
Supplies	64	-
	<u>25,330</u>	<u>7,430</u>
Total basic programs	<u>6,176,671</u>	<u>5,664,996</u>
Added needs:		
Special education:		
Salaries	606,886	546,070
Employee benefits	306,540	275,243
Purchased services	8,160	976
Supplies	3,473	1,399
Payments to other districts	167,934	-
	<u>1,092,993</u>	<u>823,688</u>
Compensatory education:		
Salaries	247,380	248,348
Employee benefits	101,366	105,563
Purchased services	1,036	1,323

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Compensatory education: (Continued)		
Supplies	\$ 4,981	\$ 6,588
Miscellaneous	2,179	2,253
	<u>356,942</u>	<u>364,075</u>
Total added needs	1,449,935	1,187,763
Supporting services:		
Pupil services:		
Guidance services:		
Salaries	143,153	140,045
Employee benefits	69,547	65,393
Purchased services	11,902	10,073
Supplies	81	115
	<u>224,683</u>	<u>215,626</u>
Health services:		
Salaries	3,528	919
Employee benefits	314	220
	<u>3,842</u>	<u>1,139</u>
School psychologist services:		
Employee benefits	-	5
Purchased services	2,138	29,777
Supplies	2,244	2,046
Payments to other districts	86,055	-
	<u>90,437</u>	<u>31,828</u>
Speech pathology services:		
Employee benefits	1,014	2,562
Purchased services	37,708	135
Supplies	582	1,443
Payments to other districts	89,073	-
	<u>128,377</u>	<u>4,140</u>
Social worker services:		
Employee benefits	1,009	1,281
Purchased services	11,244	490
Supplies	445	511
Payments to other districts	86,716	-
	<u>99,414</u>	<u>2,282</u>
Teacher consultant services:		
Salaries	15,089	14,192
Employee benefits	7,416	6,327
	<u>22,505</u>	<u>20,519</u>
Total pupil services	569,258	275,534
Instructional staff services:		
Educational media services:		
Salaries	105,287	101,974
Employee benefits	57,220	47,382
Purchased services	492	461
Supplies	15,934	21,878
	<u>178,933</u>	<u>171,695</u>

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Special education supervisor:		
Salaries	\$ 99,787	\$ 99,156
Employee benefits	55,975	54,182
Purchased services	1,154	1,268
Supplies	608	260
Miscellaneous	130	90
	<u>157,654</u>	<u>154,956</u>
Total instructional staff services	336,587	326,651
General administrative services:		
Board of education:		
Salaries	500	1,000
Employee benefits	127	240
Purchased services	64,860	60,670
Supplies	117	119
Miscellaneous	8,585	9,618
	<u>74,189</u>	<u>71,647</u>
Executive administration:		
Salaries	127,406	128,343
Employee benefits	58,181	48,855
Purchased services	27,444	12,789
Supplies	2,012	2,118
Capital outlay	1,165	-
Miscellaneous	2,443	1,954
	<u>218,651</u>	<u>194,059</u>
Total general administrative services	292,840	265,706
School administrative services:		
Office of the principal:		
Salaries	363,834	359,820
Employee benefits	183,264	184,119
Purchased services	29,076	2,487
Supplies	5,283	2,870
Miscellaneous	1,070	2,070
	<u>582,527</u>	<u>551,366</u>
Total school administrative services	582,527	551,366
Business services:		
Fiscal services:		
Salaries	100,665	96,640
Employee benefits	54,513	56,411
Purchased services	4,316	5,349
Supplies	2,691	1,344
Capital outlay	2,122	-
Miscellaneous	2,021	1,391
	<u>166,328</u>	<u>161,135</u>
Other business services:		
Miscellaneous	53,330	43,803
Total business services	<u>219,658</u>	<u>204,938</u>

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Operation and maintenance services:		
Operation and maintenance:		
Salaries	\$ 346,052	\$ 360,567
Employee benefits	198,253	226,715
Purchased services	218,874	203,802
Supplies	470,030	473,562
Miscellaneous	2,081	2,028
Total operation and maintenance services	1,235,290	1,266,674
Pupil transportation services:		
Pupil transportation:		
Salaries	370,890	349,590
Employee benefits	219,247	216,203
Purchased services	91,922	44,391
Supplies	90,616	97,175
Miscellaneous	2,701	2,687
Capital outlay	63,377	22,672
Total pupil transportation services	838,753	732,718
Central services:		
Technology support:		
Salaries	63,160	61,321
Employee benefits	31,764	30,198
Purchased services	47,625	34,358
Supplies	16,156	12,913
Capital outlay	3,025	-
Total central services	161,730	138,790
Community services:		
Community pool:		
Salaries	71,403	72,357
Employee benefits	10,600	18,623
Purchased services	1,661	1,352
Supplies	6,142	8,449
Miscellaneous	50	-
Total community services	89,856	100,781
Great Start:		
Salaries	29,333	15,391
Employee benefits	7,413	3,628
Supplies	1,326	140
Total Great Start	38,072	19,159
Summer food program - migrant:		
Salaries	6,651	5,671
Employee benefits	1,596	1,277
Supplies	11,413	13,368
Total Summer food program - migrant	19,660	20,316
Other community services:		
Supplies	40,787	65,414
Total other community services	40,787	65,414
Total community services	188,375	205,670

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Debt service:		
Principal repayment	\$ 90,622	\$ 112,999
Interest and fiscal charges	5,772	9,900
Total debt service	96,394	122,899
Interdistrict:		
Special education - tuition	-	155,822
Special education - itinerant services	-	232,185
Total interdistrict	-	388,007
Total Expenditures	\$ 12,148,018	\$ 11,331,712

NONMAJOR FUNDS

KENT CITY COMMUNITY SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2007

	Special Revenue	
Assets	Food Service	Athletics
Cash	\$ -	\$ 350
Cash equivalents, deposits and investments	(35,842)	16,358
Taxes receivable	-	-
Due from other funds	38,900	-
Due from other governmental units	3,232	-
Inventory	3,438	-
	Total Assets	Total Assets
	\$ 9,728	\$ 16,708
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 915	\$ 5,741
Due to other funds	-	-
Due to other governmental units	-	-
Deferred revenue	-	-
	Total Liabilities	Total Liabilities
	915	5,741
Fund Balances		
Reserved for debt service	-	-
Unreserved:		
Undesignated	8,813	10,967
	Total Fund Balances	Total Fund Balances
	8,813	10,967
	Total Liabilities and Fund Balances	Total Liabilities and Fund Balances
	\$ 9,728	\$ 16,708

Debt Service				Capital Projects	
1997	2001	2005	2006	2001 Construction	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 350
88,922	164,336	51,745	36,376	-	321,895
1,132	1,798	376	319	-	3,625
5,143	8,752	2,297	2,190	-	57,282
6,629	10,455	2,080	1,163	-	23,559
-	-	-	-	-	3,438
<u>\$ 101,826</u>	<u>\$ 185,341</u>	<u>\$ 56,498</u>	<u>\$ 40,048</u>	<u>\$ -</u>	<u>\$ 410,149</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,656
24,080	43,702	11,444	10,910	-	90,136
1,575	1,556	-	-	-	3,131
1,132	1,798	376	319	-	3,625
<u>26,787</u>	<u>47,056</u>	<u>11,820</u>	<u>11,229</u>	<u>-</u>	<u>103,548</u>
75,039	138,285	44,678	28,819	-	286,821
-	-	-	-	-	19,780
<u>75,039</u>	<u>138,285</u>	<u>44,678</u>	<u>28,819</u>	<u>-</u>	<u>306,601</u>
<u>\$ 101,826</u>	<u>\$ 185,341</u>	<u>\$ 56,498</u>	<u>\$ 40,048</u>	<u>\$ -</u>	<u>\$ 410,149</u>

KENT CITY COMMUNITY SCHOOLS
Combining Schedule of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2007

	Special Revenue	
	Food Service	Athletics
Revenues		
Local sources:		
Property taxes	\$ -	\$ -
Interest earnings	88	76
Sales and admissions	195,473	57,457
Total local sources	195,561	57,533
State sources	23,459	-
Federal sources	211,418	-
Total Revenues	430,438	57,533
Expenditures		
Current:		
Food service	528,683	-
Athletics	-	292,974
Capital outlay	-	-
Debt service:		
Principal repayment	-	-
Interest and fiscal charges	-	-
Total Expenditures	528,683	292,974
Excess (Deficiency) of Revenues Over Expenditures	(98,245)	(235,441)
Other Financing Sources		
Loan proceeds	-	-
Transfers in	94,132	236,454
Total Other Financing Sources	94,132	236,454
Net Change in Fund Balances	(4,113)	1,013
Fund Balances, July 1	12,926	9,954
Fund Balances, June 30	\$ 8,813	\$ 10,967

Debt Service				Capital Projects	
1997	2001	2005	2006	2001 Construction	Total
\$ 375,614	\$ 682,470	\$ 179,043	\$ 170,681	\$ -	\$ 1,407,808
4,533	5,347	1,245	1,023	-	12,312
-	-	-	-	-	252,930
380,147	687,817	180,288	171,704	-	1,673,050
-	-	-	-	-	23,459
-	-	-	-	-	211,418
380,147	687,817	180,288	171,704	-	1,907,927
-	-	-	-	-	528,683
-	-	-	-	-	292,974
-	-	-	-	5	5
365,000	500,000	-	25,000	-	890,000
18,502	380,447	192,400	368,921	-	960,270
383,502	880,447	192,400	393,921	5	2,671,932
(3,355)	(192,630)	(12,112)	(222,217)	(5)	(764,005)
25,000	258,522	40,010	251,036	-	574,568
-	-	-	-	-	330,586
25,000	258,522	40,010	251,036	-	905,154
21,645	65,892	27,898	28,819	(5)	141,149
53,394	72,393	16,780	-	5	165,452
\$ 75,039	\$ 138,285	\$ 44,678	\$ 28,819	\$ -	\$ 306,601

KENT CITY COMMUNITY SCHOOLS
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2007

	Budget	Actual	Variance - Positive (Negative)
Revenues			
Local sources	\$ 195,070	\$ 195,561	\$ 491
State sources	13,455	23,459	10,004
Federal sources	192,000	211,418	19,418
Total Revenues	<u>400,525</u>	<u>430,438</u>	<u>29,913</u>
Expenditures			
Current:			
Food service	456,728	528,683	(71,955)
Excess (Deficiency) of Revenues Over Expenditures	<u>(56,203)</u>	<u>(98,245)</u>	<u>(42,042)</u>
Other Financing Sources			
Transfers in	46,000	94,132	48,132
Net Change in Fund Balances	(10,203)	(4,113)	6,090
Fund Balances, July 1	<u>12,926</u>	<u>12,926</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 2,723</u></u>	<u><u>\$ 8,813</u></u>	<u><u>\$ 6,090</u></u>

KENT CITY COMMUNITY SCHOOLS
Athletics Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2007

	Budget	Actual	Variance - Positive (Negative)
Revenues			
Local sources	\$ 55,297	\$ 57,533	\$ 2,236
Expenditures			
Current:			
Athletics	298,518	292,974	5,544
Excess (Deficiency) of Revenues Over Expenditures	(243,221)	(235,441)	7,780
Other Financing Sources			
Transfers in	240,000	236,454	(3,546)
Net Change in Fund Balances	(3,221)	1,013	4,234
Fund Balances, July 1	9,954	9,954	-
Fund Balances, June 30	\$ 6,733	\$ 10,967	\$ 4,234

SPECIAL REVENUE FUNDS

Food Service—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the District.

Athletics—to account for activity receipts and General Fund contributions used in administering the athletic program of the District.

KENT CITY COMMUNITY SCHOOLS
Food Service Special Revenue Fund
Comparative Balance Sheet
June 30, 2007 and 2006

	2007	2006
Assets		
Cash equivalents, deposits and investments	\$ (35,842)	\$ 4,066
Due from other funds	38,900	-
Due from other governmental units	3,232	25,715
Inventory	3,438	4,462
Total Assets	\$ 9,728	\$ 34,243
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 915	\$ 21,317
Fund Balances		
Unreserved:		
Undesignated	8,813	12,926
Total Liabilities and Fund Balances	\$ 9,728	\$ 34,243

KENT CITY COMMUNITY SCHOOLS
Food Service Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2007 and 2006

	2007	2006
Revenues		
Local sources:		
Interest earnings:		
Interest on deposits and investments	\$ 88	\$ 77
Sales and admissions:		
Children's lunches	142,495	147,567
Adult lunches	4,517	2,631
Ala carte	48,461	43,798
Other	-	1,727
	195,473	195,723
Total local sources	195,561	195,800
State sources	23,459	16,600
Federal sources	211,418	192,730
	430,438	405,130
Expenditures		
Current:		
Food service:		
Salaries	145,348	153,537
Employee benefits	60,319	62,807
Purchased services	74,548	58,462
Supplies	246,650	192,508
Capital outlay	1,748	-
Miscellaneous	70	84
	528,683	467,398
Total Expenditures	528,683	467,398
Excess (Deficiency) of Revenues Over Expenditures	(98,245)	(62,268)
Other Financing Sources		
Transfers in	94,132	60,649
	(4,113)	(1,619)
Net Change in Fund Balances	(4,113)	(1,619)
Fund Balances, July 1	12,926	14,545
Fund Balances, June 30	\$ 8,813	\$ 12,926

KENT CITY COMMUNITY SCHOOLS
Athletics Special Revenue Fund
Comparative Balance Sheet
June 30, 2007 and 2006

	2007	2006
Assets		
Cash	\$ 350	\$ 350
Cash equivalents, deposits and investments	16,358	20,879
Total Assets	\$ 16,708	\$ 21,229
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 5,741	\$ 991
Due to other funds	-	10,284
Total Liabilities	5,741	11,275
Fund Balances		
Unreserved:		
Undesignated	10,967	9,954
Total Liabilities and Fund Balances	\$ 16,708	\$ 21,229

KENT CITY COMMUNITY SCHOOLS
Athletics Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2007 and 2006

	2007	2006
Revenues		
Local sources:		
Interest earnings:		
Interest on deposits and investments	\$ 76	\$ 74
Sales and admissions:		
Gate receipts	44,437	41,844
Tournament fees	13,020	16,376
	57,457	58,220
Total Revenues	57,533	58,294
Expenditures		
Current:		
Athletics:		
Salaries	190,973	180,606
Employee benefits	46,124	41,230
Purchased services	30,123	27,734
Supplies	16,324	13,294
Miscellaneous	9,430	7,481
	292,974	270,345
Total Expenditures	292,974	270,345
Excess (Deficiency) of Revenues Over Expenditures	(235,441)	(212,051)
Other Financing Sources		
Transfers in	236,454	211,552
	236,454	211,552
Net Change in Fund Balances	1,013	(499)
Fund Balances, July 1	9,954	10,453
Fund Balances, June 30	\$ 10,967	\$ 9,954

DEBT SERVICE FUNDS

Debt Service Funds—To accumulate property tax revenues and interest earnings for repayment of the bond issues of the District used to finance new building construction projects.

KENT CITY COMMUNITY SCHOOLS
Debt Service Funds
Combining Balance Sheet
June 30, 2007

	<u>1997</u>	<u>2001</u>	<u>2005</u>	<u>2006</u>
Assets				
Cash equivalents, deposits and investments	\$ 88,922	\$ 164,336	\$ 51,745	\$ 36,376
Taxes receivable	1,132	1,798	376	319
Due from other funds	5,143	8,752	2,297	2,190
Due from other governmental units	6,629	10,455	2,080	1,163
Total Assets	<u>\$ 101,826</u>	<u>\$ 185,341</u>	<u>\$ 56,498</u>	<u>\$ 40,048</u>
Liabilities and Fund Balances				
Liabilities				
Due to other funds	\$ 24,080	\$ 43,702	\$ 11,444	\$ 10,910
Due to other governmental units	1,575	1,556	-	-
Deferred revenue	1,132	1,798	376	319
Total Liabilities	<u>26,787</u>	<u>47,056</u>	<u>11,820</u>	<u>11,229</u>
Fund Balances				
Reserved for debt service	<u>75,039</u>	<u>138,285</u>	<u>44,678</u>	<u>28,819</u>
Total Liabilities and Fund Balances	<u>\$ 101,826</u>	<u>\$ 185,341</u>	<u>\$ 56,498</u>	<u>\$ 40,048</u>

Totals	
2007	2006
\$ 341,379	\$ 128,194
3,625	2,553
18,382	6,967
20,327	10,744
\$ 383,713	\$ 148,458
\$ 90,136	\$ 207
3,131	3,131
3,625	2,553
96,892	5,891
286,821	142,567
\$ 383,713	\$ 148,458

KENT CITY COMMUNITY SCHOOLS
Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2007

	1997	2001	2005	2006
Revenues				
Local sources:				
Property taxes:				
Current property taxes	\$ 372,707	\$ 677,713	\$ 177,898	\$ 169,591
Industrial facilities taxes	1,278	2,324	610	582
Delinquent property taxes	-	-	-	-
Other taxes	489	367	-	-
Interest on delinquent taxes	1,140	2,066	535	508
	<u>375,614</u>	<u>682,470</u>	<u>179,043</u>	<u>170,681</u>
Interest earnings:				
Interest on deposits and investments	4,533	5,347	1,245	1,023
Other local sources:				
Refund of expenditures	-	-	-	-
State sources:				
State school aid	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>380,147</u>	<u>687,817</u>	<u>180,288</u>	<u>171,704</u>
Expenditures				
Debt service:				
Principal repayment	365,000	500,000	-	25,000
Interest and fiscal charges:				
Interest expense	17,794	379,535	192,200	368,730
Paying agent fees	215	198	50	50
Tax refunds	493	714	150	141
Bond issuance costs	-	-	-	-
Underwriter's discount	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>383,502</u>	<u>880,447</u>	<u>192,400</u>	<u>393,921</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(3,355)</u>	<u>(192,630)</u>	<u>(12,112)</u>	<u>(222,217)</u>
Other Financing Sources (Uses)				
Bond proceeds	-	-	-	-
Bond premium	-	-	-	-
Loan proceeds	25,000	258,522	40,010	251,036
Bond discount	-	-	-	-
Payments to escrow agent	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>25,000</u>	<u>258,522</u>	<u>40,010</u>	<u>251,036</u>
Net Change in Fund Balances	21,645	65,892	27,898	28,819
Fund Balances, July 1	<u>53,394</u>	<u>72,393</u>	<u>16,780</u>	<u>-</u>
Fund Balances, June 30	<u>\$ 75,039</u>	<u>\$ 138,285</u>	<u>\$ 44,678</u>	<u>\$ 28,819</u>

Totals	
2007	2006
\$ 1,397,909	\$ 1,324,822
4,794	3,921
-	2
856	12,629
4,249	3,457
<u>1,407,808</u>	<u>1,344,831</u>
12,148	9,650
-	3,589
-	22,291
<u>1,419,956</u>	<u>1,380,361</u>
890,000	830,365
958,259	875,704
513	492
1,498	1,844
-	140,426
-	72,313
<u>1,850,270</u>	<u>1,921,144</u>
<u>(430,314)</u>	<u>(540,783)</u>
-	13,370,000
-	232,091
574,568	405,450
-	(110,964)
-	(13,323,408)
<u>574,568</u>	<u>573,169</u>
144,254	32,386
<u>142,567</u>	<u>110,181</u>
<u>\$ 286,821</u>	<u>\$ 142,567</u>

CAPITAL PROJECTS FUNDS

Building and Site—to account for property tax revenues and interest earnings used to finance building improvements projects.

2005 Construction—to account for bond proceeds used to finance building construction and improvement projects.

KENT CITY COMMUNITY SCHOOLS
Building and Site Capital Projects Fund
Comparative Balance Sheet
June 30, 2007 and 2006

	2007	2006
Assets		
Cash equivalents, deposits and investments	\$ 771,468	\$ 649,548
Taxes receivable	450	300
Due from other funds	2,189	673
Due from other governmental units	2,471	1,310
Total Assets	\$ 776,578	\$ 651,831
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ -	\$ 7,590
Due to other funds	12,699	1,420
Due to other governmental units	380	380
Deferred revenue	450	300
Total Liabilities	13,529	9,690
Fund Balances		
Reserved for capital outlay	763,049	642,141
Total Liabilities and Fund Balances	\$ 776,578	\$ 651,831

KENT CITY COMMUNITY SCHOOLS
Building and Site Capital Projects Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues		
Local sources:		
Property taxes:		
Current property taxes	\$ 169,462	\$ 160,584
Industrial facilities taxes	581	475
Delinquent property taxes	-	1
Other property taxes	-	1,526
Interest on delinquent taxes	503	419
Total property taxes	<u>170,546</u>	<u>163,005</u>
Interest earnings:		
Interest on deposits and investments	<u>25,843</u>	<u>18,930</u>
Total Revenues	<u>196,389</u>	<u>181,935</u>
Expenditures		
Facilities acquisition:		
Building improvements	75,340	16,966
Tax refunds	141	199
Total Expenditures	<u>75,481</u>	<u>17,165</u>
Net Change in Fund Balances	120,908	164,770
Fund Balances, July 1	<u>642,141</u>	<u>477,371</u>
Fund Balances, June 30	<u><u>\$ 763,049</u></u>	<u><u>\$ 642,141</u></u>

KENT CITY COMMUNITY SCHOOLS
2001 Construction Capital Projects Fund
Comparative Balance Sheet
June 30, 2007 and 2006

	2007	2006
Assets		
Cash equivalents, deposits and investments	\$ -	\$ 5
Due from other funds	-	-
Total Assets	\$ -	\$ 5
 Liabilities and Fund Balances		
Liabilities	\$ -	\$ -
Fund Balances		
Reserved for capital outlay	-	5
Total Liabilities and Fund Balances	\$ -	\$ 5

KENT CITY COMMUNITY SCHOOLS
2001 Construction Capital Projects Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues		
Local sources:		
Interest earnings:		
Interest on deposits and investments	\$ -	\$ 23,140
Expenditures		
Capital outlay:		
Architectural fees	-	16,238
Buildings and additions	-	1,839,758
New equipment and furniture - depreciable	-	317,201
New equipment and furniture - non-depreciable	5	50,876
Total Expenditures	<u>5</u>	<u>2,224,073</u>
Net Change in Fund Balances	(5)	(2,200,933)
Fund Balances, July 1	<u>5</u>	<u>2,200,938</u>
Fund Balances, June 30	<u><u>\$ -</u></u>	<u><u>\$ 5</u></u>

AGENCY FUND

Student Activities—to account for the collection and disbursements of monies used by the school activity clubs and groups.

KENT CITY COMMUNITY SCHOOLS
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2007

	<u>Balances</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2007</u>
Assets				
Cash equivalents, deposits and investments	<u>\$ 123,953</u>	<u>\$ 293,600</u>	<u>\$ 275,891</u>	<u>\$ 141,662</u>
Liabilities				
Due to student groups	<u>\$ 123,953</u>	<u>\$ 293,600</u>	<u>\$ 275,891</u>	<u>\$ 141,662</u>

OTHER INFORMATION

KENT CITY COMMUNITY SCHOOLS
Summary of 2006 Taxes Levied and Collected
For the year ended June 30, 2007

	Kent County			Muskegon County	Newaygo County	Ottawa County	Total
	Solon	Sparta	Tyrone	Casnovia	Grant	Chester	
Taxable Valuations							
Operating	\$4,128,034	\$1,115,286	\$21,381,359	\$5,097,539	\$ 8,310	\$575,663	\$32,306,191
Debt Service/Building and Site	24,236,294	7,540,561	101,925,743	29,038,024	225,563	5,469,094	168,435,279
Rates (Mills)							
General Fund							17.5330
1997 Debt Service Fund							2.2000
2001 Debt Service Fund							4.0000
2005 Debt Service Fund							1.0500
2006 Debt Service Fund							1.0000
Building and Site Fund							1.0000
							26.7830
Taxes Levied 2006 Rolls							
General Fund	\$ 72,374	\$ 19,554	\$ 370,560	\$ 89,375	\$ 151	\$10,093	\$ 562,107
1997 Debt Service Fund	57,427	16,505	223,091	63,874	497	12,030	373,424
2001 Debt Service Fund	104,422	30,013	405,653	116,144	903	21,874	679,009
2005 Debt Service Fund	27,410	7,878	106,479	30,486	237	5,742	178,232
2006 Debt Service Fund	26,130	7,510	101,507	29,063	226	5,474	169,910
Building and Site Fund	26,105	7,503	101,413	29,036	256	5,469	169,782
	313,868	88,963	1,308,703	357,978	2,270	60,682	2,132,464
Taxes Uncollected 2006 Rolls							
General Fund	461	-	2,587	2,673	-	-	5,721
1997 Debt Service Fund	58	-	324	335	-	-	717
2001 Debt Service Fund	98	-	588	610	-	-	1,296
2005 Debt Service Fund	19	-	155	160	-	-	334
2006 Debt Service Fund	19	-	147	153	-	-	319
Building and Site Fund	21	-	147	152	-	-	320
	676	-	3,948	4,083	-	-	8,707
Taxes Collected 2006 Rolls							
General Fund	71,913	19,554	367,973	86,702	151	10,093	556,386
1997 Debt Service Fund	57,369	16,505	222,767	63,539	497	12,030	372,707
2001 Debt Service Fund	104,324	30,013	405,065	115,534	903	21,874	677,713
2005 Debt Service Fund	27,391	7,878	106,324	30,326	237	5,742	177,898
2006 Debt Service Fund	26,111	7,510	101,360	28,910	226	5,474	169,463
Building and Site Fund	26,084	7,503	101,266	28,884	256	5,469	169,462
	313,192	88,963	1,304,755	353,895	2,270	60,682	2,123,757
Delinquent Taxes Collected							
General Fund	-	-	-	-	-	-	-
1997 Debt Service Fund	-	-	-	-	-	-	-
2001 Debt Service Fund	-	-	-	-	-	-	-
2005 Debt Service Fund	-	-	-	-	-	-	-
2006 Debt Service Fund	-	-	-	-	-	-	-
Building and Site Fund	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

(Continued)

KENT CITY COMMUNITY SCHOOLS
Summary of 2006 Taxes Levied and Collected
For the year ended June 30, 2007

	Kent County			Muskegon County	Newaygo County	Ottawa County	Total
	Solon	Sparta	Tyrone	Casnovia	Grant	Chester	
Total Taxes Collected							
General Fund	71,913	19,554	367,973	86,702	151	10,093	556,386
1997 Debt Service Fund	57,369	16,505	222,767	63,539	497	12,030	372,707
2001 Debt Service Fund	104,324	30,013	405,065	115,534	903	21,874	677,713
2005 Debt Service Fund	27,391	7,878	106,324	30,326	237	5,742	177,898
2006 Debt Service Fund	26,111	7,510	101,360	28,910	226	5,474	169,463
Building and Site Fund	26,084	7,503	101,266	28,884	256	5,469	169,462
	<u>\$ 313,192</u>	<u>\$ 88,963</u>	<u>\$ 1,304,755</u>	<u>\$ 353,895</u>	<u>\$ 2,270</u>	<u>\$ 60,682</u>	<u>\$ 2,123,757</u>
Taxes Uncollected – June 30, 2007							
General Fund:							
2006	461	-	2,587	2,673	-	-	5,721
2005	376	-	467	-	-	-	843
2004	463	-	761	-	-	-	1,224
	<u>1,300</u>	<u>-</u>	<u>3,815</u>	<u>2,673</u>	<u>-</u>	<u>-</u>	<u>7,788</u>
1997 Debt Service Fund:							
2006	58	-	324	335	-	-	717
2005	58	-	73	-	-	-	131
2004	108	-	176	-	-	-	284
	<u>224</u>	<u>-</u>	<u>573</u>	<u>335</u>	<u>-</u>	<u>-</u>	<u>1,132</u>
2003 Debt Service Fund:							
2006	98	-	588	610	-	-	1,296
2005	98	-	122	-	-	-	220
2004	108	-	174	-	-	-	282
	<u>304</u>	<u>-</u>	<u>884</u>	<u>610</u>	<u>-</u>	<u>-</u>	<u>1,798</u>
2005 Debt Service Fund:							
2006	19	-	155	160	-	-	334
2005	19	-	23	-	-	-	42
	<u>38</u>	<u>-</u>	<u>178</u>	<u>160</u>	<u>-</u>	<u>-</u>	<u>376</u>
2006 Debt Service Fund:							
2006	19	-	147	153	-	-	319
Building and Site Fund:							
2006	21	-	147	152	-	-	320
2005	21	-	26	-	-	-	47
2004	33	-	50	-	-	-	83
	<u>75</u>	<u>-</u>	<u>223</u>	<u>152</u>	<u>-</u>	<u>-</u>	<u>450</u>
Total Taxes Uncollected	<u>\$ 1,960</u>	<u>\$ -</u>	<u>\$ 5,820</u>	<u>\$ 4,083</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,863</u>

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

October 22, 2007

The Board of Education
Kent City Community Schools
Kent City, Michigan

The following comments pertain to our audit of the financial records of Kent City Community Schools as of and for the year ended June 30, 2007. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the District's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Kent City Community Schools:

Auditors Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, 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 U.S. generally accepted accounting principles. 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 misstatements may exist and not be detected by us.

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

As part of obtaining reasonable assurance about whether Kent City Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Kent City Community School'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 Kent City Community School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Kent City Community School's compliance with those requirements.

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 Kent City Community Schools are described in Note A to the financial statements.

Difficulties Encountered In Performing The Audit

We encountered no significant difficulties in performing the audit of the financial statements of Kent City Community Schools for the year ended June 30, 2007.

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. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements:

General Fund

1. \$62,373 to record the receivable due from KISD for the 2006-07 Medicaid reimbursement.
2. \$35,088 and 20,108 to reverse and accrue prior and current year School Readiness program income as deferred revenue at year-end.
3. \$20,241 to correct the allocation of property tax collections between the General Fund and Debt Service Funds.
4. \$686,281 to reclassify various asset, liability and expenditure transactions to the proper account numbers per the requirements of the Michigan Department of Education FID account number system.

Food Service Fund

1. \$13,822 to record USDA bonus and entitlement commodities received during the year.

Proposed Audit Adjustments

There were no material adjustments proposed during the audit not recorded by Kent City Community Schools.

Suggestions and Recommendations

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Kent City Community Schools to the Business Manager as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

In the fall of 2006, the AICPA issued Statement on Auditing Standards No. 112 "*Communicating Internal Control Related Matters Identified in and Audit*", which requires a written communication from an auditor to an organization's governing board if any weaknesses in internal controls ("control deficiencies") rise to the level of "significant deficiencies" or "material weaknesses" that might effect the integrity of the financial statements. The AICPA significantly broadened the standards as to what might be a significant deficiency and/or material weakness and raised the expectations of auditors to report these control deficiencies, if found. While we did observe certain control deficiencies in areas of the District's internal control during the course of our audit, we found no significant deficiencies or material weaknesses in internal controls. The following recommendations relate to our internal control findings:

- The District should redistribute certain accounting functions in the business office (bank reconciliations, payroll review, financial statement review, etc.) in order to overcome the significant deficiency in internal controls of a lack of segregation of duties and monitoring of control activities that currently exist within the business office.
- The District Business Manager should continue to increase his education and capabilities in the areas of Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) financial reporting standards in order to overcome the material weakness in internal controls regarding the preparation of financial statements (and notes to financial statements under current GAAP and GASB requirements).

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school district that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that Kent City Community Schools has a very extensive network of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with District business office personnel, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the District in maintaining and improving its systems.

Other Comments

The General Fund balance of the District decreased by \$265,603 to \$1,033,085 at June 30, 2007. This balance represents approximately 8.25 percent of the District's 2007-08 expenditure budget (down from 10.25 percent at June 30, 2006). Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for Kent City Community Schools. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Kent City Community Schools
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This communication is intended solely for the information and use of the Kent City Community Schools Board of Education, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Kent City Community Schools and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the District's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them.

Hungerford, Aldine, Nichols & Carter, P.C.

Certified Public Accountants

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

October 22, 2007

The Board of Education
Kent City Community Schools
Kent County, Michigan

The following comments pertain to our audit of the financial records of Kent City Community Schools as of and for the year ended June 30, 2007. The comments are made in accordance with Statement on Auditing Standards No. 112 "*Communicating Internal Control Related Matters Identified in an Audit*" which has the following two unconditional requirements:

- The auditor must evaluate identified *control deficiencies* and determine whether those deficiencies, individually or in combination, are *significant deficiencies* or *material weaknesses*.
- The auditor *must communicate, in writing, significant deficiencies and material weaknesses* to management and those charged with governance. This communication includes significant deficiencies and material weaknesses identified and communicated to management and those charged with governance in prior audits but not yet remediated.

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. We believe that the following deficiency constitutes a material weakness:

The following describe circumstances that may be control deficiencies, significant deficiencies, or material weaknesses:

- Inadequate *design* of internal control over a significant account or process.
- Inadequate *documentation* of the components of internal control.
- Insufficient *control consciousness* within the organization, for example, the tone at the top and the control environment.
- Inadequate or absent *segregation of duties* within a significant account or process.
- Inadequate design of *information technology* (IT) general and application controls.
- Inadequate design of *monitoring* controls used to assess the design and operating effectiveness of internal controls.
- The absence of an internal process to *report deficiencies* in internal controls to management on a timely basis.
- Employees or management who *lack the qualifications and training* to fulfill their assigned functions. For example, in an entity that prepares financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) requirements, the person responsible for the accounting and reporting function lacks the level of skills and knowledge necessary to apply GAAP and GASB standards in recording the entity's financial transactions or *preparing its financial statements* (including the notes to basic financial statements).

The management of Kent City Community Schools is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

In planning and performing our audit of the financial statements of Kent City Community Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Kent City Community School'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 organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization'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, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

- Inadequate segregation of duties in the District business office, which leads to a lack of independent monitoring of the accounting functions of the District Business Manager.
- District personnel who lack the qualifications and training to fulfill certain required functions:
 1. The lack of knowledge and skills present to apply Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) requirements in recording the District's financial transactions or preparing its financial statements (including the notes to basic financial statements) in compliance with current GAAP and GASB requirements.

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

Hungerford, Alderson, Nichols & Bentley, P.C.

Certified Public Accountants