

**GODFREY-LEE
PUBLIC SCHOOLS
Kent County, Michigan**

Comprehensive Annual Financial Report

For the year ended June 30, 2007

GODFREY-LEE PUBLIC SCHOOLS
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For the year ended June 30, 2007

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Federal Financial Assistance Programs Supplemental Information Issued Under Separate Cover

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

October 15, 2007

The Board of Education
Godfrey-Lee Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Godfrey-Lee Public Schools (the "District") as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2007 on our consideration of Godfrey-Lee Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS



GODFREY-LEE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2007

As management of the Godfrey-Lee Public Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

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

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

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

District-wide Statements

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

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

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



GODFREY-LEE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2007

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

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

Condensed District-Wide Financial Information

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

	<u>2007</u>	<u>2006</u>
Assets		
Current assets	\$ 5,604,394	\$ 7,808,663
Net capital assets	<u>18,071,427</u>	<u>17,042,120</u>
Total Assets	<u>23,675,821</u>	<u>24,850,783</u>
Liabilities		
Current liabilities	2,061,797	2,085,512
Long-term liabilities	<u>17,495,003</u>	<u>18,057,766</u>
Total Liabilities	<u>19,556,800</u>	<u>20,143,278</u>
Net Assets		
Invested in capital assets, net of related debt	713,498	(886,984)
Restricted	123,139	2,077,063
Unrestricted	<u>3,282,384</u>	<u>3,517,426</u>
Total Net Assets	<u>\$ 4,119,021</u>	<u>\$ 4,707,505</u>

The results of the fiscal year's operations for the District as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.



GODFREY-LEE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2007

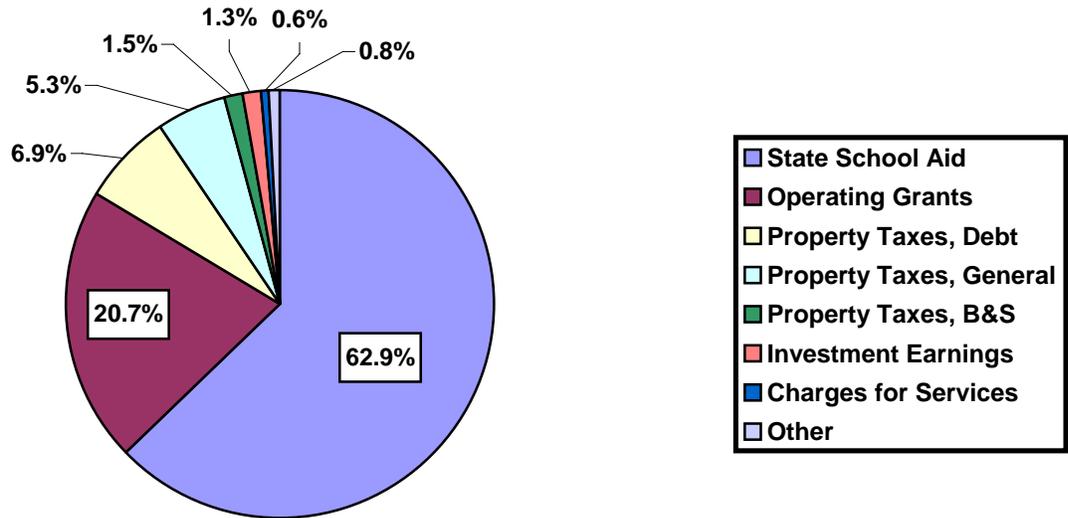
The Statement of Activities presents changes in net assets from operating results:

	<u>2007</u>	<u>2006</u>
Program Revenues		
Charges for services	\$ 109,946	\$ 142,719
Operating grants	3,650,889	3,548,577
General Revenues		
Property taxes	2,411,025	2,333,555
State school aid, unrestricted	11,115,027	10,827,567
Interest earnings	225,654	154,811
Gain on sale of capital assets		1,168
Other	145,481	84,169
Total Revenues	<u>17,658,022</u>	<u>17,092,566</u>
Expenses		
Instruction	10,667,639	9,911,858
Supporting services	5,747,777	5,013,503
Community services	23,351	64,041
Food service	610,207	605,802
Athletics	337,792	288,650
Other	71,753	62,056
Interest expense	787,987	711,666
Total Expenses	<u>18,246,506</u>	<u>16,657,576</u>
Increase (decrease) in net assets	(588,484)	434,990
Net Assets - Beginning of Year	<u>4,707,505</u>	<u>4,272,515</u>
Net Assets - End of Year	<u>\$ 4,119,021</u>	<u>\$ 4,707,505</u>

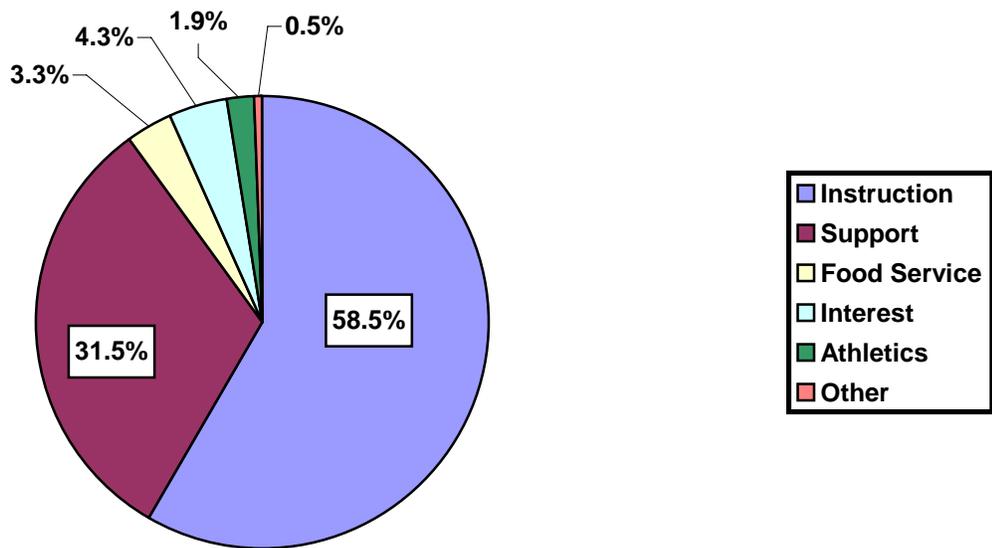


GODFREY-LEE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2007

Revenues by Source-All Funds



Expenses by Category-All Funds





GODFREY-LEE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2007

Financial Analysis of the District as a Whole

The District's financial position is the product of many factors. Growth during the year in grants, categorical funding and student count were significant contributors to revenue increases.

The District's total revenues increased by 3.3% to \$17.7 million. Unrestricted State Aid accounted for 62.9% of the revenues, while property taxes amounted to 13.65% of the revenues. Another 20.7% came from state and federal aid for specific programs and the remainder from miscellaneous sources.

The total cost of all programs and services rose 9.5% to \$18.2 million. The District's expenses are predominantly related to staff salaries and benefits which amount to 68.9% of the total. Health insurance costs increased by 7.8% and retirement costs paid to the State of Michigan increased by 15.1%. The other significant contributors to higher costs were salary (including step) increases, staff additions and supply needs for classrooms. Utility costs also continue to rise due to increased costs from the vendors, not necessarily increased usage.

Expenses surpassed revenues by \$588,484 on the Statement of Activities due mostly to instruction and supporting services expenditures increasing faster than the revenues received to support them (state aid and property taxes).

The recent good health of the District's finances can be attributed mostly to student count growth due to changes in neighborhood demographics. This demographic factor also contributes to an increase in free lunch counts, which help the District qualify for greater categorical assistance for at-risk students at all levels.

- Budgets for 2006-07 were created on no change in student fall count from the prior year which produced a 25/75 blend of 1,654.16 full-time equivalent students for budget purposes. Actual blended count for the year was 1,642.74, which brought a small reduction of \$13,872 in revenue over original budgeted amounts. The reduction was small due to an increase in the actual amount of the foundation grant over the original budgeted amount.
- Categoricals and other grants were budgeted at prior year amounts but most increased slightly from the previous year. The District staff worked very hard to identify as many free lunch qualifiers as possible which resulted in increases in some categoricals. Of particular note in this regard was an increase in Act 18 County Special Education Millage of \$40,704 and a decrease in Federal funds of \$47,506. Local revenue increased by \$192,243 mostly due to increases in interest income, reimbursement of wages for an employee working for the State and revenue from the consortium with Coca-Cola.
- The District received State and Federal Title monies to help with the education of its increasing number of ESL students totalling \$89,957.
- Collaboration with the surrounding districts continued to occur to help reduce expenditures in many areas. The six school districts in the southwest region of Kent County continued to work on ways to combine services where possible. All six districts joined the effort to transport technical center students together and to work on combined trips where possible in other areas. There are also collaborative efforts working to reduce costs on bus maintenance, storage and fuel related costs.



GODFREY-LEE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2007

- The District increased its utilization of the Universal Service Fund to get rebates on services related to voice and data communication. This now includes telephone service, cellular phone service and internet connectivity.
- The administration will work with other districts to continue this effort for 2007-08. It is also the intent of the District to improve on the use of the Universal Service Fund program with hopes to expand into the area of equipment rebates for data infrastructure.

Fund Financial Statements

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

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed, short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Godfrey-Lee Public School's funds are described as follows:

Major Funds

General Fund

The General Fund is the primary operating fund. The General Fund had total revenues of \$15,441,151, total expenditures of \$15,401,022, total other financing sources of \$7,638, and total other financing uses of \$261,698. It ended the fiscal year with a fund balance of \$3,226,708, down from \$3,440,639 as of June 30, 2006 for a decrease of \$213,931. This was primarily due to increases in categorical funding and grants and a late spring reduction in spending.



GODFREY-LEE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2007

Capital Projects Fund

The District operates one major Capital Projects Fund, the 2005 Construction Fund, which had total revenues of \$60,058 and total expenditures of \$1,888,732 resulting in a \$61,012 fund balance, to be used in the subsequent year for capital outlay.

Nonmajor Funds

Special Revenue Funds

The District operates two Special Revenue Funds, the Food Service and Athletic Funds. Total revenues and other financing sources (inter-fund transfers) of the Special Revenue Funds were \$885,034, with total expenditures of \$845,888. The ending fund balances were \$256,886 for Food Service and \$3,488 for Athletics.

Debt Service Funds

The District operates four Debt Service Funds. Total revenues were \$1,262,428, with total financing sources (loan proceeds) of \$30,656 and total expenditures of \$1,435,641. The ending fund balance in the Debt Service Funds was \$101,625.

Capital Projects Fund

The District operates one nonmajor Capital Project Fund, the Building and Site Sinking Fund which had total revenues of \$264,160 and total expenditures of \$274,666 resulting in a \$60,076 fund balance. This was due to planned expenditures on District facilities and classroom needs to accommodate increased numbers of students and program improvements.

General Fund Budgetary Highlights

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

- Changes made in the fall to account for the final student enrollment that determines how much foundation grant state school aid will be received during the fiscal year and other grant related revenue changes.
- Expenditure changes due to updated staffing from the June budget estimate, classroom expenditure needs, technology upgrades and others.

Although the District's final budget for the General Fund anticipated that expenditures would exceed revenues by \$465,394, the actual results for the year show a \$213,931 deficit.

- Actual revenues were \$18,400 less than expected due to a combination of Federal funds being carried over to the next school year or coming in less than expected and interest income earning more than expected.
- Actual expenditures were \$269,864 less than expected mainly due to unspent line items in specific budgets due to a spending freeze by the board in April.



GODFREY-LEE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2007

Capital Asset and Debt Administration

Capital Assets

By the end of 2007, the District had \$23,195,584 invested in a broad range of capital assets, including school buildings, athletic facilities, computer equipment and software, and administrative offices. (More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.)

The District's fiscal year 2007-08 budget projects spending another \$260,000 for capital projects principally in the areas of:

- Infrastructure repair and renovation
- Purchase and/or renovation of building(s)

At June 30, 2007, the District's investment in capital assets (net of accumulated depreciation) was \$18,071,427. Capital asset purchases totaled \$1,610,223 for the fiscal year with accumulated depreciation increasing \$580,916, leaving a net increase in the book value of capital assets of \$1,029,307.

Land	\$ 618,754
Land improvements	900,311
Buildings and additions	16,193,443
Furniture and equipment	180,831
Vehicles	83,726
Assets under capital leases	<u>94,362</u>
Net Capital Assets	<u><u>\$ 18,071,427</u></u>

Long-Term Debt

At year end, the District had \$18.3 million in general obligation bonds and other long-term debt outstanding.

- The District continued to pay down its debt from the 2003, 2005 and 2006 bond issues and capital lease agreements. The 1997 bond issue was paid off in May, 2007.
- The District borrowed \$30,656 from the State School Bond Loan Program to supplement local tax levies for bond debt service payments this year.

The District's bond rating for General Obligation, Unlimited Tax debt is "Aaa/Aa2". The District's other obligations include staff related retirement incentives, capital leases payable and school bond loan fund. There is more detailed information about long-term liabilities in the Notes to Basic Financial Statements.



GODFREY-LEE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2007

Factors Bearing on the District's Future

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

- The District's proximity between Grand Rapids and Wyoming makes it a totally market driven district which must have the breadth of program and updated infrastructure to compete in this age of choice in schools. The Fall 2007 pupil counts are indicating an increase in students for the 2007-2008 school year by approximately 50 students.
- The three year agreement with bargaining units will be expiring at the end of the 2007-2008 school year. The current contract provides fully paid health insurance utilizing MESSA Choices II PPO as the standard plan with the option to contribute to the cost of MESSA SuperCare I. Recent changes to laws regulating the bidding and procurement of health insurance may change the way insurance is provided to the bargaining units.
- The No Child Left Behind Legislation and its effect on districts with large minority populations will impact the ability to show adequate yearly progress and contribute to increased budgetary stress.
- The State of Michigan does not have a final budget prepared for the School Aid Fund therefore the district's budget for the 2007-2008 school year is still showing no foundation allowance increase. It is hopeful that the State's budget will be in place soon.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Godfrey-Lee Public Schools, 1324 Burton Street SW, Wyoming, MI, 49509. Contact by e-mail: rclaxton@godfrey-lee.k12.mi.us.

BASIC FINANCIAL STATEMENTS

GODFREY-LEE PUBLIC SCHOOLS
Statement of Net Assets
June 30, 2007

	Governmental Activities
Assets	
Current Assets	
Cash	\$ 475
Cash equivalents, deposits and investments (Note B)	2,351,785
Taxes receivable (Note C)	18,725
Accounts receivable	26,308
Due from other governmental units (Note C)	2,386,060
Accrued interest receivable	5,863
Inventory (Note A)	5,110
Prepaid expenses	810,068
Total Current Assets	5,604,394
Noncurrent Assets	
Capital assets (Note E)	23,195,584
Less accumulated depreciation	(5,124,157)
Total Noncurrent Assets	18,071,427
Total Assets	23,675,821
Liabilities	
Current Liabilities	
Accounts payable	119,828
Due to other governmental units	345,094
Accrued interest payable	109,480
Salaries payable	695,282
Deferred revenue	4,314
Current portion of long term obligations	787,799
Total Current Liabilities	2,061,797
Noncurrent Liabilities (Notes A, F)	
General obligation bonds payable	15,820,000
Durant non-plaintiff bonds payable	184,603
State school bond loan payable	2,016,482
Capital leases payable	80,137
Early retirement incentive	29,080
Accumulated sick leave	152,500
Current portion of long term obligations	(787,799)
Total Noncurrent Liabilities	17,495,003
Total Liabilities	19,556,800
Net Assets	
Invested in capital assets, net of related debt	713,498
Restricted for:	
Debt service	651
Capital projects	122,488
Unrestricted	3,282,384
Total Net Assets	\$ 4,119,021

See accompanying notes to basic financial statements.

GODFREY-LEE PUBLIC SCHOOLS
Statement of Activities
For the year ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 10,667,639	\$ 6,809	\$ 2,907,095	\$ (7,753,735)
Supporting services	5,747,777	-	214,610	(5,533,167)
Community services	23,351	-	-	(23,351)
Food service	610,207	80,453	529,184	(570)
Athletics	337,792	22,684	-	(315,108)
Other	71,753	-	-	(71,753)
Interest on long-term debt	787,987	-	-	(787,987)
Total Governmental Activities	\$ 18,246,506	\$ 109,946	\$ 3,650,889	(14,485,671)
General Revenues				
Taxes:				
				928,614
				1,224,019
				258,392
				11,115,027
				225,654
				145,481
				<u>13,897,187</u>
				(588,484)
				<u>4,707,505</u>
				<u>\$ 4,119,021</u>

See accompanying notes to basic financial statements.

GODFREY-LEE PUBLIC SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2007

	General	2005 Construction	Nonmajor	Total
Assets				
Cash	\$ 350	\$ -	125	\$ 475
Cash equivalents, deposits and investments (Note B)	1,925,453	58,180	368,152	2,351,785
Receivables:				
Taxes (Note C)	10,107	-	8,618	18,725
Accounts	26,308	-	-	26,308
Due from other funds (Note D)	-	4,781	7,500	12,281
Due from other governmental units (Note C)	2,316,178	-	69,882	2,386,060
Accrued interest receivable	5,863	-	-	5,863
Inventory (Note A)	-	-	5,110	5,110
Prepaid expenditures	66,775	-	-	66,775
Total Assets	\$ 4,351,034	\$ 62,961	\$ 459,387	\$ 4,873,382
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 59,203	\$ 1,949	\$ 26,739	\$ 87,891
Due to other funds (Note D)	12,281	-	-	12,281
Due to other governmental units	344,698	-	396	345,094
Salaries payable	693,723	-	1,559	695,282
Deferred revenue	14,421	-	8,618	23,039
Total Liabilities	1,124,326	1,949	37,312	1,163,587
Fund Balances				
Reserved for:				
Debt service	-	-	101,625	101,625
Capital outlay	-	61,012	60,076	121,088
Unreserved:				
Undesignated, reported in:				
General fund	3,226,708	-	-	3,226,708
Special revenue funds	-	-	260,374	260,374
Total Fund Balances	3,226,708	61,012	422,075	3,709,795
Total Liabilities and Fund Balances	\$ 4,351,034	\$ 62,961	\$ 459,387	\$ 4,873,382

See accompanying notes to basic financial statements.

GODFREY-LEE PUBLIC SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2007

Total governmental fund balances		\$ 3,709,795
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$23,195,584 and accumulated depreciation is \$5,124,157.		18,071,427
Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.		743,293
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
General obligation bonds	\$(15,820,000)	
Durant non-plaintiff bonds	(184,603)	
State school bond loan	(2,016,482)	
Capital leases	(80,137)	
Early retirement incentive	(29,080)	
Accumulated sick leave	<u>(152,500)</u>	(18,282,802)
Accrued interest is not included as a liability in governmental funds.		(109,480)
Accounts payable (long-term) are not included as a liability in governmental funds.		(31,937)
Deferred revenue recognized as revenue in the full accrual statements:		
Property taxes		<u>18,725</u>
Total net assets - governmental activities		<u><u>\$ 4,119,021</u></u>

See accompanying notes to basic financial statements.

GODFREY-LEE PUBLIC SCHOOLS
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2007

	General	2005 Construction	Nonmajor	Total
Revenues				
Local sources	\$ 1,204,419	\$ 60,058	\$ 1,643,495	\$2,907,972
State sources	12,298,551	-	45,135	12,343,686
Federal sources	758,492	-	484,049	1,242,541
Interdistrict sources	1,179,689	-	-	1,179,689
Total Revenues	15,441,151	60,058	2,172,679	17,673,888
Expenditures				
Current:				
Instruction	10,205,798	-	-	10,205,798
Supporting services	5,191,159	-	-	5,191,159
Community services	1,609	-	-	1,609
Food service	-	-	587,651	587,651
Athletics	-	-	258,237	258,237
Capital outlay	1,800	1,888,732	261,874	2,152,406
Debt service:				
Principal repayment	-	-	720,000	720,000
Interest and fiscal charges	-	-	715,641	715,641
Capital lease payments	-	-	12,792	12,792
Interdistrict	656	-	-	656
Total Expenditures	15,401,022	1,888,732	2,556,195	19,845,949
Excess (Deficiency) of Revenues Over Expenditures	40,129	(1,828,674)	(383,516)	(2,172,061)
Other Financing Sources (Uses)				
Loan/lease proceeds	7,638	-	30,656	38,294
Transfers in	-	-	238,943	238,943
Transfers out	(238,943)	-	-	(238,943)
Other	(22,755)	-	-	(22,755)
Total Other Financing Sources (Uses)	(254,060)	-	269,599	15,539
Net Change in Fund Balances	(213,931)	(1,828,674)	(113,917)	(2,156,522)
Fund Balances, Beginning of Year	3,440,639	1,889,686	535,992	5,866,317
Fund Balances, End of Year	\$ 3,226,708	\$ 61,012	\$ 422,075	\$ 3,709,795

See accompanying notes to basic financial statements.

GODFREY-LEE PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2007

Net change in fund balances - total governmental funds \$ (2,156,522)

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

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

	Capital outlays	\$ 1,610,223	
	Depreciation expense	<u>(580,916)</u>	1,029,307

As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. (15,866)

Net bond refunding costs are amortized over the life of the new bond issue on the Statement of Activities. (48,998)

Proceeds from the sale of bonds or loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets. (128,548)

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

Repayment of bonds	720,000	
Repayment of capital leases	<u>28,720</u>	748,720

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is paid. 17,908

Accounts payable (long-term) are not included as an expenditure in governmental funds 31,937

In the Statement of Net Assets, accumulated sick leave is measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned (\$88,709) exceeded the amounts used/paid (\$22,287). (66,422)

Total changes in net assets - governmental activities \$ (588,484)

See accompanying notes to basic financial statements.

GODFREY-LEE PUBLIC SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$ 1,042,925	\$ 1,194,293	\$ 1,204,419	\$ 10,126
State sources	12,213,031	12,265,553	12,298,551	32,998
Federal sources	829,274	807,865	758,492	(49,373)
Interdistrict sources	1,102,471	1,199,479	1,179,689	(19,790)
Total Revenues	15,187,701	15,467,190	15,441,151	(26,039)
Expenditures				
Current:				
Instruction:				
Basic programs	7,333,032	7,422,783	7,395,518	27,265
Added needs	2,549,112	2,698,116	2,634,801	63,315
Adult education	136,114	195,295	175,479	19,816
Supporting services:				
Pupil services	1,141,260	1,149,649	1,121,821	27,828
Instructional staff services	742,465	753,433	723,647	29,786
General administrative services	404,609	415,307	398,695	16,612
School administrative services	633,569	633,886	638,345	(4,459)
Business services	277,946	281,351	274,467	6,884
Operation and maintenance services	1,440,882	1,425,621	1,375,544	50,077
Pupil transportation services	281,562	351,207	338,338	12,869
Central services	335,965	340,327	320,302	20,025
Community services	5,300	3,250	1,609	1,641
Capital outlay	1,800	1,800	1,800	-
Interdistrict	-	700	656	44
Total Expenditures	15,283,616	15,672,725	15,401,022	271,703
Excess (Deficiency) Of Revenues Over Expenditures	(95,915)	(205,535)	40,129	245,664
Other Financing Sources (Uses)				
Loan proceeds	-	-	7,638	7,638
Transfers out	(233,448)	(237,103)	(238,943)	(1,840)
Other	-	(22,756)	(22,755)	1
Total Other Financing Sources (Uses)	(233,448)	(259,859)	(254,060)	5,799
Net Change in Fund Balances	(329,363)	(465,394)	(213,931)	251,463
Fund Balances, July 1	3,440,639	3,440,639	3,440,639	-
Fund Balances, June 30	\$ 3,111,276	\$ 2,975,245	\$ 3,226,708	\$ 251,463

See accompanying notes to basic financial statements.

GODFREY-LEE PUBLIC SCHOOLS
Fiduciary Fund
Statement of Fiduciary Assets and Liabilities
June 30, 2007

Assets

Cash equivalents, deposits and investments (Note B)	<u>\$ 27,558</u>
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Liabilities

Due to student groups	<u>\$ 27,558</u>
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See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

GODFREY-LEE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Note A – Summary of Significant Accounting Policies

Godfrey-Lee Public Schools was organized under the School Code of the State of Michigan and services a population of approximately 1,653 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Godfrey-Lee Public Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District’s accounting policies are described below.

1. Reporting Entity

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

2. District-Wide and Fund Financial Statements

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

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

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

GODFREY-LEE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund and 2005 Construction Capital Projects Fund are the District's major funds. Non-major funds are aggregated and presented in a single column.

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

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

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

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

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

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

Governmental Funds

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

GODFREY-LEE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

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

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

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

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

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

For capital project activities funded with sinking fund millage, the District has complied with the applicable provisions of Section 1212 (I) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Fiduciary Funds

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

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

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

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

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Godfrey-Lee Public Schools has also adopted budgets for its Special Revenue Funds. A school district's

GODFREY-LEE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

General Appropriations Resolution (the “budget”) must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Godfrey-Lee Public Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

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

5. Encumbrances

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

6. Investments

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

7. Inventory

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

GODFREY-LEE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

8. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

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

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

Land improvements	10-20 years
Buildings and improvements	40-50 years
Vehicles	5-10 years
Furniture and equipment	3-10 years

9. Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

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

10. Early Retirement Incentive/Accumulated Sick Leave

Early retirement incentive and accumulated sick leave at June 30, 2007 have been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2007, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for early retirement incentive and accumulated sick leave amounted to \$29,080 and \$152,500, respectively.

11. Fund Equity

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

GODFREY-LEE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

12. Interfund Activity

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

13. Estimates

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

Note B – Cash Equivalents, Deposits and Investments

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

- Bonds, 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.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

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

Cash equivalents, deposits and investments per the Statement of Net Assets:	
Governmental activities	\$2,351,785

GODFREY-LEE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Cash equivalents, deposits and investments of Fiduciary Funds:	
Agency Fund	\$ 27,558
	\$2,379,343

Cash Equivalents and Deposits

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

1. National City Bank
2. Mercantile Bank
3. Fifth Third Bank
4. Chase Bank
5. Lake Michigan Credit Union

Cash equivalents consist of bank and credit union public funds checking, savings and money market accounts. Deposits consist of certificates of deposit.

June 30, 2007 balances are detailed as follows:

Cash equivalents	\$ 386,615
Deposits	819,567
	\$ 1,206,182

Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation and the National Credit Union Association. At year end, the carrying amount of the District's cash equivalents and deposits was \$1,206,182 and the bank balance was \$1,341,316. Of the bank balance, \$321,953 was covered by federal depository and national credit union association insurance and \$1,019,363 was uninsured.

Investments

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

	Carrying Amount	Bank Balances
Bank Investment Pool/Sweep Accounts:		
National City Bank	\$ 1,082,885	\$ 1,409,000
Fifth Third Bank	32,096	32,096
Michigan Liquid Asset Fund Plus	58,180	69,388
	\$ 1,173,161	\$ 1,510,484

Custodial Credit Risk

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

Credit Risk

The District's investments in the bank investment pools were unrated.

GODFREY-LEE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Interest Rate Risk

The District's investment policy states "The purpose of the investments is to maximize the returns on the District's excess cash balances consistent with safety of those monies and with the desired liquidity of the investments." The District's investment policy also states that maturities do not exceed two (2) years from the date of purchase and that investment contracts are awarded using the District's bidding procedure.

Concentration of Credit Risk

The District's investment policy addresses concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by allowing up to one hundred percent of the available reserves to be invested in U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest.

Foreign Currency Risk

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

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2006 ad valorem State Education Taxes generated within the Godfrey Lee Public School District, and paid to the State of Michigan, totaled \$764,850.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2006 and September, 2006. The 2006-07 "Foundation Allowance" for Godfrey-Lee Public Schools was \$7,251 for 1,643 "Full Time Equivalent" students, generating \$12,293,389 in state aid payments to the District of which \$2,081,009 was paid to the District in July and August, 2007 and included as "Due From Other Governmental Units" at June 30, 2007.

Property taxes for the District are levied July 1 by the City of Wyoming. The taxes are then collected by the City and remitted to the District. The County of Kent, through its Delinquent Tax Revolving Fund, advances all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

Tax Year	General	Debt Service	Building And Site	Total
2006	\$ 668	\$ 721	\$ 138	\$ 1,527
2005	3,452	3,200	641	7,293
2004	5,987	3,297	621	9,905
	<u>\$ 10,107</u>	<u>\$ 7,218</u>	<u>\$ 1,400</u>	<u>\$ 18,725</u>

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

GODFREY-LEE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

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

As Godfrey-Lee Public Schools electors had previously approved an operating millage extension, the 18 mill non-homestead property tax was levied in the District for 2006.

The District levied 9.47 mills in 2006 for debt service purposes and 1.9976 mills for the building and site (sinking) fund, applied on all taxable property in the District.

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

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

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

Note D – Interfund Receivables/Payables and Transfers

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

	Due From	Due To
General Fund:		
Special Revenue Funds:		
Athletics Fund	\$ —	\$ 7,500
Capital Projects Funds:		
2005 Construction Fund	—	4,781
	—	12,281
Special Revenue Funds:		
Athletics Fund:		
General Fund	7,500	—
Capital Projects Funds:		
2005 Construction Fund:		
General Fund	4,781	—
	4,781	—
Total All Funds	\$ 12,281	\$ 12,281

The General Fund transferred \$238,943 to the Athletics Special Revenue Fund, as budgeted by the Board of Education, to support the District's athletic programs.

GODFREY-LEE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Note E – Capital Assets

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

	<u>Balances</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2007</u>
Capital assets not depreciated:				
Land	\$ 618,754	\$ —	\$ —	\$ 618,754
Construction in progress	1,179,512	—	1,179,512	—
Capital assets being depreciated:				
Land improvements	1,433,897	165,391	—	1,599,288
Buildings and additions	16,832,369	2,578,322	—	19,410,691
Furniture and equipment	1,050,398	46,022	—	1,096,420
Vehicles	268,727	—	—	268,727
Equipment under capital leases	201,704	—	—	201,704
	<u>21,585,361</u>	<u>\$ 2,789,735</u>	<u>\$ 1,179,512</u>	<u>23,195,584</u>
Totals at historical cost				
Less accumulated depreciation for:				
Land improvements	\$ 619,796	\$ 79,181	\$ —	\$ 698,977
Buildings and additions	2,809,454	407,795	—	3,217,249
Furniture and equipment	863,704	51,885	—	915,589
Vehicles	165,482	19,519	—	185,001
Assets under capital leases	84,805	22,536	—	107,341
	<u>4,543,241</u>	<u>\$ 580,916</u>	<u>\$ —</u>	<u>5,124,157</u>
Total accumulated depreciation				
Net Capital Assets	<u>\$ 17,042,120</u>			<u>\$ 18,071,427</u>

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	\$ 398,772
Supporting services	58,303
Community services	21,730
Food service	22,556
Athletics	79,555
	<u>\$ 580,916</u>

GODFREY-LEE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Note F – Long-term Debt

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

	Bond Issues	State School Bond Loan	Capital Leases	Early Retirement/ Incentive Accumulated Sick Leave	Total
Amounts Available For Retirement Of Long-Term Debt					
Debt Service Funds	\$ 101,625	\$ —	\$ —	\$ —	\$ 101,625
Amounts To Be Provided For Retirement Of Long-Term Debt					
State of Michigan	184,603	—	—	—	184,603
General Fund	—	—	80,137	181,580	261,717
Debt Service Funds	15,718,375	2,016,482	—	—	17,734,857
Total Amounts Available And To Be Provided	\$ 16,004,603	\$ 2,016,482	\$ 80,137	\$ 181,580	\$ 18,282,802

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

	Debt Outstanding July 1, 2006	Debt Added	Debt Retired	Debt Outstanding June 30, 2007
General obligation bonds:				
June 12, 1997	\$ 400,000	\$ —	\$ 400,000	\$ —
March 26, 2003	1,310,000	—	195,000	1,115,000
March 10, 2005	11,505,000	—	60,000	11,445,000
February 1, 2006	3,325,000	—	65,000	3,260,000
Durant non-plaintiff bonds:				
November 13, 1998	184,603	—	—	184,603
State school bond loan	1,895,572	120,910	—	2,016,482
Capital leases	101,219	7,638	28,720	80,137
Early retirement incentive	26,480	7,600	5,000	29,080
Accumulated sick leave	88,678	81,109	17,287	152,500
	\$ 18,836,552	\$ 217,257	\$ 771,007	\$ 18,282,802

GODFREY-LEE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Long-term bonds, notes and capital leases outstanding at June 30, 2007 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
\$1,860M Building and Site March 26, 2003: Principal maturities from \$175M to \$195M	May 1, 2013	2.00 – 3.35	\$ 1,115,000	\$ 190,000
\$11,505M General Obligation Refunding March 10, 2005: Principal maturities from \$485M to \$590M	May 1, 2027	3.25 – 5.00	11,445,000	485,000
\$3,325M Building and Site February 1, 2006: Principal maturities from \$65M to \$1,035M	May 1, 2030	3.50 - 4.25	3,260,000	65,000
Durant Non-plaintiff Bonds				
\$312,641 School Improvement November 13, 1998: Principal maturities from \$17,400 to \$107,150	May 15, 2013	4.761353	184,603	—
Capital leases				
\$55,400 Equipment August 4, 2005	Aug. 12, 2009	7.75	33,117	10,226
\$49,863 Equipment August 4, 2005	July 4, 2009	9.00	28,503	12,924
\$12,442 Equipment August 5, 2005	July 4, 2009	7.80	7,413	3,202
\$8,756 Equipment January 6, 2006	Dec. 6, 2009	9.70	6,250	2,132
\$7,608 Equipment July 5, 2006	July 5, 2008	9.25	4,854	2,315
			<u>\$ 16,084,740</u>	<u>\$ 770,799</u>

The District is required to obtain loans from the Michigan School Bond Loan Fund (the “Fund”) for the payment of the annual maturities of its general obligation bonds. There is no fixed maturity schedule for the repayment of these loans. Instead, the principal and interest are payable when taxes levied for debt service are no longer needed to retire bonded debt. During the year the District borrowed \$30,656 from the Fund and \$90,254 of accrued interest was added to the District’s liability to the Fund. At June 30, 2007, the District owed the Fund a total of \$2,016,482.

The annual requirements to pay principal and interest on long-term bonds, note and capital leases outstanding are as follows:

Year Ended June 30	Principal	Interest	Total
2008	\$ 770,799	\$ 654,091	\$ 1,424,890
2009	821,233	632,826	1,454,059
2010	912,655	640,578	1,553,233
2011	829,095	574,037	1,403,132
2012	845,003	544,062	1,389,065
2013	865,955	511,860	1,377,815
2014	690,000	478,649	1,168,649
2015	705,000	445,726	1,150,726
2016	705,000	412,275	1,117,275
2017	710,000	384,076	1,094,076

GODFREY-LEE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Year Ended June 30	Principal	Interest	Total
2018	\$ 715,000	\$ 355,675	\$ 1,070,675
2019	730,000	326,198	1,056,198
2020	740,000	296,260	1,036,260
2021	745,000	265,185	1,010,185
2022	765,000	233,173	998,173
2023	770,000	200,211	970,211
2024	770,000	166,463	936,463
2025	780,000	132,714	912,714
2026	780,000	98,564	878,564
2027	790,000	63,199	853,199
2028	215,000	27,412	242,412
2029	215,000	18,275	233,275
2030	215,000	9,138	224,138
	<u>\$16,084,740</u>	<u>\$ 7,470,647</u>	<u>\$23,555,387</u>

Note G – Retirement Plan

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll for employees covered by MPERS for the year ended June 30, 2007 was \$8,492,856. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPERS plan. The contribution rate was 16.34% for the fiscal year ending September 30, 2006 and 17.74% for the fiscal year beginning October 1, 2006. The District's contributions to the plan for the fiscal years ended June 30, 2007, 2006 and 2005 were \$1,495,517, \$1,311,727 and \$1,137,379, respectively.

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

The MPERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2005 (the latest reporting date available expressed as \$ in millions) for the MPERS as a whole, determined through an actuarial valuation performed as of that date, was \$48,206. The MPERS' net assets available for benefits on that date were \$38,211 leaving an unfunded

GODFREY-LEE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

pension benefit obligation of \$9,995. Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2006 Annual Report of the MPSERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

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

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

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above.

Note H – Risk Management and Benefits

The District is a member of the West Michigan Risk Management Trust, a self-insurance program with districts pooling together to insure property, liability and auto exposure. Premiums from members of the Trust are determined through standard underwriting procedures. The members of the Trust have contributed amounts sufficient to fund individual and aggregate losses up to \$175,000 and \$650,000, respectively, on an annual basis. Excess insurance has been purchased to cover claims exceeding those amounts. A \$1,000 per occurrence deductible for property losses is maintained. The District paid \$43,597 in premiums to the Trust for the year ended June 30, 2007.

The District is also a member of the West Michigan Workers' Compensation Fund, a self-insurance program with districts pooling together to insure workers' compensation and employers' liability exposures. The Fund pays the first \$300,000 of any workers' compensation or employers' liability loss out of a \$800,000 loss fund collected from members. Excess insurance has been purchased to cover claims exceeding those amounts. As of June 30, 2007, there were no material pending claims against the District. The District paid \$55,086 in premiums to the Fund for the year ended June 30, 2007.

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

SUPPLEMENTAL INFORMATION

GENERAL FUND

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

GODFREY-LEE PUBLIC SCHOOLS
General Fund
Comparative Balance Sheet
June 30, 2007 and 2006

Assets	2007	2006
Cash	\$ 350	\$ 350
Cash equivalents, deposits and investments	1,925,453	1,940,187
Receivables:		
Taxes	10,107	20,576
Accounts	26,308	22,152
Due from other governmental units	2,316,178	2,414,438
Accrued interest receivable	5,863	4,890
Prepaid expenditures	66,775	-
	\$ 4,351,034	\$ 4,402,593
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 59,203	\$ 16,670
Due to other funds	12,281	-
Due to other governmental units	344,698	267,754
Salaries payable	693,723	642,661
Deferred revenue	14,421	34,869
	1,124,326	961,954
Fund Balances		
Unreserved:		
Undesignated	3,226,708	3,440,639
	\$ 4,351,034	\$ 4,402,593

GODFREY-LEE PUBLIC SCHOOLS
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2007 and 2006

	2007	2006
Local sources:		
Property taxes:		
Current property taxes	\$ 922,133	\$ 897,619
Delinquent property taxes	4,571	656
Other taxes	986	-
Interest on delinquent taxes	11,393	9,268
	<u>939,083</u>	<u>907,543</u>
Interest earnings:		
Interest on deposits and investments	113,046	84,836
Other local revenue:		
Tuition	6,809	9,025
Child care fees	-	13,704
Universal service credit	24,895	21,552
Wyoming foundation	-	1,500
Rental of school facilities	2,400	2,447
Donations	12,976	25,248
Sale of school property	-	1,284
Refunds of expenditures	53,206	145
Miscellaneous	52,004	33,277
	<u>152,290</u>	<u>108,182</u>
Total local sources	1,204,419	1,100,561
State sources:		
State aid	12,267,265	11,847,967
School improvement	-	1,958
Special education - itinerants	31,286	44,974
	<u>12,298,551</u>	<u>11,894,899</u>
Federal sources:		
Title I	291,489	302,100
Title IIA	83,369	81,715
Title IID	786	6,810
Title III	54,356	78,875
Title V	3,699	6,123
Adult basic education	31,500	32,000
I.D.E.A. program	288,718	292,764
Homeland security	-	7,989
State plan self review	-	712
Drug free schools	3,252	4,616
Medicaid - school based	1,323	5,590
Literacy grant	-	1,200
	<u>758,492</u>	<u>820,494</u>
Total federal sources	758,492	820,494
Interdistrict sources:		
Special education - county	910,395	868,628
Special education - transportation	183,324	121,145
Vocational education	24,829	-
Durant settlement reimbursements	6,471	6,471
Medicaid fee for service	54,670	133,903
	<u>1,179,689</u>	<u>1,130,147</u>
Total interdistrict sources	1,179,689	1,130,147
Total Revenues	<u><u>\$ 15,441,151</u></u>	<u><u>\$ 14,946,101</u></u>

GODFREY-LEE PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries	\$ 1,961,019	\$ 1,848,448
Employee benefits	970,584	862,900
Purchased services	89,327	28,152
Supplies	114,255	99,220
Capital outlay	3,060	56,025
Miscellaneous	29	1,151
	<u>3,138,274</u>	<u>2,895,896</u>
Middle school:		
Salaries	1,044,114	989,827
Employee benefits	452,885	443,439
Purchased services	28,112	8,337
Supplies	25,058	32,187
Capital outlay	5,579	25,205
Miscellaneous	-	1,105
	<u>1,555,748</u>	<u>1,500,100</u>
High school:		
Salaries	1,436,448	1,320,257
Employee benefits	767,330	671,011
Purchased services	62,875	36,250
Supplies	87,879	123,822
Capital outlay	17,612	30,593
Miscellaneous	603	1,245
	<u>2,372,747</u>	<u>2,183,178</u>
Preschool:		
Salaries	197,576	196,104
Employee benefits	93,175	88,033
Purchased services	29,154	4,189
Supplies	5,141	7,931
Capital outlay	2,663	-
Miscellaneous	1,040	750
	<u>328,749</u>	<u>297,007</u>
Total basic programs	<u>7,395,518</u>	<u>6,876,181</u>
Added needs:		
Special education:		
Salaries	765,657	734,034
Employee benefits	347,987	329,566
Purchased services	26,121	19,203
Supplies	7,728	7,223
Capital outlay	388	3,120
Payments to other districts	333,577	-
	<u>1,481,458</u>	<u>1,093,146</u>
Compensatory education:		
Salaries	924,762	792,759
Employee benefits	197,114	163,254
Purchased services	8,649	1,988

(Continued)

GODFREY-LEE PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Compensatory education: (Continued)		
Supplies	\$ 9,317	\$ 17,799
Capital outlay	2,320	4,632
Miscellaneous	885	672
	<u>1,143,047</u>	<u>981,104</u>
Vocational education:		
Salaries	\$ 1,398	\$ 854
Employee benefits	356	204
Purchased services	338	346
Supplies	7,166	8,476
Capital outlay	1,038	2,888
	<u>10,296</u>	<u>12,768</u>
Total added needs	2,634,801	2,087,018
Adult education services:		
Basic:		
Salaries	104,418	93,500
Employee benefits	59,417	45,729
Purchased services	5,343	4,413
Supplies	3,608	1,920
Capital outlay	810	5,607
Miscellaneous	1,883	1,275
Total adult education services	<u>175,479</u>	<u>152,444</u>
Supporting services:		
Pupil services:		
Attendance services:		
Salaries	75,660	41,282
Employee benefits	36,954	18,436
	<u>112,614</u>	<u>59,718</u>
Guidance services:		
Salaries	226,105	190,985
Employee benefits	125,272	97,967
Supplies	4,114	1,049
Capital outlay	-	1,231
	<u>355,491</u>	<u>291,232</u>
Health services:		
Purchased services	37,488	30,888
Supplies	297	208
Payments to other districts	16,421	-
	<u>54,206</u>	<u>31,096</u>
Psychological services:		
Purchased services	105	-
Supplies	1,293	907
Payments to other districts	65,141	-
	<u>66,539</u>	<u>907</u>
Speech pathology services:		
Salaries	318	-
Employee benefits	76	-

(Continued)

GODFREY-LEE PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Speech pathology services: (Continued)		
Purchased services	\$ 236	\$ 202
Supplies	1,136	710
Payments to other districts	197,448	-
	<u>199,214</u>	<u>912</u>
Social worker services:		
Purchased services	129	151
Supplies	393	406
Payments to other districts	81,914	-
	<u>82,436</u>	<u>557</u>
Teacher consultant services:		
Supplies	95	-
Payments to other districts	111,885	-
	<u>111,980</u>	<u>-</u>
Other pupil services:		
Salaries	97,911	110,909
Employee benefits	28,359	27,561
Purchased services	13,071	13,232
	<u>139,341</u>	<u>151,702</u>
Total pupil services	1,121,821	536,124
Instructional staff services:		
Improvement of instruction:		
Salaries	64,022	62,420
Employee benefits	31,921	28,070
Purchased services	16,291	26,729
Supplies	110,675	57,128
Capital outlay	-	7,588
Miscellaneous	1,886	420
	<u>224,795</u>	<u>182,355</u>
Educational media services:		
Salaries	70,939	72,323
Employee benefits	33,200	32,844
Supplies	7,961	9,557
Miscellaneous	540	-
	<u>112,640</u>	<u>114,724</u>
Educational television:		
Supplies	965	240
Capital outlay	274	997
Miscellaneous	2,334	2,145
	<u>3,573</u>	<u>3,382</u>
Supervision and direction of instruction:		
Salaries	251,467	242,843
Employee benefits	111,980	107,162
Purchased services	4,112	3,448
Supplies	1,781	2,044
Capital outlay	215	1,500
Miscellaneous	304	158
	<u>369,859</u>	<u>357,155</u>

(Continued)

GODFREY-LEE PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Shared time services:		
Salaries	\$ 10,000	\$ 11,917
Employee benefits	2,478	994
Purchased services	-	800
Supplies	212	428
Miscellaneous	90	-
	<u>12,780</u>	<u>14,139</u>
Total instructional staff services	723,647	671,755
General administrative services:		
Board of education:		
Salaries	3,380	5,655
Employee benefits	460	492
Purchased services	51,533	54,490
Supplies	-	1,979
Miscellaneous	11,544	9,677
	<u>66,917</u>	<u>72,293</u>
Executive administration:		
Salaries	166,267	150,374
Employee benefits	68,704	62,606
Purchased services	90,511	85,525
Supplies	2,330	1,920
Capital outlay	1,102	1,030
Miscellaneous	2,864	2,612
	<u>331,778</u>	<u>304,067</u>
Total general administrative services	398,695	376,360
School administrative services:		
Office of the principal:		
Salaries	387,381	418,898
Employee benefits	199,203	201,697
Purchased services	42,279	19,137
Supplies	6,066	7,051
Capital outlay	1,697	2,157
Miscellaneous	1,719	1,899
	<u>638,345</u>	<u>650,839</u>
Total school administrative services	638,345	650,839
Business services:		
Fiscal services:		
Salaries	145,514	177,904
Employee benefits	75,060	83,151
Purchased services	22,261	9,336
Supplies	4,504	4,721
Capital outlay	3,907	901
Miscellaneous	436	263
	<u>251,682</u>	<u>276,276</u>

(Continued)

GODFREY-LEE PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Other business services:		
Purchased services	\$ 13,162	\$ 13,464
Miscellaneous	9,623	5,532
	<u>22,785</u>	<u>18,996</u>
Total business services	274,467	295,272
Operation and maintenance services:		
Operation and maintenance:		
Salaries	497,334	500,871
Employee benefits	282,438	264,904
Purchased services	261,882	246,355
Supplies	317,569	338,966
Capital outlay	14,356	6,486
Miscellaneous	1,965	2,350
	<u>1,375,544</u>	<u>1,359,932</u>
Homeland security grant:		
Capital outlay	-	7,989
	<u>1,375,544</u>	<u>1,367,921</u>
Pupil transportation services:		
Pupil transportation:		
Salaries	45,688	46,142
Employee benefits	28,891	26,440
Purchased services	32,268	50,037
Supplies	6,764	8,307
Miscellaneous	227	714
Payments to other districts	224,500	-
	<u>338,338</u>	<u>131,640</u>
Total pupil transportation services	338,338	131,640
Central services:		
Staff/personnel services:		
Salaries	2,800	-
Employee benefits	721	-
	<u>3,521</u>	<u>-</u>
Technology services:		
Salaries	96,636	102,294
Employee benefits	57,013	48,268
Purchased services	93,122	90,266
Supplies	16,490	24,643
Capital outlay	39,448	36,905
Miscellaneous	72	180
	<u>302,781</u>	<u>302,556</u>
Other central services:		
Employee benefits	14,000	11,505
	<u>320,302</u>	<u>314,061</u>
Total central services	320,302	314,061
Community services:		
Community activities:		
Supplies	334	588

(Continued)

GODFREY-LEE PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Custody and care of children:		
Salaries	\$ -	\$ 27,242
Employee benefits	-	7,666
Purchased services	-	607
Supplies	-	6,068
Miscellaneous	-	45
	<u>-</u>	<u>41,628</u>
Driver education:		
Supplies	1,275	2,850
Total community services	<u>1,609</u>	<u>45,066</u>
Facilities acquisition:		
Capital outlay	1,800	-
Interdistrict:		
Special education - tuition	-	249,587
Special education - transportation	-	215,112
Special education - itinerant services	-	434,527
Special education services	656	-
Total interdistrict	<u>656</u>	<u>899,226</u>
Total Expenditures	<u><u>\$ 15,401,022</u></u>	<u><u>\$ 14,403,907</u></u>

NONMAJOR FUNDS

GODFREY-LEE PUBLIC SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2007

	Special Revenue	
Assets	Food Service	Athletics
Cash	\$ 125	\$ -
Cash equivalents, deposits and investments	197,292	208
Taxes receivable	-	-
Due from other funds	-	7,500
Due from other governmental units	69,882	-
Inventory	5,110	-
	<u>\$ 272,409</u>	<u>\$ 7,708</u>
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 15,523	\$ 2,265
Due to other governmental units	-	396
Salaries payable	-	1,559
Deferred revenue	-	-
	<u>15,523</u>	<u>4,220</u>
Fund Balances		
Reserved for debt service	-	-
Reserved for capital outlay	-	-
Unreserved:		
Undesignated	256,886	3,488
	<u>256,886</u>	<u>3,488</u>
Total Fund Balances	<u>256,886</u>	<u>3,488</u>
Total Liabilities and Fund Balances	<u>\$ 272,409</u>	<u>\$ 7,708</u>

Debt Service				Capital Projects Building and Site	Total
1997	2003	2005-A	2005-B		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 125
24,067	30,733	31,315	15,510	69,027	368,152
3,906	1,355	1,814	143	1,400	8,618
-	-	-	-	-	7,500
-	-	-	-	-	69,882
-	-	-	-	-	5,110
<u>\$ 27,973</u>	<u>\$ 32,088</u>	<u>\$ 33,129</u>	<u>\$ 15,653</u>	<u>\$ 70,427</u>	<u>\$ 459,387</u>
\$ -	\$ -	\$ -	\$ -	\$ 8,951	\$ 26,739
-	-	-	-	-	396
-	-	-	-	-	1,559
3,906	1,355	1,814	143	1,400	8,618
<u>3,906</u>	<u>1,355</u>	<u>1,814</u>	<u>143</u>	<u>10,351</u>	<u>37,312</u>
24,067	30,733	31,315	15,510	-	101,625
-	-	-	-	60,076	60,076
-	-	-	-	-	260,374
<u>24,067</u>	<u>30,733</u>	<u>31,315</u>	<u>15,510</u>	<u>60,076</u>	<u>422,075</u>
<u>\$ 27,973</u>	<u>\$ 32,088</u>	<u>\$ 33,129</u>	<u>\$ 15,653</u>	<u>\$ 70,427</u>	<u>\$ 459,387</u>

GODFREY-LEE PUBLIC SCHOOLS
Combining Schedule of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2007

	Special Revenue	
	Food Service	Athletics
Revenues		
Local sources:		
Property taxes	\$ -	\$ -
Interest earnings	13,770	-
Sales and admissions	80,453	22,684
Total local sources	94,223	22,684
State sources	45,135	-
Federal sources	484,049	-
Total Revenues	623,407	22,684
Expenditures		
Current:		
Food service	587,651	-
Athletics	-	258,237
Capital outlay	-	-
Debt service:		
Principal repayment	-	-
Interest and fiscal charges	-	-
Total Expenditures	587,651	258,237
Excess (Deficiency) of Revenues Over Expenditures	35,756	(235,553)
Other Financing Sources		
Loan proceeds	-	-
Transfers in	-	238,943
Total Other Financing Sources	-	238,943
Net Change in Fund Balances	35,756	3,390
Fund Balances, July 1	221,130	98
Fund Balances, June 30	\$ 256,886	\$ 3,488

Debt Service				Capital Projects Building and Site	Total
1997	2003	2005-A	2005-B		
\$ 351,123	\$ 210,079	\$ 442,176	\$ 225,254	\$ 259,176	\$ 1,487,808
11,405	9,495	9,316	3,580	4,984	52,550
-	-	-	-	-	103,137
362,528	219,574	451,492	228,834	264,160	1,643,495
-	-	-	-	-	45,135
-	-	-	-	-	484,049
362,528	219,574	451,492	228,834	264,160	2,172,679
-	-	-	-	-	587,651
-	-	-	-	-	258,237
-	-	-	-	261,874	261,874
400,000	195,000	60,000	65,000	12,792	732,792
26,903	37,678	486,064	164,996	-	715,641
426,903	232,678	546,064	229,996	274,666	2,556,195
(64,375)	(13,104)	(94,572)	(1,162)	(10,506)	(383,516)
7,456	-	14,204	8,996	-	30,656
-	-	-	-	-	238,943
7,456	-	14,204	8,996	-	269,599
(56,919)	(13,104)	(80,368)	7,834	(10,506)	(113,917)
80,986	43,837	111,683	7,676	70,582	535,992
\$ 24,067	\$ 30,733	\$ 31,315	\$ 15,510	\$ 60,076	\$ 422,075

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

	Budget	Actual	Variance - Positive (Negative)
Revenues			
Local sources	\$ 109,718	\$ 94,223	\$ (15,495)
State sources	43,050	45,135	2,085
Federal sources	454,747	484,049	29,302
Total Revenues	<u>607,515</u>	<u>623,407</u>	<u>15,892</u>
Expenditures			
Current:			
Food service	611,851	587,651	24,200
Net Change in Fund Balances	(4,336)	35,756	40,092
Fund Balances, July 1	<u>221,130</u>	<u>221,130</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 216,794</u></u>	<u><u>\$ 256,886</u></u>	<u><u>\$ 40,092</u></u>

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

	Budget	Actual	Variance - Positive (Negative)
Revenues			
Local sources	\$ 22,650	\$ 22,684	\$ 34
Expenditures			
Current:			
Athletics	259,753	258,237	1,516
Excess (Deficiency) of Revenues Over Expenditures	(237,103)	(235,553)	1,550
Other Financing Sources			
Transfers in	237,103	238,943	1,840
Net Change in Fund Balances	-	3,390	3,390
Fund Balances, July 1	98	98	-
Fund Balances, June 30	\$ 98	\$ 3,488	\$ 3,390

SPECIAL REVENUE FUNDS

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

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

GODFREY-LEE PUBLIC SCHOOLS
Food Service Special Revenue Fund
Comparative Balance Sheet
June 30, 2007 and 2006

	2007	2006
Assets		
Cash	\$ 125	\$ -
Cash equivalents, deposits and investments	197,292	213,544
Due from other governmental units	69,882	15,182
Inventory	5,110	7,581
Total Assets	\$ 272,409	\$ 236,307
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 15,523	\$ 15,177
Fund Balances		
Unreserved:		
Undesignated	256,886	221,130
Total Liabilities and Fund Balances	\$ 272,409	\$ 236,307

GODFREY-LEE PUBLIC SCHOOLS
Food Service Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2007 and 2006

	2007	2006
Revenues		
Local sources:		
Interest earnings:		
Interest on deposits and investments	\$ 13,770	\$ 7,538
Sales and admissions:		
Children's lunches	51,206	40,264
Adult lunches	2,184	5,297
Milk	40	510
Ala carte	23,679	50,626
Banquets	2,849	3,892
Other	495	361
	80,453	100,950
Total local sources	94,223	108,488
State sources	45,135	42,340
Federal sources	484,049	469,553
	623,407	620,381
Total Revenues		
Expenditures		
Current:		
Food service:		
Salaries	14,000	11,000
Employee benefits	4,045	2,778
Purchased services	247,792	245,701
Supplies	280,926	294,795
Capital outlay	18,982	3,502
Miscellaneous	21,906	27,487
	587,651	585,263
Total Expenditures		
Net Change in Fund Balances	35,756	35,118
Fund Balances, July 1	221,130	186,012
Fund Balances, June 30	\$ 256,886	\$ 221,130

GODFREY-LEE PUBLIC SCHOOLS
Athletics Special Revenue Fund
Comparative Balance Sheet
June 30, 2007 and 2006

	2007	2006
Assets		
Cash equivalents, deposits and investments	\$ 208	\$ 237
Due from other funds	7,500	-
	\$ 7,708	\$ 237
Total Assets		
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 2,265	\$ 139
Due to other governmental units	396	-
Salaries payable	1,559	-
	4,220	139
Total Liabilities		
Fund Balances		
Unreserved:		
Undesignated	3,488	98
	\$ 7,708	\$ 237
Total Liabilities and Fund Balances		

GODFREY-LEE PUBLIC SCHOOLS
Athletics Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2007 and 2006

	2007	2006
Revenues		
Local sources:		
Sales and admissions:		
Gate receipts	\$ 19,546	\$ 19,040
Rental of school facilities	2,500	-
Donations	250	-
Other revenue	388	-
	22,684	19,040
Total Revenues		
Expenditures		
Current:		
Athletics:		
Salaries	127,090	135,723
Employee benefits	33,176	36,513
Purchased services	62,116	25,054
Supplies	952	853
Capital outlay	25,004	16,548
Miscellaneous	9,899	5,230
	258,237	219,921
Total Expenditures		
Excess (Deficiency) of Revenues Over Expenditures	(235,553)	(200,881)
Other Financing Sources		
Transfers in	238,943	200,971
	3,390	90
Net Change in Fund Balances		
Fund Balances, July 1	98	8
Fund Balances, June 30	\$ 3,488	\$ 98

DEBT SERVICE FUNDS

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

GODFREY-LEE PUBLIC SCHOOLS
Debt Service Funds
Combining Balance Sheet
June 30, 2007

	<u>1997</u>	<u>2003</u>	<u>2005-A</u>	<u>2005-B</u>
Assets				
Cash equivalents, deposits and investments	\$ 24,067	\$ 30,733	\$ 31,315	\$ 15,510
Taxes receivables	3,906	1,355	1,814	143
Total Assets	<u>\$ 27,973</u>	<u>\$ 32,088</u>	<u>\$ 33,129</u>	<u>\$ 15,653</u>
Liabilities and Fund Balances				
Liabilities				
Deferred revenue	\$ 3,906	\$ 1,355	\$ 1,814	\$ 143
Fund Balances				
Reserved for debt service	24,067	30,733	31,315	15,510
Total Liabilities and Fund Balances	<u>\$ 27,973</u>	<u>\$ 32,088</u>	<u>\$ 33,129</u>	<u>\$ 15,653</u>

Totals	
2007	2006
\$ 101,625	\$ 244,182
7,218	11,831
<u>\$ 108,843</u>	<u>\$ 256,013</u>
<u>\$ 7,218</u>	<u>\$ 11,831</u>
<u>101,625</u>	<u>244,182</u>
<u>\$ 108,843</u>	<u>\$ 256,013</u>

GODFREY-LEE PUBLIC SCHOOLS
Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2007

	<u>1997</u>	<u>2003</u>	<u>2005-A</u>	<u>2005-B</u>
Revenues				
Local sources:				
Property taxes:				
Current property taxes	\$ 344,185	\$ 205,987	\$ 433,428	\$ 220,735
Industrial facilities taxes	2,068	1,238	2,605	1,327
Delinquent property taxes	352	151	454	-
Other taxes	1,482	887	1,866	1,244
Interest on delinquent taxes	3,036	1,816	3,823	1,948
	<u>351,123</u>	<u>210,079</u>	<u>442,176</u>	<u>225,254</u>
Interest earnings:				
Interest on deposits and investments	11,405	9,495	9,316	3,580
State sources:				
State school aid	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>362,528</u>	<u>219,574</u>	<u>451,492</u>	<u>228,834</u>
Expenditures				
Debt service:				
Principal repayment	400,000	195,000	60,000	65,000
Interest and fiscal charges:				
Interest expense	26,000	37,253	485,724	164,740
Paying agent fees	300	250	241	240
Tax refunds	603	175	99	16
Bond issuance costs	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>426,903</u>	<u>232,678</u>	<u>546,064</u>	<u>229,996</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(64,375)</u>	<u>(13,104)</u>	<u>(94,572)</u>	<u>(1,162)</u>
Other Financing Sources				
Loan proceeds	7,456	-	14,204	8,996
	<u>7,456</u>	<u>-</u>	<u>14,204</u>	<u>8,996</u>
Net Change in Fund Balances	<u>(56,919)</u>	<u>(13,104)</u>	<u>(80,368)</u>	<u>7,834</u>
Fund Balances, July 1	<u>80,986</u>	<u>43,837</u>	<u>111,683</u>	<u>7,676</u>
Fund Balances, June 30	<u>\$ 24,067</u>	<u>\$ 30,733</u>	<u>\$ 31,315</u>	<u>\$ 15,510</u>

Totals	
2007	2006
\$ 1,204,335	\$ 1,155,572
7,238	3,987
957	4,029
5,479	4,676
10,623	8,671
<u>1,228,632</u>	<u>1,176,935</u>
33,796	39,620
-	21,955
<u>1,262,428</u>	<u>1,238,510</u>
720,000	575,133
713,717	608,803
1,031	1,257
893	1,054
-	780
<u>1,435,641</u>	<u>1,187,027</u>
<u>(173,213)</u>	<u>51,483</u>
<u>30,656</u>	<u>-</u>
(142,557)	51,483
<u>244,182</u>	<u>192,699</u>
<u>\$ 101,625</u>	<u>\$ 244,182</u>

CAPITAL PROJECTS FUNDS

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

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

GODFREY-LEE PUBLIC SCHOOLS
Building and Site Capital Projects Fund
Comparative Balance Sheet
June 30, 2007 and 2006

	2007	2006
Assets		
Cash equivalents, deposits and investments	\$ 69,027	\$ 77,672
Taxes receivable	1,400	2,184
Total Assets	\$ 70,427	\$ 79,856
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 8,951	\$ 7,090
Deferred revenue	1,400	2,184
Total Assets	10,351	9,274
Fund Balances		
Reserved for capital outlay	60,076	70,582
Total Liabilities and Fund Balances	\$ 70,427	\$ 79,856

GODFREY-LEE PUBLIC SCHOOLS
Building and Site Capital Projects Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2007 and 2006

	2007	2006
Revenues		
Local sources:		
Property taxes:		
Current property taxes	\$ 254,077	\$ 243,847
Industrial facilities taxes	1,527	1,616
Delinquent property taxes	237	117
Other property taxes	1,094	986
Interest on delinquent taxes	2,241	1,702
Total property taxes	259,176	248,268
Interest earnings:		
Interest on deposits and investments	4,984	2,985
Total Revenues	264,160	251,253
Expenditures		
Facilities acquisition:		
Building improvements	261,364	308,013
Tax refunds	180	205
Miscellaneous	330	626
	261,874	308,844
Debt service:		
Capital lease payments	12,792	12,792
Total Expenditures	274,666	321,636
Excess (Deficiency) of Revenues Over Expenditures	(10,506)	(70,383)
Other Financing Sources		
Loan proceeds	-	55,400
Net Change in Fund Balances	(10,506)	(14,983)
Fund Balances, July 1	70,582	85,565
Fund Balances, June 30	\$ 60,076	\$ 70,582

GODFREY-LEE PUBLIC SCHOOLS
2005 Construction Capital Projects Fund
Comparative Balance Sheet
June 30, 2007 and 2006

	2007	2006
Assets		
Cash equivalents, deposits and investments	\$ 58,180	\$ 2,041,367
Due from other funds	4,781	-
Total Assets	\$ 62,961	\$ 2,041,367
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 1,949	\$ 151,681
Fund Balances		
Reserved for capital outlay	61,012	1,889,686
Total Liabilities and Fund Balances	\$ 62,961	\$ 2,041,367

GODFREY-LEE PUBLIC SCHOOLS
2005 Construction Capital Projects Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues		
Local sources:		
Interest earnings:		
Interest on deposits and investments	\$ 60,058	\$ 19,833
Expenditures		
Capital outlay:		
Buildings and additions	1,553,857	1,223,948
New equipment and furniture	334,578	91,793
School bus purchases	-	60,236
Bond issuance costs	297	37,965
Underwriter's discount	-	35,482
Miscellaneous	-	5,723
Total Expenditures	<u>1,888,732</u>	<u>1,455,147</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,828,674)</u>	<u>(1,435,314)</u>
Other Financing Sources		
Bonds issued	<u>-</u>	<u>3,325,000</u>
Net Change in Fund Balances	(1,828,674)	1,889,686
Fund Balances, July 1	<u>1,889,686</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 61,012</u></u>	<u><u>\$ 1,889,686</u></u>

AGENCY FUND

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

GODFREY-LEE PUBLIC SCHOOLS
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2007

	<u>Balances</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2007</u>
Assets				
Cash equivalents, deposits and investments	<u>\$ 25,681</u>	<u>\$ 124,141</u>	<u>\$ 122,264</u>	<u>\$ 27,558</u>
Liabilities				
Due to student groups	<u>\$ 25,681</u>	<u>\$ 124,141</u>	<u>\$ 122,264</u>	<u>\$ 27,558</u>

OTHER INFORMATION

GODFREY-LEE PUBLIC SCHOOLS
Summary of 2006 Taxes Levied and Collected
For the year ended June 30, 2007

	City of Wyoming
Taxable Valuations	
Operating	\$ 51,266,813
Debt Service/Building and Site	127,475,056
Rates (Mills)	
General Fund	18.0000
1997 Debt Service Fund	2.7000
2003 Debt Service Fund	1.6200
2005-A Debt Service Fund	3.4100
2005-B Debt Service Fund	1.7400
Building and Site Fund	1.9976
	29.4676
Taxes Levied 2006 Rolls	
General Fund	\$ 922,801
1997 Debt Service Fund	344,372
2003 Debt Service Fund	206,098
2005-A Debt Service Fund	433,708
2005-B Debt Service Fund	220,878
Building and Site Fund	254,215
	2,382,072
Taxes Uncollected 2006 Rolls	
General Fund	668
1997 Debt Service Fund	187
2003 Debt Service Fund	111
2005-A Debt Service Fund	280
2005-B Debt Service Fund	143
Building and Site Fund	138
	1,527
Taxes Collected 2006 Rolls	
General Fund	922,133
1997 Debt Service Fund	344,185
2003 Debt Service Fund	205,987
2005-A Debt Service Fund	433,428
2005-B Debt Service Fund	220,735
Building and Site Fund	254,077
	2,380,545
Delinquent Taxes Collected	
General Fund	4,571
1997 Debt Service Fund	352
2003 Debt Service Fund	151
2005-A Debt Service Fund	454
2005-B Debt Service Fund	-
Building and Site Fund	237
	5,765

(Continued)

GODFREY-LEE PUBLIC SCHOOLS
Summary of 2006 Taxes Levied and Collected
For the year ended June 30, 2007

	City of Wyoming
Total Taxes Collected	
General Fund	\$ 926,704
1997 Debt Service Fund	344,537
2003 Debt Service Fund	206,138
2005-A Debt Service Fund	433,882
2005-B Debt Service Fund	220,735
Building and Site Fund	254,314
	\$ 2,386,310
Taxes Uncollected – June 30, 2007	
General Fund:	
2006	\$ 668
2005	3,452
2004	5,987
	10,107
1997 Debt Service Fund:	
2006	187
2005	1,104
2004	2,615
	3,906
2003 Debt Service Fund:	
2006	111
2005	562
2004	682
	1,355
2005-A Debt Service Fund:	
2006	280
2005	1,534
	1,814
2005-B Debt Service Fund:	
2006	143
Building and Site Fund:	
2006	138
2005	641
2004	621
	1,400
Total Taxes Uncollected	\$ 18,725

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

CPAs AND CONSULTANTS

October 15, 2007

The Board of Education
Godfrey-Lee Public Schools
Kent County, Michigan

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

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

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

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

Auditors Responsibility Under U.S. Generally Accepted Auditing Standards

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

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

As part of obtaining reasonable assurance about whether Godfrey-Lee Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Godfrey-Lee Public School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Godfrey-Lee Public School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Godfrey-Lee Public School's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Godfrey-Lee Public Schools are described in Note A to the financial statements.

Difficulties Encountered In Performing the Audit

We encountered no significant difficulties in performing the audit of the financial statement of Godfrey-Lee Public Schools for the year ended June 30, 2007.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. During the course of our audit no adjustments of a significant nature were made to the accounting records of the District:

Proposed Audit Adjustments

There were no material adjustments proposed during the audit not recorded by Godfrey-Lee Public Schools.

Suggestions and Recommendations

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

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

- The District should encourage and support the continuing education of business office personnel in the area of financial statement preparation and reporting in compliance with the ever-changing requirements of Generally Accepted Accounting Principles (GAAP) and the Governmental Accounting Standards Board (GASB). The AICPA has identified this as a key area in an auditor’s evaluation of a governmental unit’s internal control system.
- The District should continue to upgrade the *documentation* of it’s operations and internal controls as well as implement and extend it’s *monitoring* procedures over financial transactions, both within and outside the business office. These are two of the most important areas of internal control as identified by the AICPA in SAS No. 112.
- Segregation of duties is also an underlying principle of good internal controls. The largest expenditure in all school districts is the payroll paid to it’s employees, which is normally carried out by one person in the business office. Increased cross-training, job-sharing, and the ongoing monitoring of the payroll operation by other members of the business office are important steps that should be taken to insure the integrity of the system.

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

Other Comments

The General Fund balance of the District decreased by \$213,931 to \$3,226,708 at June 30, 2007. This balance represents 21.11 percent of the District's 2007-08 expenditure budget. Maintaining a fund balance of at least 20 percent of the ensuing year's expenditure budget is advisable for Godfrey-Lee Public Schools. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

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

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

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

Certified Public Accountants