

**Clinton County  
Regional Educational Service Agency  
St. Johns, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2007**

Clinton County Regional Educational Service Agency

St. Johns, Michigan

BOARD OF EDUCATION

June 30, 2007

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\*\*\*\*\*

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Clinton County Regional Educational Service Agency

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Clinton County Regional  
Educational Service Agency  
St. Johns, Michigan

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2007 on our consideration of Clinton County Regional Educational Service Agency'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 result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clinton County Regional Educational Service Agency's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary 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.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 8, 2007

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

This section of the Clinton County Regional Education Service Agency's annual financial report presents management's discussion and analysis of the Agency's financial performance during the fiscal year ended June 30, 2007.

**USING THIS ANNUAL REPORT**

The annual report consists of three main parts:

1) *Management's Discussion and Analysis*

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in *Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June, 1999. The Management's Discussion and Analysis explains what is contained in the audited financial statements, presents the financial position and results of operations, provides an analysis of balances and transactions of individual funds, analyzes the budget, breaks down the various categories of capital assets/debt and outlines any known factors affecting the Agency's future.

2) *Basic financial statements*

The basic financial statements include two kinds of statements that present different views of the Agency.

- The Statement of Net Assets and Statement of Activities

The District-wide statements report information about the Agency as a whole and are reported as governmental activities.

The two District-wide statements report the Agency's net assets and how they have changed. Over time, increases or decreases in the Agency's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the Agency consideration of non-financial factors, such as changes in the property tax base, physical condition of school buildings and political conditions at the state level should also be taken into account.

Business-type activities as interpreted by the Michigan Department of Education do not occur in this Agency.

The District-wide financial statements can be found on pages 1 and 2 of this report, with reconciliations to the fund level financial statements presented on pages 5 and 8.

- Fund Financial Statements

The fund financial statements provide more detailed information about the Agency's major funds - not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending for a particular purpose. Some funds are required by State law and others the Agency's Board of Education establishes to control and manage money for particular purposes.

*Governmental Funds*

The Agency's basic services are included in governmental funds, which focus on how money flows in and out and the balances left at year-end that are available for spending.

**MAJOR FUNDS** for purpose of these statements are the:

- General Fund
- Special Education Fund
- Vocational Education Fund

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

All other funds are presented in one combined column as **NONMAJOR GOVERNMENTAL FUNDS**. These would be:

- Debt Service Fund
- Capital Projects Fund

The fund financial statements are on pages 3-4 and 6-7.

*Fiduciary Funds*

Fiduciary funds are used to account for resources held for the benefit of parties outside the Agency. Fiduciary funds are not reflected in the District-wide financial statements because the resources of those funds are not available to support the Agency's own programs. Fiduciary fund information is reported on pages 9-10.

The financial statements also include notes, beginning on page 11, explaining some of the information in the statements as well as providing more detailed data.

3) *Required Supplementary Information*

The financial statements are followed by a section of required supplementary information that further explains and supports the financial statements by providing a comparison of the Agency's budgets for the major funds for the year. These are located on pages 24 through 26.

**FINANCIAL POSITION AND RESULTS OF OPERATIONS**

Net Assets

The Statement of Net Assets provides a perspective of the Agency as a whole and may serve over time as a useful indicator of a district's financial position. In Figure A-1, a comparative analysis of fiscal year 2007 is made to fiscal year 2006.

Figure A-1  
Condensed Statement of Net Assets  
As of June 30, 2006 and 2007

	Governmental Activities	
	2006	2007
<b>Assets</b>		
Current and other assets	\$ 6,133,848	\$ 7,369,137
Capital Assets	7,124,733	7,044,406
<b>Total Assets</b>	<b>13,258,581</b>	<b>14,413,543</b>
<b>Liabilities</b>		
Current Liabilities	2,182,508	2,584,571
Long-Term Liabilities	3,065,858	3,053,774
<b>Total Liabilities</b>	<b>5,248,366</b>	<b>5,638,345</b>
<b>Net Assets</b>		
Invested in capital assets	3,746,657	3,908,821
Unrestricted	4,263,558	4,866,377
<b>Total Net Assets</b>	<b>\$ 8,010,215</b>	<b>\$ 8,775,198</b>

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

The Agency is able to report positive balances in all categories of net assets. The \$4.86 million in unrestricted net assets represents the accumulated results of all past years' operations. It means that if all bills were paid off today, including all noncurrent liabilities (compensated absences, for example), there would be \$4.86 million remaining. The operating results of the Agency will have a significant impact on the change in unrestricted net assets from year to year.

Changes in Net Assets

Similar to the Statement of Net Assets, the Statement of Activities reports on the Agency as a whole. A summary of the District-wide results of operations for the year ended June 30, 2007 is found in Figure A-2, Changes in Net Assets from Operations, along with a comparison to year ended June 30, 2006.

The cost of the Agency's governmental activities this year was \$16.79 million. Certain activities were partially funded by those who benefited from the programs (\$1.98 million in charges for services) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5.63 million in operating grants and \$70,434 in capital grants). The remaining portion of the governmental activities was paid with \$6.3 million in taxes, \$3.09 million in State Aid, and \$.45 million of other revenues, such as interest and general entitlements.

The Agency experienced an increase in net assets of \$.76 million in the current year. The key reasons for the change in net assets were due to the conservative approach the Agency took on spending because of the economic condition in the State and the nation, and under-expenditures experienced in several grant programs.

Figure A-2  
Change in Net Assets from Operations  
Years Ended June 30, 2006 and 2007

	Governmental Activities	
	2006	2007
<b>Revenues</b>		
Program Revenues		
Charges for Service	\$ 1,560,884	\$ 1,982,612
Operating Grants	5,886,196	5,637,480
Capital Grants	-	70,434
General Revenues		
Property Taxes	5,900,907	6,322,855
State School Aid-unrestricted	2,750,560	3,096,110
Other	369,352	447,489
<b>Total Revenues</b>	<b>16,467,899</b>	<b>17,556,980</b>
<b>Functions/Program Expenses</b>		
Instruction	3,205,711	3,220,357
Supporting services	9,495,862	10,094,601
Payments to other districts	3,164,167	3,066,224
Interest on long-term debt	174,030	160,735
Unallocated depreciation	224,320	250,080
<b>Total Expenses</b>	<b>16,264,090</b>	<b>16,791,997</b>
<b>Increase in Net Assets</b>	<b>\$ 203,809</b>	<b>\$ 764,983</b>

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

In Figure A-3, we have presented the cost of four of the Agency's largest functions and depreciation as well as each function's net cost (total cost less revenues generated by the activities). Net cost shows the financial burden that was placed on the Agency's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Figure A-3  
Net Cost of Governmental Activities  
Years Ended June 30, 2006 and 2007

Governmental Activities	Total Cost of Services		Net Cost of Services	
	2006	2007	2006	2007
Instruction	\$ 3,205,711	\$ 3,220,357	\$ 1,632,710	\$ 1,190,996
Support services	9,495,862	10,094,601	3,621,783	4,433,436
Payments to other districts	3,164,167	3,066,224	3,164,167	3,066,224
Interest on long-term debt	174,030	160,735	174,030	160,735
Unallocated Depreciation	224,320	250,080	224,320	250,080
<b>Total Governmental Activities</b>	<b>\$16,264,090</b>	<b>\$16,791,997</b>	<b>\$ 8,817,010</b>	<b>\$ 9,101,471</b>

**BALANCES & TRANSACTIONS OF INDIVIDUAL FUNDS**

As the Agency completed the year, its governmental funds (as presented in the balance sheet on pages 3 and 4), reported a *combined* fund balance of \$5,094,379, which is more than last year's total of \$4,475,849.

**BUDGETARY ANALYSIS**

The Agency's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year. State law also requires the budget be amended to ensure expenditures do not exceed appropriations. Schedules showing the Agency's original and final budgets compared with amounts actually received and paid from the General, Special Education and Vocational Education funds are provided in the Required Supplementary Information section of the financial statements on pages 24-26.

Two budget amendments were made throughout the fiscal year to deal with unexpected changes in revenues and expenditures. Revenue budgets are amended to reflect known information such as receipt of additional grant funds. Expenditure budgets rarely are altered, especially in the instructional and pupil support areas. Factors, which affected the final budgets and their relationship to actual activity, are listed below:

The General Fund overall added to their fund balance:

1. The negative revenue variance of \$93,683 is a result of two key items. One is in regards to Federal grant funding and the other in regards to state grants. The variance for Federal grants was \$71,667 and the variance for state grants was \$35,427. The grant dollars, however, are not lost and typically are carried over to the subsequent fiscal year.
2. The expenditures have a positive (under expended) variance of \$293,293. This consists of these major items: instructional staff support services were under budget by \$133,970. This was due in a large part to several grants that were not fully expended (\$107,094) as well as the educational services and technical assistance components of the budget. Another under-expended area was basic program instruction by \$40,663. This was due to the LEA'S substitute teacher costs.

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

3. The negative variance of \$81,249 for the other financing sources and uses is due largely to the LEA'S substitute teacher cost reimbursement. The estimates on these revenues are difficult to project and were less than anticipated by approximately \$70,965.

The Special Education Fund overall added to their fund balance:

1. The negative revenue variance of \$335,109 is a result of two key factors. One factor is that local and state revenues were over (positive) the initial budget by \$90,371. This was a result of additional revenues received in the following areas: facility rent, interest earnings, Medicaid school based services, and state categorical dollars. The other factor is that Federal revenues were under budget by \$425,480. These grant dollars, however, are not lost and typically are carried over to the subsequent fiscal year.
2. Total instruction (\$168,587), support services for instructional staff (\$307,984), and pupil support services (\$160,658) collectively were under budget by \$637,229. This was due largely to the under-expending of a portion of the Federal grants and optimal utilization of Federal dollars in conjunction with the use of State and local dollars. In addition transportation costs were under budget by \$65,286.

The Vocational Education Fund overall increased their fund balance:

1. The expenditures have a positive (under expended) effect of \$78,966. The major component of this amount were the instructional added needs expenditures which were under budget by \$63,230. The related items in this function were the program supply and equipment costs and the Career Preparation Coordinator position.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

At June 30, 2007, as indicated in Figure A-4, the Agency had \$7.04 million invested in a broad range of capital assets, including buildings, furniture and equipment, vehicles, land and construction in progress. The values shown below are net of applicable accumulated depreciation, i.e. net book value at the beginning and end of the year.

Figure A-4  
Capital Assets, Net  
Years Ended June 30, 2006 and 2007

	Balance June 30, 2006	Balance June 30, 2007
Land	\$ 627,860	\$ 627,860
Buildings and additions	5,752,274	5,752,625
Equipment and furniture	722,479	648,888
Vehicles	22,120	15,033
<b>Total Capital Assets</b>	<b>\$ 7,124,733</b>	<b>\$ 7,044,406</b>

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

Net additions to historical cost for the year were \$105,055, the majority of which were for buildings and additions and equipment, furniture, and other assets. Additional information about the Agency's capital assets is contained in the notes to the financial statements on pages 17 and 18.

Debt

At June 30, 2007, as indicated in Figure A-5, the Agency had \$2,719,700 in outstanding installment loans. The 2001 installment loan was for St. Johns facility and improvements to the Educational Center. The 2003 installment loan was for fiber optic cabling. There is also \$415,885 of Durant Resolution Bonds outstanding at June 30, 2007. The annual payment for the Durant bonds is made by the State of Michigan. According to the legislation enacted, if the State fails to appropriate the money to fund the bond payments, the District is under no obligation for the payment.

The District also has a compensated absence liability accumulated at June 30, 2007 in the amount of \$133,272.

State statutes limit the amount of General Obligation debt that an Agency may issue. The current debt limitation for the Clinton County Regional Education Service Agency is significantly greater than the outstanding debt of the Agency.

Additional information on the Agency's long-term debt can be found in the notes to the financial statements on pages 18 through 20.

Figure A-5  
Outstanding Debt

Years Ended June 30, 2006 and 2007

	Balance June 30, 2006	Balance June 30, 2007
Durant Resolution Bonds	\$ 415,885	\$ 415,885
2001 Installment Loan	2,770,000	2,550,000
2003 Installment Loan	192,191	169,700
Compensated Absences	128,896	133,272
<b>Total Capital Assets</b>	<b><u>\$3,506,972</u></b>	<b><u>\$3,268,857</u></b>

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The economy in the State of Michigan continues to be very depressed. After a decrease in 2004/05 of 15.27%, a 0% increase in 2005/06, a 3.1% increase in 2006/07 a 0% increase for section 81 funding is anticipated for fiscal year 2007/08. Pupil FTE (full time equated) will increase due to taking on program responsibilities for the Turning Point Youth Center. A \$0 foundation increase is projected from the state. The growth in the Agency's taxable value continues to generate less revenue from the state via millage equalization formulas. The growth in the taxable values are expected to taper off because of Michigan's economy which may enhance the equalization formula dollars to some degree but also result in less tax dollars for the district. Reductions and minimal growth in some of the major Federal grants has put more pressure on the use of local and state dollars. The Michigan Public School Employee Retirement System rate on employee earnings will be decreasing from 17.74% to 16.72%. This will have a positive affect on the Agency's budget. Employee health insurance premiums are expected to increase from 12% - 15% and alternative options (such as pooling) will always be considered. The Agency's one collective bargaining group and the other non-bargaining groups have agreements in place. These factors were considered in preparing the 2007/08 budgets.

**REQUESTS FOR INFORMATION**

This report is designed to give an overview of the financial conditions of the Clinton County Regional Education Service Agency. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

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## **BASIC FINANCIAL STATEMENTS**

Clinton County Regional Educational Service Agency

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 2,808,195
Investments	2,769,723
Accounts receivable	34,238
Interest receivable	22,958
Due from other governmental units	1,463,256
Inventories	247,102
Prepays	<u>23,665</u>
<b>TOTAL CURRENT ASSETS</b>	<b>7,369,137</b>
Noncurrent assets	
Capital assets not being depreciated	627,860
Capital assets, net of accumulated depreciation	<u>6,416,546</u>
<b>TOTAL NONCURRENT ASSETS</b>	<b><u>7,044,406</u></b>
<b>TOTAL ASSETS</b>	<b>14,413,543</b>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	971,717
Accrued payroll	472,713
Accrued interest payable	22,680
Other accrued liabilities	192,869
Unearned revenue	637,459
Current portion of compensated absences	33,738
Current portion of long-term debt	<u>253,395</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,584,571</b>
Noncurrent liabilities	
Noncurrent portion of interest payable	72,050
Noncurrent portion of compensated absences	99,534
Noncurrent portion of long-term debt	<u>2,882,190</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<b><u>3,053,774</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>5,638,345</u></b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	3,908,821
Unrestricted	<u>4,866,377</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 8,775,198</u></b>

See accompanying notes to financial statements.

Clinton County Regional Educational Service Agency

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants	Capital Grants	Revenues and Changes in Net Assets
					Governmental Activities
Governmental Activities					
Instruction	\$ 3,220,357	\$ 1,929,378	\$ 29,549	\$ 70,434	\$ (1,190,996)
Supporting services	10,094,601	53,234	5,607,931	-	(4,433,436)
Payments to other districts	3,066,224	-	-	-	(3,066,224)
Interest on long-term debt	160,735	-	-	-	(160,735)
Unallocated depreciation	250,080	-	-	-	(250,080)
Total expenses	<u>\$ 16,791,997</u>	<u>\$ 1,982,612</u>	<u>\$ 5,637,480</u>	<u>\$ 70,434</u>	(9,101,471)
General revenues					
Property taxes					6,322,855
State school aid - unrestricted					3,096,110
Investment earnings					259,525
Miscellaneous					187,964
Total general revenues					<u>9,866,454</u>
Change in net assets					764,983
Net assets, beginning of year					<u>8,010,215</u>
Net assets, end of year					<u>\$ 8,775,198</u>

See accompanying notes to financial statements.

Clinton County Regional Educational Service Agency

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2007

	General	Special Education	Vocational Education
<b>ASSETS</b>			
Cash and cash equivalents	\$ 453,492	\$ 2,227,409	\$ 98,020
Investments	1,182,837	1,332,568	-
Accounts receivable	11,707	22,531	-
Interest receivable	10,279	10,469	-
Due from other governmental units	148,035	1,038,824	276,397
Inventories	-	-	247,102
Prepays	7,904	15,761	-
	<u>1,814,254</u>	<u>4,647,562</u>	<u>621,519</u>
<b>TOTAL ASSETS</b>	<b>\$ 1,814,254</b>	<b>\$ 4,647,562</b>	<b>\$ 621,519</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 81,711	\$ 530,996	\$ 353,129
Accrued payroll	7,426	455,861	9,426
Other accrued liabilities	68,140	122,336	2,393
Deferred revenue	443,761	193,698	-
	<u>601,038</u>	<u>1,302,891</u>	<u>364,948</u>
<b>TOTAL LIABILITIES</b>	<b>601,038</b>	<b>1,302,891</b>	<b>364,948</b>
<b>FUND BALANCES</b>			
Reserved for			
Inventories and prepaids	7,904	15,761	247,102
Unreserved			
Designated for future projects	280,000	966,000	-
Designated for capital projects	-	-	-
Undesignated, reported in			
General fund	925,312	-	-
Special revenue funds	-	2,362,910	9,469
	<u>1,213,216</u>	<u>3,344,671</u>	<u>256,571</u>
<b>TOTAL FUND BALANCES</b>	<b>1,213,216</b>	<b>3,344,671</b>	<b>256,571</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,814,254</b>	<b>\$ 4,647,562</b>	<b>\$ 621,519</b>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 29,274	\$ 2,808,195
254,318	2,769,723
-	34,238
2,210	22,958
-	1,463,256
-	247,102
-	23,665
<u>\$ 285,802</u>	<u>\$ 7,369,137</u>
\$ 5,881	\$ 971,717
-	472,713
-	192,869
-	637,459
<u>5,881</u>	<u>2,274,758</u>
-	270,767
-	1,246,000
279,921	279,921
-	925,312
-	2,372,379
<u>279,921</u>	<u>5,094,379</u>
<u>\$ 285,802</u>	<u>\$ 7,369,137</u>

Clinton County Regional Educational Service Agency

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2007

**Total fund balance - governmental funds** **\$ 5,094,379**

Amounts reported for the 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 the governmental funds.

The cost of capital assets is	\$	8,664,795	
Accumulated depreciation is		<u>(1,620,389)</u>	
			7,044,406

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 loans payable		(3,135,585)	
Accrued interest payable		(94,730)	
Compensated absences		<u>(133,272)</u>	
			<u>(3,363,587)</u>

**Net assets of governmental activities** **\$ 8,775,198**

See accompanying notes to financial statements.

Clinton County Regional Educational Service Agency

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

Year Ended June 30, 2007

	General	Special Education	Vocational Education
<b>REVENUES</b>			
Local sources	\$ 490,780	\$ 5,112,184	\$ 1,634,441
State sources	867,909	2,102,241	231,170
Federal sources	147,584	4,574,768	798,842
<b>TOTAL REVENUES</b>	<b>1,506,273</b>	<b>11,789,193</b>	<b>2,664,453</b>
<b>EXPENDITURES</b>			
Current			
Instruction	482,313	2,066,627	670,211
Supporting services	1,644,584	8,196,161	249,480
Debt service	-	-	-
Capital outlay	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>2,126,897</b>	<b>10,262,788</b>	<b>919,691</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(620,624)</b>	<b>1,526,405</b>	<b>1,744,762</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	127,395	196,787	-
Payments from other districts	819,309	51,189	587,559
Other transactions	108,528	14,395	445
Transfers out	(309,653)	(468,920)	-
Payments to other districts	-	(776,414)	(2,289,810)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>745,579</b>	<b>(982,963)</b>	<b>(1,701,806)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>124,955</b>	<b>543,442</b>	<b>42,956</b>
Fund balances, beginning of year	1,088,261	2,801,229	213,615
Fund balances, end of year	<u>\$ 1,213,216</u>	<u>\$ 3,344,671</u>	<u>\$ 256,571</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 15,636	\$ 7,253,041
-	3,201,320
-	<u>5,521,194</u>
15,636	15,975,555
-	3,219,151
-	10,090,225
391,891	391,891
<u>170,959</u>	<u>170,959</u>
<u>562,850</u>	<u>13,872,226</u>
(547,214)	2,103,329
454,391	778,573
-	1,458,057
-	123,368
-	(778,573)
-	<u>(3,066,224)</u>
<u>454,391</u>	<u>(1,484,799)</u>
(92,823)	618,530
<u>372,744</u>	<u>4,475,849</u>
<u>\$ 279,921</u>	<u>\$ 5,094,379</u>

Clinton County Regional Educational Service Agency

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

**Net change in fund balances - total governmental funds** **\$ 618,530**

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$	169,753	
Depreciation expense		<u>(250,080)</u>	
Excess of depreciation expense over capital outlay			(80,327)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Debt principal retirement			242,491
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable		(11,335)	
(Increase) in compensated absences		<u>(4,376)</u>	
			<u>(15,711)</u>

**Change in net assets of governmental activities** **\$ 764,983**

See accompanying notes to financial statements.

Clinton County Regional Educational Service Agency

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	<u>Private Purpose Trust Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 999
Investments	20,665
Interest receivable	<u>180</u>
<b>TOTAL ASSETS</b>	21,844
<b>LIABILITIES</b>	
Accounts payable	<u>500</u>
<b>NET ASSETS</b>	
Held in trust for private purposes	<u><u>\$ 21,344</u></u>

See accompanying notes to financial statements.

Clinton County Regional Educational Service Agency

Fiduciary Fund

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2007

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Investment earnings	
Interest	\$ 1,117
DEDUCTIONS	<u>(500)</u>
CHANGE IN NET ASSETS	617
Net assets, beginning of year	<u>20,727</u>
Net assets, end of year	<u>\$ 21,344</u>

See accompanying notes to financial statements.

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Clinton County Regional Educational Service Agency (primary government). The Agency has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the agency as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the Agency and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Agency.

FUND FINANCIAL STATEMENTS

The governmental fund financial statements present the Agency's individual major funds and nonmajor fund. Separate columns are shown for the major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major funds of the Agency are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the Agency to support the educational programs and general operations of the Agency.

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

- b. Special Education Fund - The Special Education Fund is used to account for money or other resources provided to the Agency to support the special education programs and/or the distribution of funds to other local education agencies for operating special education programs.
- c. Vocational Education Fund - The Vocational Education Fund is used to account for money or other resources provided to the Agency to support the vocational education programs.

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Agency before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The Agency reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the Agency receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue funds. All unexpended appropriations lapse at fiscal year end.

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

- a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Budgets and Budgetary Accounting - continued

- c. Prior to July 1, the budget is legally adopted by a Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted at the functional level; however, they are maintained at the object level for control purposes.
- e. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
- g. The budget, as presented, has been amended in a legally permissible manner. Two (2) supplementary appropriations were made during the year with the final amendments being approved June 19, 2007.

5. Cash and Cash Equivalents, and Investments

Cash and cash equivalents consist of checking and savings accounts, pooled investment funds, and imprest petty cash. Cash equivalents are recorded at market value.

Investments consist of certificates of deposit with an original maturity of greater than 90 days. Investments are recorded at market value.

6. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the Agency for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments, related to the fiscal year ended June 30, 2007, to be paid in July and August 2007. The total amount of \$1,463,256 due from other governmental units consists of \$436,295 and \$1,026,961 related to State Aid and grant and local programs, respectively.

7. Inventories

Inventories are stated at cost on a first in/first out basis. Inventories consist of expendable supplies held for consumption. Inventory amounts are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

8. Deferred Revenue

The unexpended balance of various federal and/or state categorical and local grants is carried forward as deferred revenue in governmental funds until the period in which eligible expenditures are incurred. Amounts shown as unearned revenue on the Statement of Net Assets relate to the same state categorical and local grants but are shown here because they are not earned.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	20 - 50 years
Equipment and furniture	3 - 20 years
Vehicles	8 years

The Agency has no assets that would be classified as infrastructure assets.

10. Prepays

Prepays such as insurance premiums, which are expected to be written off within the next fiscal year, are included in net current assets. Reported prepays are equally offset by a fund balance reserve in the fund-level financial statements which indicates they do not constitute "available" spendable resources even though they are a component of net current assets.

11. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the Agency has recorded all liabilities associated with compensated absences. Accumulated vested vacation and severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

12. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements in two components: the portion of accrued interest payable that is due within one year is reported as a current liability, the remaining amount that is not due within one year has been reported as a noncurrent liability. The interest payable on the Durant Resolution bonds that was due May 15, 2003, 2004, 2005, and 2007, and a portion of the payment that is due May 15, 2008, is shown as a noncurrent liability due to the State of Michigan deferring these payments until May 15, 2012.

13. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

14. Property Taxes

Property taxes levied by the Agency are collected by various municipalities and periodically remitted to the Agency. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. The Agency property tax revenues are recognized when levied to the extent that they result in current receivables (collected within 60 days of year end). Amounts received subsequent to August 31 are recognized as revenue when collected. The Agency is permitted by the Constitution of the State of Michigan of 1963 to levy up to \$50 per \$1,000 assessed valuation for general governmental services other than the payment of Special Education, Vocational Education and Debt Service Fund expenditures. For the year ended June 30, 2007, the Agency levied the following mills per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund	0.1966
Special Education Fund	2.6061
Vocational Education Fund	0.9576

15. County Special Education Revenue Allocation

Beginning with the fiscal year ended June 30, 1997, the Agency allocates to the local school districts within the County excess funds remaining from a County-wide Special Education millage increase approved during that year.

The millage was collected by the Agency and the payments to the local districts were based on the most recent Agency budget at the time of allocation of excess revenues, after all Agency costs had been reimbursed. The allocation is paid pro rata based upon the K-12 pupil enrollment, including Special Education students enrolled at the Agency, of each district compared to the total County wide enrollment. The K-12 enrollment for each district is defined as the blended official count for the State foundation grant.

Beginning with the fiscal year ended June 30, 2004, the Agency allocates to the school districts within the County all funds from a County-wide Vocational Education millage levied in the current year.

The millage was collected by the Agency and the payments to the local districts were based on the average of the local district's percentage of the blended pupil count as it relates to the County as a whole and the local district's percentage of the taxable value as it relates to the County as a whole for the current fiscal year.

16. Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers. Transfers are netted as part of the reconciliation to the district-wide financial statements.

17. Federal Programs

Federal programs are accounted for in the specific governmental funds to which they relate. The Agency has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

18. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the Agency is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or national bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School Agency.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School Agency.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the Agency are at federally insured banks and credit unions in the State of Michigan in the name of the School Agency.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school Agency in a bank, savings and loan association, or credit union.

Deposits

As of June 30, 2007, the carrying amounts of the Agency's deposits were \$3,788,168 and the bank balance was \$3,980,964 of which \$300,000 was covered by federal depository insurance. The balance of \$3,680,964 was uninsured and uncollateralized. The Agency had \$700 of imprest cash on hand.

Investments

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

<u>Investment type</u>	<u>Carrying Value</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment funds			
MLAFP - Cash Management Fund	<u>\$ 1,810,714</u>	<u>\$ 1,810,714</u>	N/A

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2007, the District's investments in the Michigan Liquid Asset Fund were rated AAA by Standard & Poor's.

Interest rate risk

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

Concentration of credit risk

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

As of June 30, 2007, the cash and cash equivalents and investments referred to above have been reported in the cash and cash equivalents and investment captions in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 2,808,195	\$ 999	\$ 2,809,194
Investments	<u>2,769,723</u>	<u>20,665</u>	<u>2,790,388</u>
	<u>\$ 5,577,918</u>	<u>\$ 21,664</u>	<u>\$ 5,599,582</u>

Due to significantly higher cash flow at certain periods during the year, the amount the Agency held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

**NOTE C: CAPITAL ASSETS**

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

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 627,860	\$ -	\$ -	\$ 627,860
Capital assets being depreciated				
Buildings and additions	6,706,063	125,000	-	6,831,063
Equipment, furniture, and other assets	1,160,952	44,753	( 64,698 )	1,141,007
Vehicles	<u>64,865</u>	<u>-</u>	<u>-</u>	<u>64,865</u>
Subtotal	7,931,880	169,753	( 64,698 )	8,036,935

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE C: CAPITAL ASSETS - CONTINUED**

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
<b>Governmental activities - continued</b>				
Less accumulated depreciation for:				
Buildings and additions	\$( 953,789 )	\$( 124,649 )	\$ -	\$( 1,078,438 )
Equipment, furniture, and other assets	( 438,473 )	( 97,222 )	43,576	( 492,119 )
Vehicles	( 42,745 )	( 7,087 )	-	( 49,832 )
Subtotal	<u>( 1,435,007 )</u>	<u>( 228,958 )</u>	<u>43,576</u>	<u>( 1,620,389 )</u>
Net capital assets being depreciated	<u>6,496,873</u>	<u>( 59,205 )</u>	<u>( 21,122 )</u>	<u>6,416,546</u>
Capital assets, net	<u>\$ 7,124,733</u>	<u>\$( 59,205 )</u>	<u>\$( 21,122 )</u>	<u>\$ 7,044,406</u>

The current year depreciation expense of \$228,958 has been adjusted by \$21,122 for the disposal of capital assets during the year, in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses be handled as an adjustment to the current period's depreciation expense.

Depreciation expense of \$250,080 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

**NOTE D: LONG-TERM DEBT**

The following is a summary of changes in long-term debt obligations of the Agency for the year ended June 30, 2007.

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Amounts</u> <u>Due within</u> <u>One Year</u>
1998 Durant Resolution Bonds	\$ 415,885	\$ -	\$ -	\$ 415,885	\$ -
2001 Installment Loan	2,770,000	-	220,000	2,550,000	230,000
2003 Installment Loan	192,191	-	22,491	169,700	23,395
Compensated Absences	<u>128,896</u>	<u>256,812</u>	<u>252,436</u>	<u>133,272</u>	<u>33,738</u>
	<u>\$ 3,506,972</u>	<u>\$ 256,812</u>	<u>\$ 494,927</u>	<u>\$ 3,268,857</u>	<u>\$ 287,133</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Resolution

\$704,336 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments ranging from \$39,199 to \$245,394 with interest of 4.761353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan. The State of Michigan has suspended payment until May 15, 2009.

\$ 415,885

Installment Loans

\$3,600,000 Installment Purchase agreement dated October 21, 2001, due in annual installments ranging from \$230,000 to \$345,000 through May 1, 2016, with interest at 5.125 percent, payable semi-annually.

\$ 2,550,000

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE D: LONG-TERM DEBT - CONTINUED**

Installment Loans - continued

\$245,000 Installment Purchase agreement dated November 4, 2003, due in semi-annual installments ranging from \$11,582 to \$14,672 through November 1, 2013, with interest at 3.98 percent, payable semi-annually. \$ 169,700  
\$ 2,719,700

Compensated Absences - Compensated absences are made up of two (2) components, severance pay and accrued vacation.

Severance Pay - In recognition of services to the Agency, a severance payment is made to eligible employees with at least fifteen (15) years of service according to their respective employment contracts as follows:

<u>Years of Service</u>	<u>Amount</u>
15-20	\$40 per accumulated sick day
21-26	\$45 per accumulated sick day
27+	\$50 per accumulated sick day

The maximum benefit cannot exceed \$5,600.

Under GASB Statement No. 16 requirements, the Agency has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who currently are not vested are calculated taking total unused sick pay amounts at June 30, 2007, for all nonvested employees and multiplying it by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

A summary of the calculated amounts of accrued severance pay and related payroll taxes as of June 30, 2007, which has been recorded in the district-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Severance pay	\$ 52,956	\$ 55,822	\$ 108,778
Payroll taxes	<u>4,051</u>	<u>4,270</u>	<u>8,321</u>
	<u>\$ 57,007</u>	<u>\$ 60,092</u>	<u>\$ 117,099</u>

Accrued Vacation - Certain employees have vested rights upon termination of employment to receive payments for unused vacation. The dollar amount of these vested rights, including related payroll taxes, which have been recorded in the district-wide financial statements, amounted to approximately \$16,173 at June 30, 2007.

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE D: LONG-TERM DEBT - CONTINUED**

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

Year Ending June 30,	Durant Resolution Bonds		Installment Loans	
	Principal	Interest	Principal	Interest
2008	\$ -	\$ -	\$ 253,395	\$ 137,220
2009	39,199	10,263	264,336	124,492
2010	41,063	8,397	280,314	111,214
2011	43,019	6,442	291,332	97,128
2012	245,394	86,923	307,390	82,488
2013-2016	<u>47,210</u>	<u>2,248</u>	<u>1,322,933</u>	<u>170,342</u>
	<u>\$ 415,885</u>	<u>\$ 114,273</u>	<u>\$ 2,719,700</u>	<u>\$ 722,884</u>

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the Agency are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the Agency is under no obligation for payment of that year's debt obligation.

**NOTE E: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to General Fund from:	
Special Education Fund	<u>\$ 127,395</u>
Transfers to Special Education Fund from:	
General Fund	<u>\$ 196,787</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 112,866
Special Education Fund	<u>341,525</u>
	<u>\$ 454,391</u>

**NOTE F: EMPLOYEE RETIREMENT SYSTEM**

All of the Agency's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2006, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2007, was \$6,099,621 of which \$4,805,599 was for members who have elected the MIP option; the Agency's total payroll was \$6,334,839.

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE F: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987, to December 31, 1989, and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated wage; 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2006 to September 30, 2006, the Agency was required by the State to contribute 16.34% compensation for all wages to the Plan. For the period of October 1, 2006 to June 30, 2007, the Agency was required by State statute to contribute 17.74% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2007, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>	<u>Total</u> <u>Contributions</u>
2007	\$ 184,256	\$ 1,064,599	\$ 1,248,855
2006	185,026	981,762	1,166,788
2005	170,729	868,625	1,039,354

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>
2007	4.0 %	17.5 %
2006	4.0	16.0
2005	4.0	14.4

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE G: FUND BALANCE RESERVES AND DESIGNATIONS**

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the Agency has set aside for specific purposes.

The following are the fund balance reserves as of June 30, 2007:

General Fund	
Reserved for inventories and prepaids	<u>\$ 7,904</u>
Special Education Fund	
Reserved for inventories and prepaids	<u>\$ 15,761</u>
Vocational Education Fund	
Reserved for inventories and prepaids	<u>\$ 247,102</u>

The following are the fund balance designations as of June 30, 2007:

General Fund	
Designated for future projects	<u>\$ 280,000</u>
Special Education Fund	
Designated for future projects	<u>\$ 966,000</u>
Nonmajor governmental funds	
Designated for capital projects	<u>\$ 279,921</u>

**NOTE H: FLEXIBLE BENEFITS PLAN**

In April 1996 the Agency implemented a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The plan is available to all employees who are eligible to have health coverage under the Agency's health insurance plan and have a benefit election form on file. The plan permits them to waive health insurance coverage from the Agency and receive a cash benefit in lieu of such health insurance. The plan also allows employees to reduce their salary and apply it to dependent care benefits.

The Plan is administered by Clinton County Regional Educational Service Agency.

**NOTE I: RISK MANAGEMENT**

The Agency participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for boiler, property, fleet, liability, in-land marine, crime, data processing, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Agency has not been informed of any special assessments being required.

The Agency also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Agency has not been informed of any special assessments being required.

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE J: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT**

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff an agreed upon amount for past underfunding of special education. Clinton County Regional Educational Service Agency, a nonplaintiff district, was awarded \$1,408,672 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The Agency borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the Agency is under no obligation for the debt payments for that year. The Agency has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

**NOTE K: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

As shown in the Budgetary Comparison Schedules, which are included as Required Supplementary Information to the financial statements, the Agency's budgeted expenditures in the major governmental funds have been adopted and shown at the functional classification level.

During the year ended June 30, 2007, the Agency incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund Instruction Added needs	\$ 65,974	\$ 68,827	\$ 2,853

**REQUIRED SUPPLEMENTARY INFORMATION**

Clinton County Regional Educational Service Agency

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 458,720	\$ 477,369	\$ 490,780	\$ 13,411
State sources	759,209	903,336	867,909	(35,427)
Federal sources	183,129	219,251	147,584	(71,667)
<b>TOTAL REVENUES</b>	<b>1,401,058</b>	<b>1,599,956</b>	<b>1,506,273</b>	<b>(93,683)</b>
<b>EXPENDITURES</b>				
Current				
Instruction				
Basic programs	-	454,149	413,486	40,663
Added needs	-	65,974	68,827	(2,853)
<b>Total instruction</b>	<b>-0-</b>	<b>520,123</b>	<b>482,313</b>	<b>37,810</b>
Supporting services				
Pupil	23,300	65,461	41,269	24,192
Instructional staff	888,077	981,858	847,888	133,970
General administration	287,174	296,234	279,251	16,983
Business	41,024	51,885	41,870	10,015
Operation and maintenance	25,951	29,349	26,424	2,925
Central	83,142	77,693	62,238	15,455
Other	961,218	397,587	345,644	51,943
<b>Total supporting services</b>	<b>2,309,886</b>	<b>1,900,067</b>	<b>1,644,584</b>	<b>255,483</b>
<b>TOTAL EXPENDITURES</b>	<b>2,309,886</b>	<b>2,420,190</b>	<b>2,126,897</b>	<b>293,293</b>
<b>EXCESS OF REVENUES (UNDER) EXPENDITURES</b>	<b>(908,828)</b>	<b>(820,234)</b>	<b>(620,624)</b>	<b>199,610</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	109,500	129,500	127,395	(2,105)
Payments from other districts	977,718	890,274	819,309	(70,965)
Other transactions	55,745	116,741	108,528	(8,213)
Transfers out	(307,449)	(309,687)	(309,653)	34
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>835,514</b>	<b>826,828</b>	<b>745,579</b>	<b>(81,249)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(73,314)</b>	<b>6,594</b>	<b>124,955</b>	<b>118,361</b>
Fund balance, beginning of year	1,088,261	1,088,261	1,088,261	-0-
Fund balance, end of year	<u>\$ 1,014,947</u>	<u>\$ 1,094,855</u>	<u>\$ 1,213,216</u>	<u>\$ 118,361</u>

Clinton County Regional Educational Service Agency

Special Education Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive
				(Negative)
<b>REVENUES</b>				
Local sources	\$ 4,804,924	\$ 5,037,824	\$ 5,112,184	\$ 74,360
State sources	1,886,618	2,086,230	2,102,241	16,011
Federal sources	5,631,756	5,000,248	4,574,768	(425,480)
<b>TOTAL REVENUES</b>	<b>12,323,298</b>	<b>12,124,302</b>	<b>11,789,193</b>	<b>(335,109)</b>
<b>EXPENDITURES</b>				
Current				
Instruction				
Added needs	2,524,099	2,235,214	2,066,627	168,587
Supporting services				
Pupil	3,132,618	3,382,320	3,221,662	160,658
Instructional staff	2,762,476	2,380,657	2,072,673	307,984
General administration	146,826	37,321	30,061	7,260
School administration	74,310	111,544	107,978	3,566
Business	317,646	341,006	317,197	23,809
Operation and maintenance	618,573	516,789	498,820	17,969
Pupil transportation	1,023,850	1,023,850	958,564	65,286
Central	1,102,420	1,052,665	989,116	63,549
Total supporting services	9,178,719	8,846,152	8,196,071	650,081
Community services	1,000	1,000	90	910
<b>TOTAL EXPENDITURES</b>	<b>11,703,818</b>	<b>11,082,366</b>	<b>10,262,788</b>	<b>819,578</b>
<b>EXCESS OF REVENUES OVER</b>				
<b>(UNDER) EXPENDITURES</b>	<b>619,480</b>	<b>1,041,936</b>	<b>1,526,405</b>	<b>484,469</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	190,870	196,787	196,787	-0-
Payments from other districts	43,000	45,500	51,189	5,689
Other transactions	9,000	5,800	14,395	8,595
Transfers out	(403,202)	(477,887)	(468,920)	8,967
Payments to other districts	(675,500)	(786,100)	(776,414)	9,686
<b>TOTAL OTHER FINANCING</b>				
<b>SOURCES (USES)</b>	<b>(835,832)</b>	<b>(1,015,900)</b>	<b>(982,963)</b>	<b>32,937</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(216,352)</b>	<b>26,036</b>	<b>543,442</b>	<b>517,406</b>
Fund balance, beginning of year	2,801,229	2,801,229	2,801,229	-0-
Fund balance, end of year	\$ 2,584,877	\$ 2,827,265	\$ 3,344,671	\$ 517,406

Clinton County Regional Educational Service Agency

Vocational Education Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 1,617,800	\$ 1,631,250	\$ 1,634,441	\$ 3,191
State sources	207,000	227,000	231,170	4,170
Federal sources	818,713	798,842	798,842	-0-
<b>TOTAL REVENUES</b>	<b>2,643,513</b>	<b>2,657,092</b>	<b>2,664,453</b>	<b>7,361</b>
<b>EXPENDITURES</b>				
Current				
Instruction				
Added needs	762,000	733,441	670,211	63,230
Supporting services				
Pupil	18,051	6,000	6,000	-0-
Instructional staff	116,939	167,337	161,032	6,305
General administration	35,565	600	600	-0-
Business	1,836	2,915	2,398	517
Operation and maintenance	9,500	22,500	18,092	4,408
Central	54,822	65,864	61,358	4,506
Total supporting services	236,713	265,216	249,480	15,736
<b>TOTAL EXPENDITURES</b>	<b>998,713</b>	<b>998,657</b>	<b>919,691</b>	<b>78,966</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>1,644,800</b>	<b>1,658,435</b>	<b>1,744,762</b>	<b>86,327</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Payments from other districts	591,504	587,559	587,559	-0-
Other transactions	1,200	1,200	445	(755)
Payments to other districts	(2,312,709)	(2,290,269)	(2,289,810)	459
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,720,005)</b>	<b>(1,701,510)</b>	<b>(1,701,806)</b>	<b>(296)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(75,205)</b>	<b>(43,075)</b>	<b>42,956</b>	<b>86,031</b>
Fund balance, beginning of year	213,615	213,615	213,615	-0-
Fund balance, end of year	\$ 138,410	\$ 170,540	\$ 256,571	\$ 86,031

**OTHER SUPPLEMENTARY INFORMATION**

Clinton County Regional Educational Service Agency

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2007

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 29,274	\$ 29,274
Investments	-	254,318	254,318
Interest receivable	-	2,210	2,210
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	<u>\$ -0-</u>	<u>\$ 285,802</u>	<u>\$ 285,802</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 5,881	\$ 5,881
<b>FUND BALANCES</b>			
Unreserved			
Designated for capital projects	-	279,921	279,921
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -0-</u>	<u>\$ 285,802</u>	<u>\$ 285,802</u>

Clinton County Regional Educational Service Agency

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2007

	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
REVENUES			
Local sources	\$ -	\$ 15,636	\$ 15,636
EXPENDITURES			
Debt service	391,891	-	391,891
Capital outlay	-	170,959	170,959
TOTAL EXPENDITURES	391,891	170,959	562,850
EXCESS OF REVENUES (UNDER) EXPENDITURES	(391,891)	(155,323)	(547,214)
OTHER FINANCING SOURCES			
Transfers in	391,891	62,500	454,391
NET CHANGE IN FUND BALANCES	-0-	(92,823)	(92,823)
Fund balances, beginning of year	-	372,744	372,744
Fund balances, end of year	\$ -0-	\$ 279,921	\$ 279,921

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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

To the Board of Education  
Clinton County Regional  
Educational Service Agency  
St. Johns, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Clinton County Regional Educational Service Agency as of and for the year ended June 30, 2007, which collectively comprise the Clinton County Regional Educational Service Agency's basic financial statements and have issued our report thereon dated November 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 Clinton County Regional Educational Service Agency'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 Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a 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 Clinton County Regional Educational Service Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency'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 Clinton County Regional Educational Service Agency's internal control.

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

## Compliance and Other Matters

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

This report is intended solely for the information and use of the management, the Board of Education of Clinton County Regional Educational Service Agency, others within the Agency, the pass-through entities, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 8, 2007

**Clinton County Regional  
Educational Service Agency**

**SUPPLEMENTARY INFORMATION  
TO FINANCIAL STATEMENTS  
(FEDERAL AWARDS)**

**June 30, 2007**

Clinton County Regional Educational Service Agency

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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

To the Board of Education  
Clinton County Regional  
Educational Service Agency  
St. Johns, Michigan

**Compliance**

We have audited the compliance of Clinton County Regional Educational Service Agency with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that is applicable to each of its major Federal programs for the year ended June 30, 2007. Clinton County Regional Educational Service Agency'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 Clinton County Regional Educational Service Agency's management. Our responsibility is to express an opinion on Clinton County Regional Educational Service Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit 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 Clinton County Regional Educational Service Agency's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Clinton County Regional Educational Service Agency's compliance with those requirements.

As described in item 2006-1 in the accompanying schedule of findings and questioned costs, Clinton County Regional Educational Service Agency did not comply with requirements regarding subrecipient monitoring that are applicable to its Vocational Education Basic Grants to States program. Compliance with such requirements is necessary, in our opinion, for Clinton County Regional Educational Service Agency to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Clinton County Regional Educational Service Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2007.

**Internal Control Over Compliance**

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

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2006-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2006-1 to be a material weakness.

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

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clinton County Regional Educational Service Agency as of and for the year ended June 30, 2007, and have issued our report thereon dated November 8, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Clinton County Regional Educational Service Agency's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and management of Clinton County Regional Educational Service Agency, the pass-through grantors, and the Federal awarding agencies and is not intended to be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 8, 2007

Clinton County Regional Educational Service Agency  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>GENERAL FUND</u>			
U.S. Department of Education (Direct Program)			
2005-06 REAP	84.358	S358A052495	\$ 29,207
2006-07 REAP		S358A062495	<u>30,067</u>
			59,274
U.S. Department of Education Passed through State Department of Education and Central Michigan University			
Math and Science Partnership	84.366	052410-MSPF2004	187,067
Improving Teacher Quality	84.367	060290	11,640
Passed through State Department of Education			
I.E.P., Title V 2006-07	84.298	0702500607	96
Title IIA - Improving Teacher Quality 2006-07 Regional Allocation	84.367	0705200607	456
Freedom to Learn 2006-07	84.318	07042402-1	162,141
Corporation for National and Community Service Passed through Michigan Community Service Commission			
Learn & Serve	94.004	MCSC/SBLS/F-109/06	24,500
Learn & Serve		MCSC/SBLS/F-137/07	<u>24,500</u>
			49,000
Passed through Michigan Department of Labor and Economic Growth and Eaton Intermediate School District			
Learn & Serve	94.004	MCSC/ISDLS/F-12/06	40,532
Learn & Serve		MCSC/SBLS/F-139/07	<u>11,850</u>
			52,382

(Memo Only) Restated Prior Years' Expenditures	Balance July 1, 2006 Accrued or (Deferred) Revenue	Cash Receipts/ In Kind Payments	Expenditures	Balance June 30, 2007 Accrued or (Deferred) Revenue
\$ 16,579	\$ -	\$ 12,628	\$ 12,628	\$ -0-
-	-	23,516	25,148	1,632
16,579	-0-	36,144	37,776	1,632
146,019	47,812	81,925	34,113	-0-
400	400	6,640	10,701	4,461
-	-	-	96	96
-	-	448	456	8
-	-	126	1,852	1,726
17,562	8,990	15,928	6,938	-0-
-	-	7,470	18,098	10,628
17,562	8,990	23,398	25,036	10,628
17,984	8,460	31,007	22,547	-0-
-	-	3,287	11,197	7,910
17,984	8,460	34,294	33,744	7,910

Clinton County Regional Educational Service Agency

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>GENERAL FUND - CONTINUED</u>			
U.S. Department of Health and Human Services			
Passed through State Department of			
Community Health			
Special Projects of Regional and			
National Significance			
2005-06	93.110A	20060716	<u>\$ 11,120</u>
TOTAL GENERAL FUND EXPENDITURES OF FEDERAL AWARDS			533,176
<u>SPECIAL EDUCATION FUND</u>			
U.S. Department of Education			
Passed through State Department of Education			
Special Education 94-142 <sup>(d)(e)</sup>			
84.027			
Flow Through			
2006-07 Regular		0704500607	1,987,305
2005-06 Regular		0604500506	1,956,579
2004-05 Regular		0504500405	1,851,362
State Initiated			
2005-06 Competitive		060480EOSD	50,000
2006-07 Competitive		070480EOSD	50,000
2006-07 Department		070490TS	60,000
2005-06 Department		060490TS	60,000
Special Education IDEA			
2004-05 ISD		0504702D2C	30,000
2005-06 ISD		0604702D2	38,125
2005-06 ISD		0604701D2	1,010,000
2006-07 ISD		0707701D2	1,010,000
2006-07 ISD		0704702D2	<u>150,000</u>
			8,253,371
Special Education 94-142 <sup>(d)(e)</sup>			
Preschool Incentive			
2006-07 Regular	84.173	0704600607	77,373
2005-06 Regular		0604600506	<u>78,342</u>
			155,715

(Memo Only) Restated Prior Years' Expenditures	Balance July 1, 2006 Accrued or (Deferred) Revenue	Cash Receipts/ In Kind Payments	Expenditures	Balance June 30, 2007 Accrued or (Deferred) Revenue
\$ 7,310	\$ 2,335	\$ 6,145	\$ 3,810	\$ -0-
205,854	67,997	189,120	147,584	26,461
-	-	1,557,717	1,894,248	336,531
1,929,477	235,055	259,268	27,102	2,889
1,851,362	4,829	4,829	-	-0-
50,000	95	95	-	-0-
-	-	45,912	50,000	4,088
-	-	46,651	60,000	13,349
60,000	3,977	3,977	-	-0-
-	(13,322)	16,678	30,000	-0-
14,328	14,546	38,343	23,797	-0-
671,460	49,148	387,688	338,540	-0-
-	-	367,211	518,430	151,219
-	-	40,967	46,225	5,258
4,576,627	294,328	2,769,336	2,988,342	513,334
-	-	72,078	77,373	5,295
78,342	5,664	5,664	-	-0-
78,342	5,664	77,742	77,373	5,295

Clinton County Regional Educational Service Agency

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>SPECIAL EDUCATION FUND - CONTINUED</u>			
U.S. Department of Education			
Passed through State Department of Education - continued			
Special Education - Grants for Infants and Families with Disabilities			
2006-07 Competitive	84.181	071320290CSPDI	\$ 1,378,100
2005-06 Competitive		061320290CSPDI	1,396,493
2006-07 Formula		071340190	109,793
2005-06 Formula		061340190	<u>110,371</u>
			2,994,757
Passed through State Department of Education and Michigan's Assistive Technology Resource (MATR) <sup>(d)(e)</sup>			
2006-07	84.027	ASSTTECH	5,000
U.S. Department of Health and Human Services			
Passed through Michigan Department of Community Health			
Medicaid Title XIX			
School Based Services (Transportation) <sup>(b)</sup>	93.778	2978001	<u>2,346</u>
TOTAL SPECIAL EDUCATION FUND EXPENDITURES OF FEDERAL AWARDS			11,411,189
<u>VOCATIONAL EDUCATION FUND</u>			
U.S. Department of Education			
Passed through State Department of Education			
Vocational Education <sup>(d)</sup>			
2005-06 Regional Allocation	84.048	0635206012-14	794,460
2006-07 Regional Allocation		0735207012-14	<u>775,758</u>
			1,570,218
Passed through State Department of Education and Lansing Community College			
Vocational Education			
2006-07 Tech-Prep Education	84.243	7014-14	<u>23,084</u>
TOTAL VOCATIONAL EDUCATION FUND EXPENDITURES OF FEDERAL AWARDS			<u>1,593,302</u>
TOTAL FEDERAL AWARDS			<u>\$ 13,537,667</u>

(Memo Only) Restated Prior Years' Expenditures	Balance July 1, 2006 Accrued or (Deferred) Revenue	Cash Receipts/ In Kind Payments	Expenditures	Balance June 30, 2007 Accrued or (Deferred) Revenue
\$ -	\$ -	\$ 566,741	\$ 676,480	\$ 109,739
687,127	65,699	775,065	709,366	-0-
-	-	68,660	94,109	25,449
88,619	18,105	39,857	21,752	-0-
775,746	83,804	1,450,323	1,501,707	135,188
-	-	5,000	5,000	-0-
-	-	2,346	2,346	-0-
5,430,715	383,796	4,304,747	4,574,768	653,817
794,460	320,723	320,723	-	-0-
-	-	541,410	775,758	234,348
794,460	320,723	862,133	775,758	234,348
-	-	23,084	23,084	-0-
794,460	320,723	885,217	798,842	234,348
<u>\$ 6,431,029</u>	<u>\$ 772,516</u>	<u>\$ 5,379,084</u>	<u>\$ 5,521,194</u>	<u>\$ 914,626</u>
		(c)	(a)	

Clinton County Regional Educational Service Agency

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2007

**NOTE A: BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Agency and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

**NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE**

The following descriptions identified below as (a) - (e) represent explanations that cross reference to amounts and headings on the Schedule of Expenditures of Federal Awards.

- (a) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (b) The reimbursements for these programs are based on a fixed unit rate for each allowable service provided. Expenditures have been reported to the extent of earned revenues.
- (c) The amounts reported in this schedule as cash received are in agreement with the amounts in the Grants Section Auditor's Report.
- (d) Denotes programs tested as "major programs".
- (e) Denotes programs required to be clustered by the United States Department of Education.

**NOTE C: MEDICAID ADMINISTRATIVE OUTREACH**

The following summarizes the financial activity related to Medicaid Administrative Outreach funding that has been deferred in the Agency's financial statements:

Deferred revenue - July 1, 2006	\$ 97,451
Revenue deferred during the year	<u>31,993</u>
Deferred revenue - June 30, 2007	<u>\$ 129,444</u>

The amounts deferred are the result of possible repayments that may be made in the future resulting from the back casting process. The Agency will be evaluating past history related to these funds and a reasonable proration will be distributed to the local districts during the fiscal year ending June 30, 2007.

Clinton County Regional Educational Service Agency

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
PROVIDED TO SUBRECIPIENTS

Vocational Education Fund

Year Ended June 30, 2007

Program Title/ Subrecipient (School District)	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	(Memo Only) Prior Years' Expenditures
Vocational Education Regional Allocation 2006-07	84.048			
Eaton Intermediate School District		0735207012-14	\$ 109,304	\$ -
Ingham Intermediate School District		0735207012-14	207,205	-
Lansing School District		0735207012-14	365,460	-
			<u>\$ 681,969</u>	<u>\$ -0-</u>

<u>Balance July 1, 2006</u>	<u>Cash Transferred to Subrecipient</u>	<u>Subrecipient Expenditures</u>	<u>Balance June 30, 2007</u>
<u>Due From/(To) Subrecipient</u>			<u>Due From/(To) Subrecipient</u>
\$ -	\$ 109,304	\$ 109,304	\$ -0-
-	207,205	207,205	-0-
-	<u>365,460</u>	<u>365,460</u>	<u>-0-</u>
<u>\$ -0-</u>	<u>\$ 681,969</u>	<u>\$ 681,969</u>	<u>\$ -0-</u>

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
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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

To the Board of Education  
Clinton County Regional  
Educational Service Agency  
St. Johns, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clinton County Regional Educational Service Agency as of and for the year ended June 30, 2007, which collectively comprise Clinton County Regional Educational Service Agency's basic financial statements and have issued our report thereon dated November 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 *Governmental Auditing Standards*, issued by the Comptroller of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a 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 Clinton County Regional Educational Service Agency financial statements that is more than inconsequential will not be prevented or detected by the District'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 Clinton County Regional Educational Service Agency's internal control.

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

This report is intended solely for the information and use of the administration, the Board of Education of Clinton County Regional Educational Service Agency, others within the District, the pass-through entities, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 8, 2007

Clinton County Regional Educational Service Agency  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2007

**Section I - Summary of Auditor's Results**

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**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes   X   No

Significant deficiencies identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?   X   Yes \_\_\_\_\_ No

Significant deficiencies identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Type of auditor's report issued on compliance for major programs: Qualified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.181 84.048	Special Education Cluster Vocational Education Basic Grants

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

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes   X   No

**Section II - Financial Statement Findings**

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None.

**Section III - Federal Award Findings and Questioned Costs**

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**2006-1 Subrecipient Monitoring**

Perkins III Passed through the Michigan Department of Education - CFDA 84.048; Grant No. 0735207012-14; Grant period FY 2006-07.

Condition: During our review of the process related to subrecipient monitoring for the above noted grant it was determined that the Agency did not provide adequate follow-up monitoring at year-end (i.e., getting subrecipient audit reports, etc.). This issue was noted and reported in our prior year audit.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2007

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**Section III - Federal Award Findings and Questioned Costs - continued**

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**2006-1 Subrecipient Monitoring - continued**

Criteria: Subrecipient monitoring in accordance with OMB Circular A-133.

Questioned costs: None

Context: This finding was noted during inquiry procedures related to testing the major Federal programs.

Recommendation: We recommend the Agency implement formal written procedures related to subrecipient monitoring and then periodically perform the established monitoring procedures. These written procedures should include obtaining subrecipient audit reports and review of same to determine that passed through funds are reported properly and that there are no findings with regard to these funds. If discrepancies or findings are noted the Agency should follow up in a timely manner.

Corrective Action Response: Monitoring procedures have been developed, shared, and implemented with the participating districts for the 2007/08 fiscal year.

Clinton County Regional Educational Service Agency  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2007

**2006-1 Subrecipient Monitoring**

Perkins III Passed through the Michigan Department of Education - CFDA 84.048; Grant No. 0635206012-14; Grant period FY 2005-06.

In the prior year we found that the Agency had not provided adequate follow-up monitoring at year-end (i.e., getting subrecipient audit reports, etc.). During our testing of the grant for the current year we noted the same issue was present. Required monitoring had not been performed. This finding is not considered to be resolved.

There were no findings disclosed for the year ended June 30, 2005.