

Kaleva Norman Dickson School District

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2007

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Kaleva Norman Dickson School District's (the "District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2007. It is to be read in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

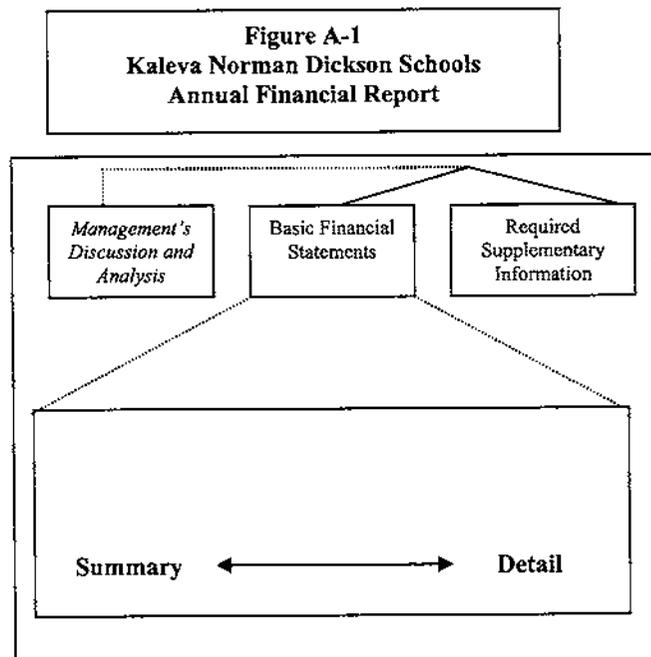
- The District's financial status took a positive turn due to an increase in the State foundation allowance and a tight control on expenditures.
- Foundation grant of \$7,085 per pupil.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements 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.
- The *governmental funds* statements tell how *basic* services like 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 financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.



**Figure A-2
Major Features of District-Wide and Fund Financial Statements**

	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the District's funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include *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 – are 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 overall health of the District, consideration must be given to additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- *Governmental activities* – Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and State formula aid finance most of these activities.

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:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (repayment of long-term debts) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has 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 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 is provided with the governmental funds statements that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the 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. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - The District's *combined* net assets were more on June 30, 2007 than they were the year before - increasing by \$86,572.

District Governmental Activities - The District's improved financial position is the product of several independent factors, including an increase in the State's per-pupil funding for the year, a one time revenue surplus from a tree sale and constant monitoring of expenses.

	2006	2007
Current and other assets	\$ 4,833,829	\$ 3,349,074
Capital assets	8,246,003	9,565,778
Total assets	<u>13,079,832</u>	<u>12,914,852</u>
Long-term debt outstanding	11,410,535	11,054,766
Other liabilities	2,833,356	2,937,573
Total liabilities	<u>14,243,891</u>	<u>13,992,339</u>
Net assets (deficit)		
Invested in property and equipment, net of related debt	(3,367,106)	(1,706,336)
Restricted	2,164,094	220,944
Unrestricted	38,953	407,905
Total net deficit	<u>\$ (1,164,059)</u>	<u>\$ (1,077,487)</u>

**Table A-4
Changes in KND's Net Assets**

	2006	2007
Revenues		
Property Taxes, levied for general purposes	\$ 1,714,013	\$ 1,848,554
Property Taxes, levied for debt services	769,088	828,272
State aid not restricted to specific purposes	4,956,025	4,825,324
Interest and other	221,423	212,703
Charges for services	265,737	241,491
Capital grants/contributions	30,000	25,021
Operating grants/contributions	1,851,223	1,425,016
Total revenues	9,807,509	9,406,381
Expenses		
Instruction	4,865,187	4,644,655
Support services	3,232,467	2,655,263
Community services	130,485	87,585
Food services	528,183	493,310
Athletics	176,066	145,291
Other	123,658	40,296
Interest on long-term debt	607,559	591,970
Depreciation - unallocated	645,799	661,439
Total expenses	10,309,404	9,319,809
Increase (decrease) in net assets	(501,895)	86,572
Net deficit - beginning of year	(662,164)	(1,164,059)
Net deficit - end of year	<u>\$ (1,164,059)</u>	<u>\$ (1,077,487)</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported *combined* fund balances of \$964,822 which is below last year's ending fund balances of \$2,512,856. The majority of the decrease is reflected in the Capital Projects Fund.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual General Fund operating budget several times. These budget amendments are:

- Changes made in the third and fourth quarters to account for final enrollment counts, staffing assignments and changes in grant funding since the original budget was adopted.
- The District's final budget for the general fund anticipated that the excess of revenues over expenditures would be \$107,194 and the actual excess of revenues over expenditures was \$393,747. The factors relating to the surplus are mentioned throughout this document.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Depreciable assets for the 2006/07 school year totaled \$17,589,062. During the year, the District invested an additional \$2,808,792 in building improvements, a new bus and new equipment.

	2006	Additions/(Deletions)	2007
Capital assets not being depreciated:			
Land	\$ 73,653	\$ -	\$ 73,653
Construction-in-process	821,661	(821,661)	-
Capital assets being depreciated:			
Building and building improvements	12,746,597	2,663,832	15,410,429
Buses and other vehicles	763,894	63,273	827,167
Furniture and equipment	1,394,279	20,460	1,414,739
Gross capital assets	15,800,084	1,925,904	17,725,988
Accumulated depreciation	7,554,081	606,129	8,160,210
Net governmental capital assets	\$ 8,246,003	\$ 1,319,775	\$ 9,565,778

Long-term Debt

At year-end, the District had \$11,182,406 in general obligation bonds and \$323,446 in other long-term liabilities – a decrease of \$316,176 from last year. (More detailed information about the District's long-term liabilities is presented in Note G to the financial statements.) New debt was issued during the year through a capital lease for a school bus purchase.

	2006	Net Additions/(Deletions)	2007
General obligation debts (financed with property taxes)	\$ 11,567,406	\$ (385,000)	\$ 11,182,406
Accumulated leave liability	208,919	24,819	233,738
Capital lease	-	52,007	52,007
Notes payable	45,703	(8,002)	37,701
Total	\$ 11,822,028	\$ (316,176)	\$ 11,505,852

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The 2007-2008 foundation allowance is estimated to remain flat at \$7,085/pupil and student enrollment is expected to decline.
- The Kaleva Norman Dickson School District's teacher bargaining unit has a contract through August 31, 2009.
- Health insurance costs continue to rise. Support staff's health insurance increased 11%, and teaching staff's health insurance increased 4.91% for the 2007-2008 school year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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 information, contact the Kaleva Norman Dickson School District's Business Office at 1710 Merkey Road West, Manistee, MI 49660.



Business and Financial Advisors
Our clients' success - our business

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Kaleva Norman Dickson School District

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

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

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

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2007 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Dennis, Gartland & Niergarth

October 8, 2007

Kaleva Norman Dickson School District

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,944,459
Due from other governments	1,306,004
Prepaid expenses	91,933
Inventory	6,571
Due from agency funds	<u>107</u>
Total current assets	3,349,074
Non-current assets	
Capital assets, net of accumulated depreciation	<u>9,565,778</u>
Total assets	<u><u>\$ 12,914,852</u></u>
LIABILITIES AND NET ASSETS (DEFICIT)	
LIABILITIES	
Current liabilities	
Accounts payable	\$ 129,650
Salaries payable and related expenses	694,538
Accrued interest	102,235
Deferred revenue	60,064
State aid anticipation note payable	1,500,000
Current portion of long-term liabilities	<u>451,086</u>
Total current liabilities	2,937,573
Non-current portion of long-term obligations	<u>11,054,766</u>
Total liabilities	<u>13,992,339</u>
NET ASSETS (DEFICIT)	
Invested in capital assets, net of related debt	(1,706,336)
Restricted for	
Capital Projects	23,757
Debt Service	197,187
Unrestricted	<u>407,905</u>
Total net deficit	<u>(1,077,487)</u>
Total liabilities and net deficit	<u><u>\$ 12,914,852</u></u>

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

Kaleva Norman Dickson School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Functions/Program	Program Revenues			Net (Expense)/ Revenue and Changes in Net Assets
	Expenses	Charges For Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 4,644,655	\$ -	\$ 955,740	\$ (3,663,894)
Supporting Services	2,655,263	-	110,129	(2,545,134)
Community Services	87,585	78,650	-	(8,935)
Food Service	493,310	134,187	359,147	24
Athletics	145,291	28,654	-	(116,637)
Other	40,296	-	-	(40,296)
Interest on long-term debt	591,970	-	-	(591,970)
Depreciation - unallocated	661,439	-	-	(661,439)
Total governmental activities	<u>\$ 9,319,809</u>	<u>\$ 241,491</u>	<u>\$ 1,425,016</u>	<u>\$ (7,628,281)</u>
General purpose revenues				
Property taxes				1,848,554
Levied for general purposes				828,272
Levied for Debt Service				4,825,324
State school aid - unrestricted				<u>238,544</u>
Investment and other				<u>7,740,694</u>
Total general purpose revenues				(25,841)
Special item - loss on disposal of assets				86,572
Change in net assets				<u>(1,164,059)</u>
Net deficit, beginning of year				<u>\$ (1,077,487)</u>
Net deficit, end of year				<u>\$ (1,077,487)</u>

-5- The accompanying notes are an integral part of these financial statements.

Kaleva Norman Dickson School District
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2007

	Major Funds		Other	Total
	General Fund	Capital Projects Fund	Governmental Funds	Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,636,743	\$ 32,885	\$ 274,831	\$ 1,944,459
Due from other governments	1,272,660	-	99,973	1,372,633
Prepaid expenses	91,933	-	-	91,933
Inventory	6,571	-	-	6,571
Due from other funds	79,362	-	52,213	131,575
Total assets	\$ 3,087,269	\$ 32,885	\$ 427,017	\$ 3,547,171
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 127,039	\$ 953	\$ 1,658	\$ 129,650
Salaries payable and related expenses	694,015	-	523	694,538
Deferred revenue	60,064	-	-	60,064
Due to other governments	12,344	-	54,285	66,629
Due to other funds	52,188	8,175	71,105	131,468
State aid anticipation note payable	1,500,000	-	-	1,500,000
Total liabilities	2,445,650	9,128	127,571	2,582,349
FUND BALANCES				
Reserved for Debt Service	-	-	299,422	299,422
Reserved for Capital Projects	-	23,757	-	23,757
Reserved for inventory	6,571	-	-	6,571
Reserved for school based activities	-	-	24	24
Designated for compensated absences	233,738	-	-	233,738
Unreserved and undesignated, reported in General Fund	401,310	-	-	401,310
Total fund balances	641,619	23,757	299,446	964,822
Total liabilities and fund balances	\$ 3,087,269	\$ 32,885	\$ 427,017	

Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Assets

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 the assets is \$17,725,988 and the accumulated depreciation is \$8,160,210.

9,565,778

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:

Bonds and notes payable	\$ 11,272,114	
Accrued interest on bonds	102,235	
Accumulated leave liability	233,738	(11,608,087)

Total net deficit - governmental activities

\$ (1,077,487)

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

Kaleva Norman Dickson School District

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2007

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Other Governmental Funds	
Revenues				
Property taxes	\$1,848,486	\$ -	\$ 828,272	\$ 2,676,758
Interest	57,889	25,341	16,628	99,858
State revenues	5,325,438	-	23,707	5,349,145
Federal revenues	501,290	-	335,440	836,730
Other	<u>379,820</u>	<u>-</u>	<u>163,110</u>	<u>542,930</u>
Total revenues	<u>8,112,923</u>	<u>25,341</u>	<u>1,367,157</u>	<u>9,505,421</u>
Expenditures				
Instruction	4,619,836	-	-	4,619,836
Supporting Services	2,651,613	-	-	2,651,613
Community Services	87,585	-	-	87,585
Food Service	-	-	493,310	493,310
Athletics	-	-	145,291	145,291
Other	40,296	-	-	40,296
Debt Service				
Principal	49,119	-	385,000	434,119
Interest	53,807	-	523,414	577,221
Other	10,671	-	2,732	13,403
Capital outlay	<u>87,383</u>	<u>1,966,671</u>	<u>-</u>	<u>2,054,054</u>
Total expenditures	<u>7,600,310</u>	<u>1,966,671</u>	<u>1,549,747</u>	<u>11,116,728</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>512,613</u>	<u>(1,941,330)</u>	<u>(182,590)</u>	<u>(1,611,307)</u>
Other financing sources (uses)				
Operating transfers in	-	-	182,139	182,139
Operating transfers out	(182,139)	-	-	(182,139)
Proceeds from capital lease	<u>63,273</u>	<u>-</u>	<u>-</u>	<u>63,273</u>
Total other financing sources (uses)	<u>(118,866)</u>	<u>-</u>	<u>182,139</u>	<u>63,273</u>
REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	393,747	(1,941,330)	(451)	(1,548,034)
Fund balance, beginning of year	<u>247,872</u>	<u>1,965,087</u>	<u>299,897</u>	<u>2,512,856</u>
Fund balance, end of year	<u>\$ 641,619</u>	<u>\$ 23,757</u>	<u>\$ 299,446</u>	<u>\$ 964,822</u>

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

Kaleva Norman Dickson School District

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Total Net Change in Fund Balances - Governmental Funds \$ (1,548,034)

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

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.

Capital outlays	\$ 2,050,404	
Depreciation expense	<u>(661,439)</u>	1,388,965

In the statement of activities, certain operating expenses - compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time earned was greater than the amounts used by \$24,819. (24,819)

Repayment of bond and note principal and capitalized leases are expenditures in the governmental funds, but reduce long-term liabilities in the statement of net assets and does not affect the statement of activities. 434,118

Some of the capital assets acquired this year were financed with note and capital lease proceeds. The amount financed by the bond and note proceeds is reported in the governmental funds as a source of financing. On the other hand, the bond and note proceeds are not revenues in the statement of activities but rather constitute long-term liabilities in the statement of net assets. (93,123)

Proceeds from the sale of assets are revenues in the governmental funds, but it reduces capital assets, net of accumulated depreciation in the statement of net assets and does not affect the statement of activities. (43,349)

Loss on sale of assets (25,841)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, 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 due. The additional interest reported in the statement of activities is the net result of the increase in accrued interest on bonds and notes payable. (1,345)

Changes in Net Assets of Governmental Activities \$ 86,572

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

Kaleva Norman Dickson School District

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 49,867
Investments	<u>11,661</u>
Total assets	<u>\$ 61,528</u>
LIABILITIES	
Due to student groups	\$ 61,421
Due to other funds	<u>107</u>
Total liabilities	<u>\$ 61,528</u>

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

Kaleva Norman Dickson School District

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Kaleva Norman Dickson School District (the "School District") is a Michigan public school district consisting of three elementary buildings and one middle school/high school building. The School District primarily serves the Kaleva and Wellston communities. As of June 30, 2007, the School District employed 51 professional staff and 58 non-professional staff and had 899 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is considered to be a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2007.

Financial Reporting Entity

Kaleva Norman Dickson School District's Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity," as defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncement, student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed.

NOTES TO FINANCIAL STATEMENTS- Continued

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The School District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

NOTES TO FINANCIAL STATEMENTS- Continued

Fund Types and Major Funds

Activities in Major Funds

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Other Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Athletics Fund and Food Service Fund.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

Fiduciary Funds

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

Cash and Cash Equivalents

The School District reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Inventories

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 4 to 50 years. The School District generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

NOTES TO FINANCIAL STATEMENTS- Continued

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	20-50 years
Buses and vehicles	8-10 years
Furniture and equipment	4-20 years

Long-term Debt, Deferred Debt Expense and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as a liability. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as other financing uses.

Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes. Designations of fund balance represent tentative management plans that are subject to change.

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Title I, At-Risk and School Lunch Program, which are reported as operating grants and contributions.

Spending Policy

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

Encumbrance Accounting

The School District formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which goods or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

NOTES TO FINANCIAL STATEMENTS- Continued

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NOTE B - BUDGETARY POLICY AND PRACTICE

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2007, the School District expended more than budgeted as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Support Services			
Instructional support staff	64,367	65,287	(920)
Transportation	507,067	548,967	(41,900)
Community Services	84,882	87,585	(2,703)
Special Revenue Fund			
Food Service	479,274	493,310	(14,036)
Athletics	144,405	145,291	(886)

NOTE C - CASH AND INVESTMENTS

At June 30, 2007, the School District's cash and investments include the following:

	<u>Balance Sheet Classification</u>		
	<u>Cash and Equivalents</u>	<u>Investments</u>	<u>Total</u>
Cash on hand	\$ 814	\$ -	\$ 814
Bank deposits	92,477	-	92,477
Investments	<u>1,901,035</u>	<u>11,661</u>	<u>1,912,696</u>
	<u>\$ 1,994,326</u>	<u>\$ 11,661</u>	<u>\$ 2,005,987</u>

Bank Deposits

All of the School District's bank deposits are with financial institutions which provide FDIC insurance coverage or in highly liquid pooled money funds.

NOTES TO FINANCIAL STATEMENTS- Continued

Custodial Credit Risk - Deposits

As of June 30, 2007, \$51,321 of the School District's bank balance of \$243,245 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The School District's investment policy permits investments in the following vehicles:

1. Bonds and other obligations of the United States; the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificate of deposits issued by financial institutions organized and authorized to operate in Michigan.
3. Certain commercial paper.
4. Securities issued or guaranteed by agencies or instruments of the United States government.
5. United States government of Federal agency obligation repurchase agreements.
6. Banker's acceptance issued by a bank that is a member of the FDIC.
7. Certain mutual funds.
8. Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982.

Investments at June 30, 2007 consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
MILAF	\$ 1,901,035	\$ 1,901,035	\$ -	\$ -	\$ -
Certificate of Deposit	<u>11,661</u>	<u>11,661</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,912,696</u>	<u>\$ 1,912,696</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

The School District attempts to minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, or Michigan Liquid Asset Funds ("MILAF") and limiting the average maturity.

Credit Risk

The School District's investment policy limits investments in commercial paper to a prime or better rating at the time of purchase and maturing not more than 270 days after the date of purchase. As of June 30, 2007 the School District's investment in the MILAF investment pool was rated AAAM by Standard & Poor's.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

Property taxes are levied, billed and attached as enforceable liens in July and December of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred revenue. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$18 per \$1,000 of equalized non-homestead property value of \$103.6 million was levied for general operating purposes. For debt service purposes, \$4.42 per \$1,000 of equalized homestead and non-homestead property value of \$187.2 million was levied for bonded debt repayments by the Debt Service Fund.

Intergovernmental Receivables and Deferred Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Deferred revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2007 are as follows:

Due from the State of Michigan	
State Aid	\$ 890,358
Due from townships - property taxes	269,613
Due from Federal grants	62,479
Other	<u>83,554</u>
	<u>\$ 1,306,004</u>

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2007</u>
Buildings and improvements	\$ 12,746,597	\$ 2,788,332	\$ (124,500)	\$ 15,410,429
Furniture and equipment	1,394,279	20,460	-	1,414,739
Buses and vehicles	<u>763,894</u>	<u>63,273</u>	<u>-</u>	<u>827,167</u>
Total depreciable assets	14,904,770	2,872,065	(124,500)	17,652,335
Less accumulated depreciation	(7,554,081)	(661,439)	55,310	(8,160,210)
Construction-in-process	821,661	-	(821,661)	-
Land	<u>73,653</u>	<u>-</u>	<u>-</u>	<u>73,653</u>
Total capital assets, net	<u>\$ 8,246,003</u>	<u>\$ 2,210,626</u>	<u>\$ (890,851)</u>	<u>\$ 9,565,778</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$ 661,439</u>
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NOTE F - STATE AID ANTICIPATION NOTE PAYABLE

The State aid anticipation note is secured by July and August State aid payments, bears interest at 3.68% and is due August 2007.

NOTE G - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2007 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$11,567,406	\$ -	\$ 385,000	\$11,182,406	\$ 405,000
Notes payable	45,703	29,850	37,852	37,701	37,701
Leases	-	63,273	11,266	52,007	8,385
Accumulated leave liability	<u>208,919</u>	<u>24,819</u>	<u>-</u>	<u>233,738</u>	<u>-</u>
Long-term debt at June 30, 2007	<u>\$11,822,028</u>	<u>\$ 117,942</u>	<u>\$ 434,118</u>	<u>\$11,505,852</u>	<u>\$ 451,086</u>

Payments on general obligation bonds are made by the Debt Service Fund. Payments on notes payable and leases are made by the General Fund. The accumulated leave liability and early retirement payable will be liquidated primarily by the General Fund.

NOTES TO FINANCIAL STATEMENTS- Continued

At June 30, 2007, the School District's long-term debt consisted of the following:

\$2,800,000 2005 School District Building and Site Bonds for the erecting and furnishing of School District buildings; due in annual installments of \$50,000 to \$230,000 through May 2025; interest rate of 3.25% to 4.15%.	\$ 2,750,000
\$5,330,000 2001 School District Refunding General Obligation Bonds for the advance refunding of a portion of the School District's 1999 bond issue; due in annual installments of \$20,000 to \$690,000 through May 2025; interest rate of 3.90% to 5.125%.	5,235,000
\$8,425,000 1999 School District General Obligation Bonds; due in annual installments of \$15,000 to \$230,000 through May 2021; interest rate of 4.75% to 5.95%.	2,670,000
\$245,000 1998 School District Debt Obligation Bonds for erecting and equipping a track facility; due in annual installments of \$30,000 through May 2008; interest rate of 4.9% to 5%.	30,000
\$71,818 1998 School Improvement Bond (Durant); due in installments of \$3,641 to \$17,785 through May 2013; average interest rate of 4.8%. This debt will be repaid using revenues provided by the State of Michigan specifically for this purpose. If the Michigan Legislature fails to appropriate funds, the School District is not liable for repayment of these bonds.	42,406
\$3,244,845 par 1992 School District Capital Appreciation Bonds; due in annual installments of \$48,550 to \$52,515 through May 2010; stated at par plus accretion of \$522,857; interest varies from 6.45% to 6.95%.	455,000
\$29,850 2006 School District bus note; due in annual installments of \$14,850 to \$15,000 through July 2007; interest rate of 2.74%.	14,850
\$40,703 2005 School District bus note; due in annual installments of \$12,851 to \$15,000 through July 2007; interest rate of 1.25%.	12,851
\$50,000 2003 School District bus note; due in annual installments of \$10,000 through May 2008; interest rate of 2.95%.	<u>10,000</u>
Total general obligation bonds and notes payable	11,220,107
Accumulated leave liability	233,738
Capital leases	<u>52,007</u>
Total long-term debt	<u>\$11,505,852</u>

NOTES TO FINANCIAL STATEMENTS- Continued

Total annual requirements to amortize bonds and notes outstanding as of June 30, 2007 are as follows:

<u>Years Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 442,701	\$ 608,584
2009	398,997	604,417
2010	424,187	603,937
2011	469,813	488,356
2012	479,595	459,572
2013-2017	2,784,814	1,940,916
2018-2022	3,590,000	1,192,839
2023-2027	<u>2,630,000</u>	<u>260,966</u>
	<u>\$11,220,107</u>	<u>\$ 6,159,587</u>

Interest expense for the year ended June 30, 2007 was \$602,136 and interest paid was \$499,901.

Total annual requirements to amortize capital leases outstanding as of June 30, 2007 are as follows:

<u>Years Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 8,385	\$ 2,881
2009	8,850	2,417
2010	<u>34,772</u>	<u>1,926</u>
	<u>\$ 52,007</u>	<u>\$ 7,224</u>

Durant Settlement

As a result of the Durant v State of Michigan settlement regarding State underfunding of school revenues, the School District will be receiving \$5,042 to \$23,799 per year over a ten-year period beginning November 15, 1998. This represents 50% of the expected funds. For the remaining 50% of the funds from this settlement, or \$71,818, the School District has opted to participate in a bonding program enabling it to receive a lump-sum payment on November 15, 1998. The debt will be repaid over a 15-year period beginning May 15, 1999 using revenues provided by the State specifically for this purpose.

Accumulated Leave Liability

Employees of the School District accumulate days of compensated sick leave, as specified by the bargaining units' contract. This benefit vests after 10 years of employment. Upon either resignation or retirement, the employees are compensated at daily rates specified in the bargaining units' contracts.

Prior Year Defeasance of Debt

On March 12, 2001, the School District issued \$5.33 million in obligation bonds with an average interest rate of 5.26% to advance refund \$4.96 million of outstanding 1999 general obligation bonds with an average remaining interest rate of 5.27%. The net proceeds of \$4.96 million (after payment of \$117,454 in underwriting fees, insurance and other issuance costs) were used to establish an irrevocable trust with an escrow agent to provide all future debt service payments on the refunded portion of the 1999 general obligation bonds. The outstanding principal of the defeased bonds is \$4.96 million at June 30, 2007.

NOTE H - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

The School District pays unemployment claims on a reimbursement basis through the Bureau of Workers' and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipients benefits, this amount is billed to Kaleva Norman Dickson School District. At June 30, 2007, there were no significant unbilled claims.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE I - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

Fund	Interfund Receivable	Interfund Payable
Major Governmental Funds		
General Fund	\$ 79,362	\$ 52,188
Capital Projects Fund	-	8,175
Other Governmental Funds		
Food Service Fund	52,213	-
Athletics Fund	-	37,995
Debt Service Fund	-	33,110
Agency Fund	-	107
	<u>\$ 131,575</u>	<u>\$ 131,575</u>

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

Transfer in	Amount	Transfer out	Amount
Other Governmental Funds		Major Governmental Funds	
Athletics Fund	\$ 115,717	General Fund	\$ <u>182,139</u>
Debt Service Fund	<u>66,422</u>		
	<u>\$ 182,139</u>		<u>\$ 182,139</u>

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE J - PENSION PLAN

The School District contributes to the Michigan Public School Employees' Retirement Systems ("MPERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget ("DMB"). MPERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPERS, P.O. Box 30171, Lansing, MI 48909-7671, or by calling (517) 322-5103 or on the State of Michigan's website at www.Michigan.gov.

Funding Policy

Plan members who participate in MIP are required to contribute 3% to 4.3% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the Plan; and the School District is required to contribute at an actuarially determined rate. The rate was 16.34% for the period July 1, 2006 to September 30, 2006 and 17.74% for the period to of annual covered payroll. The contribution requirements of Plan members and the School District are established and may be amended by the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2007, 2006 and 2005 were \$737,909, \$750,007 and \$689,584, respectively, which is equal to the required contribution for each year.

NOTE K - COMMITMENTS AND CONTINGENCIES

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Kaleva Norman Dickson School District Education Association. The Board of Education and the Kaleva Norman Dickson School District Education Association have a contract for September 1, 2006 through August 31, 2009.

The support personnel at the School District are organized under the Kaleva Norman Dickson School District - Education Support Personnel Association. The Board of Education and the Kaleva Norman Dickson School District - Education Support Personnel Association have a contract for July 1, 2005 through June 30, 2008.

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE L - SUBSEQUENT EVENT

The School District borrowed \$1.5 million subsequent to June 30, 2007. The note, plus interest, will be due August 20, 2008 and is secured by fiscal year 2007 - 2008 State aid.

REQUIRED SUPPLEMENTARY INFORMATION

Kaleva Norman Dickson School District

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final Budget	Final Budget To Actual
Revenues					
Local and intermediate sources	\$ 2,082,174	\$ 2,119,988	\$ 2,076,757	\$ 37,814	\$ (43,231)
State revenues	5,441,292	5,283,467	5,325,438	(157,825)	41,971
Federal revenues	509,918	535,326	501,290	25,408	(34,036)
Incoming transfers	62,360	213,355	209,438	150,995	(3,917)
Total revenues	8,095,744	8,152,136	8,112,923	56,392	(39,213)
Expenditures					
Instruction					
Basic programs	3,833,047	3,820,256	3,786,854	12,791	33,402
Added needs	864,237	871,360	832,982	(7,123)	38,378
Total instruction	4,697,284	4,691,616	4,619,836	5,668	71,780
Supporting Services					
Pupil support	226,693	243,104	233,686	(16,411)	9,418
Instructional staff support	67,496	64,367	65,287	3,129	(920)
General administration	250,890	241,337	235,438	9,553	5,899
School administration	470,457	469,554	469,300	903	254
Business services	205,555	182,881	181,810	22,674	1,071
Operations and maintenance	856,842	1,018,493	874,482	(161,651)	144,011
Transportation	541,703	507,067	548,967	34,636	(41,900)
Other central support services	168,453	134,008	130,026	34,445	3,982
Total supporting services	2,788,089	2,860,811	2,738,996	(72,722)	121,815
Community services	98,158	84,882	87,585	13,276	(2,703)
Total expenditures	7,583,531	7,637,309	7,446,417	(53,778)	190,892
REVENUES OVER EXPENDITURES	512,213	514,827	666,506	2,614	151,679
Other financing (uses) sources					
Other financing uses	(409,601)	(407,633)	(336,032)	1,968	71,601
Proceeds from capital lease	-	-	63,273	-	63,273
Total other financing uses	(409,601)	(407,633)	(272,759)	1,968	134,874
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	102,612	107,194	393,747	4,582	286,553
Fund balance, beginning of year	247,872	247,872	247,872	-	-
Fund balance, end of year	<u>\$ 350,484</u>	<u>\$ 355,066</u>	<u>\$ 641,619</u>	<u>\$ 4,582</u>	<u>\$ 286,553</u>

Kaleva Norman Dickson School District

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2007

ASSETS	Special Revenue Funds		Debt Service Fund	Total Non-Major Governmental
	Food Service	Athletics		
Cash and cash equivalents	\$ 125	\$ 38,459	\$ 236,247	\$ 274,831
Due from other governments	3,688	-	96,285	99,973
Due from other funds	52,213	-	-	52,213
Total assets	\$ 56,026	\$ 38,459	\$ 332,532	\$ 427,017
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 1,194	\$ 464	-	\$ 1,658
Salaries payable and related expenses	523	-	-	523
Due to other governments	54,285	-	-	54,285
Due to other funds	-	37,995	33,110	71,105
Total liabilities	\$ 56,002	\$ 38,459	\$ 33,110	\$ 127,571
FUND BALANCES				
Reserved for Debt Service	-	-	299,422	299,422
Reserved for school-based activities	24	-	-	24
Total fund balances	24	-	299,422	299,446
Total liabilities and fund balances	\$ 56,026	\$ 38,459	\$ 332,532	\$ 427,017

Kaleva Norman Dickson School District

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended June 30, 2007

	Special Revenue Funds		Debt Service Fund	Total Non-Major Governmental
	Food Service	Athletics		
Revenues				
Property taxes	-	-	\$ 828,272	\$ 828,272
Interest	-	921	15,707	16,628
State revenues	23,707	-	-	23,707
Federal revenues	335,440	-	-	335,440
Other	134,187	28,653	270	163,110
	493,334	29,574	844,249	1,367,157
Total revenues				
Expenditures				
Food Service	493,310	-	-	493,310
Athletics	-	145,291	-	145,291
Debt Service	-	-	385,000	385,000
Principal	-	-	523,414	523,414
Interest	-	-	2,732	2,732
Other	-	-	-	-
	493,310	145,291	911,146	1,549,747
Total expenditures			(66,897)	(182,590)
REVENUES OVER (UNDER) EXPENDITURES	24	(115,717)		
Other financing sources				
Operating transfers in	-	115,717	66,422	182,139
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	24	-	(475)	(451)
Fund balance, beginning of year	-	-	299,897	299,897
Fund balance, end of year	24	-	299,422	299,446

OTHER SUPPLEMENTARY INFORMATION

Kaleva Norman Dickson School District

2005 SCHOOL BUILDING AND SITE BOND ISSUE CAPITAL PROJECTS FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

For the Two Year Period Ended June 30, 2007

Revenue	
Investment income	<u>\$ 127,754</u>
Expenditures	
Capital outlay	
Construction costs	2,788,332
Bond costs and fees	<u>43,332</u>
Total expenditures	<u>2,831,664</u>
REVENUES UNDER EXPENDITURES	<u>(2,703,910)</u>
Other financing sources	
Bond proceeds	2,781,240
Operating transfer out	<u>(53,573)</u>
Total other financing sources	<u>2,727,667</u>
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	23,757
Fund balances, beginning of period	<u>-</u>
Fund balances, end of period	<u><u>\$ 23,757</u></u>

Kaleva Norman Dickson School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2006	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2007
United States Department of Education							
Passed through Michigan Department of Education							
Title I Grants - Educationally Deprived							
061530-0506	84.010	\$ 239,522	\$ 1,716	\$ 207,840	\$ 1,716	\$ -	\$ -
061530-0607		31,683	-	-	31,683	31,683	-
071530-0607		221,727	-	-	169,519	200,111	30,592
Total Title I Grants - Educationally Deprived		492,932	1,716	207,840	202,918	231,794	30,592
Title I - Migrant Education							
061830-0506	84.011	30,577	2,879	2,879	30,577	27,698	-
071890-0607		15,970	-	-	308	540	232
Total Title I - Migrant Education		46,547	2,879	2,879	30,885	28,238	232
Handicapped Preschool and School Program 070440-0607							
	84.027	4,000	-	-	2,000	3,850	1,850
Title V LEA Allocation 070250-0607							
	84.298	3,528	-	-	1,487	1,614	127
Improving Teacher Quality 060520-0506							
	84.367	66,840	4,156	66,840	4,156	-	-
		65,719	-	-	46,737	65,719	18,982
Total Improving Teacher Quality		132,559	4,156	66,840	50,893	65,719	18,982
Technology Literacy Challenge Grants 064290-0506 Title II Part D Ed Tech							
064280-5b	84.318	4,468	880	4,468	880	-	-
074290-0607		131,000	131,000	131,000	131,000	-	-
Passed through Berrien ISD		2,273	-	-	31	2,273	2,242
Passed through Ferris State University		254,000	(8,223)	194,977	50,800	59,023	-
		27,000	-	-	27,000	27,000	-
Total Technology Literacy Challenge Grants		418,741	123,657	330,445	209,711	88,296	2,242
Total passed through Michigan Department of Education							
		1,098,307	132,408	608,004	497,894	419,511	54,025
Passed through Manistee ISD Safe and Drug Free Schools and Communities 2006-2007							
	84.186	3,240	-	-	3,240	3,240	-

Kaleva Norman Dickson School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2006	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2007
Passed through Michigan Community Service Commission Learn and Serve Grant 2005-2006 2006-2007	94.004	\$ 15,000 14,986	\$ 2,263	\$ 12,242	\$ 5,021 8,221	\$ 2,758 14,986	\$ - 6,765
Total Learn and Serve Grant		29,986	2,263	12,242	13,242	17,744	6,765
Total United States Department of Education		1,131,533	134,671	620,246	514,376	440,495	60,790
United States Department of Agriculture Nutrition Cluster Passed Through Michigan Department of Education National School Lunch Program 1950 All Lunches 1960 Free and Reduced 1970 Breakfast	10.555 10.555 10.553	35,023 203,036 67,752	-	-	35,023 203,036 67,752	35,023 203,036 67,752	-
Total Nutrition Cluster		305,811	-	-	305,811	305,811	-
Child Care Food Program 2006-2007	10.558	3,499	-	-	3,499	5,188	1,689
Summer Food Service Program for Children 060900 061900	10.559	2,511 264	-	-	2,511 264	2,511 264	-
Total Summer Food Service Program for Children		2,775	-	-	2,775	2,775	-
USDA Commodities Bonus Entitlement	10.550 10.550	-	-	-	642 21,026	642 21,026	-
Total USDA Commodities		-	-	-	21,668	21,668	-
Total United States Department of Agriculture		312,085	-	-	333,753	335,442	1,689
Total Federal Financial Assistance		\$ 1,443,618	\$ 134,671	\$ 620,246	\$ 848,129	\$ 775,937	\$ 62,479

Kaleva Norman Dickson School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2007

- Note 1** The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting.
- Note 2** Management has reported that expenditures in this Schedule of Expenditures of Federal Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3** The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete, accurate and contain information that is supported by the books and records from which the basic financial statements have been prepared. Grant receipts reported on the Schedule of Expenditures of Federal Awards, as passed through the Michigan Department of Education, reconcile to the Grant Section Auditor's Report (R7120). Unreconciled differences have been disclosed to the auditor.

Note 4 A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards with Federal sources reported on the financial statements are as follows:

Federal expenditures per Schedule of Expenditures of		
Federal Awards	\$	775,937
National Forest Tax		<u>60,793</u>
Federal sources per financial statements	\$	<u>836,730</u>

Note 5 Of the Federal expenditures presented in the schedule, Federal awards were provided to subrecipients as follows:

Program Title/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Title II Part D: Technology Literacy Challenge Grants:	\$ 84.318	
Passed through from Berrien ISD		
Passed through to:		
Baldwin		\$ 700
Bear Lake		350
CASMAN Alternative		350
Clare		350
Onkama		<u>350</u>
Total passed through from Berrien ISD		<u>2,100</u>
Total Federal funds passed through to subrecipients		<u>\$ 2,100</u>



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

Board of Education
Kaleva Norman Dickson School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *Kaleva Norman Dickson School District* (the "School District") as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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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 School District'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 School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control. We believe Finding 2007-1 constitutes a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the School District in a separate letter dated October 8, 2007.

The School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the School District's response and, accordingly, we express no opinion on it.

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

Dennis, Gartland & Niergarth

October 8, 2007



DENNIS, GARTLAND & NIERGARTH

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

Board of Education
Kaleva Norman Dickson School District

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2007.

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Internal Control Over Compliance

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

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

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

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

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

Dennis, Garland & Niergarth

October 8, 2007

Kaleva Norman Dickson School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2007

PRIOR YEAR

No findings.

CURRENT YEAR

Section 1 - Summary of Auditor's Results

1. The auditor's report represents an unqualified opinion on the general purpose financial statements of Kaleva Norman Dickson School District.
2. There was one significant deficiency in internal control reported as a result of the audit of the financial statements. See Section 2 - Findings in Accordance with Governmental Auditing Standards, Finding Number 2007-1.
3. There were no compliance findings disclosed that were material to the School District's financial statements.
4. The auditor's report does not disclose any significant deficiencies in internal control over major programs.
5. The report over compliance for major program was unqualified.
6. There were no audit findings relative to major programs that are required to be reported.
7. The School District's major program was the Child Nutrition Cluster.
8. The dollar threshold for distinguishing between Type A and Type B programs was \$300,000.
9. Kaleva Norman Dickson School District qualified as a low risk auditee.

Section 2 - Findings in Accordance with Governmental Auditing Standards

Finding Number 2007-1

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the School District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the School District has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the School District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the School District's internal controls.

Cause: This condition was caused by the School District's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary training and expertise required for the School District to perform this task internally.

Effect: As a result of this condition, the School District lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

Management's Response: The School District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the School District to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Section 3 - Findings and Questioned Costs in Accordance with OMB Circular A-133

No findings or questioned costs.



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AUDIT-RELATED COMMUNICATIONS

To the Board of Education
Kaleva Norman Dickson School District

We have audited the financial statements of Kaleva Norman Dickson School District (the "School District") for the year ended June 30, 2007, and have issued our report thereon dated October 8, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 18, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with 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 the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 School District'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 School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

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We consider the following deficiency to be a significant deficiency in internal control:

Reporting Financial Data

The above definition of a significant deficiency includes any condition that adversely affects the School District's ability to report financial data in accordance with generally accepted accounting principles ("GAAP"). As a matter of convenience, the School District has always relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. As a consequence, the School District has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions. The School District has committed the resources necessary to meet its internal reporting needs. In this regard, the School District is not unlike many other schools of its size.

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

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 the School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. However, none of the estimates in the current financial statements were thought to be particularly sensitive.

Audit Adjustments

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

Recorded Adjustments

We proposed an entry to record the capital lease of the new bus.

We proposed an entry to restore cash and record a corresponding accounts payable for a held check.

Unrecorded Adjustments

Property tax revenues have been recorded based upon actual tax collections vs. the total estimated amount due. Both we and the School District's management have evaluated the valuation and consider any difference to be immaterial.

There Were No Disagreements with Management

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

There Were No Difficulties Encountered in Performing the Audit

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

General Comments and Observations

Fund Balance

State law mandates that School Districts do not operate with a deficit budget. State law does not; however, mandate maintaining a healthy fund balance. Maintaining a minimum fund balance is only smart management of the School District's resources. We believe a fund balance of approximately 15% of total annual operation expenditures of the School District's General Fund Budget is a good target fund balance. Setting a target fund balance to maintain would provide flexibility in dealing with unanticipated budget emergencies such as mid-year reductions in State funding. We recommend the School District discuss a target fund balance and adopt a Board policy. This will provide guidance and direction on an annual basis as each year's operating budget is prepared and adopted. This is a repeat comment.

This information is intended solely for the use of the Board of Education and management of the School District and is not intended to be and should not be used by anyone other than these specified parties.

We are pleased to serve as the School District's auditors. If there are any questions about the audited financial statements or the contents of this letter, we would welcome the opportunity to discuss them at your convenience.

Dennis, Gartland & Niergarth

October 8, 2007