

**KENOWA HILLS
PUBLIC SCHOOLS**
Kent and Ottawa Counties, Michigan

Comprehensive Annual Financial Report

For the year ended June 30, 2007

KENOWA HILLS PUBLIC SCHOOLS
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For the year ended June 30, 2007

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FINANCIAL SECTION

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

INDEPENDENT AUDITOR'S REPORT

November 12, 2007

The Board of Education
Kenowa Hills Public Schools

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Kenowa Hills 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, the major fund and the aggregate remaining fund information of Kenowa Hills 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 November 12, 2007 on our consideration of Kenowa Hills 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 Kenowa Hills 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, Alderson, Nichols & Kenton, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS



As management of the Kenowa Hills 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, economic factors that might influence state aid revenue, and the condition of school buildings and other facilities.



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	\$ 10,015,766	\$ 8,444,042
Capital assets, net book value	29,784,915	29,876,993
Total Assets	38,800,681	38,321,035
Liabilities		
Current liabilities	5,592,449	5,674,872
Long-term liabilities	31,682,956	33,305,998
Total Liabilities	37,275,405	38,980,870
Net Assets		
Invested in capital assets, net of related debt	(3,909,097)	(4,744,334)
Restricted	431,183	250,187
Unrestricted	5,003,190	3,834,312
Total Net Assets	\$ 1,525,276	\$ (659,835)



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

	<u>2007</u>	<u>2006</u>
Program Revenues		
Charges for services	\$ 1,216,761	\$ 1,174,781
Operating grants	4,867,782	4,547,851
General Revenues		
Property taxes	14,367,178	13,780,942
State school aid, unrestricted	15,756,397	15,366,527
Interest earnings	486,052	317,713
Gain on sale of capital assets	5,975	2,559
Other	405,309	388,733
Total Revenues	<u>37,105,454</u>	<u>35,579,106</u>
Expenses		
Instruction	18,848,003	17,583,107
Supporting services	12,235,496	11,809,862
Community services	363,248	318,810
Food service	1,409,632	1,283,105
Athletics	439,491	428,106
Other	—	16,819
Interest expense	1,624,473	1,851,819
Total Expenses	<u>34,920,343</u>	<u>33,291,628</u>
Increase in net assets	2,185,111	2,287,478
Net Assets - Beginning of Year	<u>(659,835)</u>	<u>(2,947,313)</u>
Net Assets - End of Year	<u><u>\$ 1,525,276</u></u>	<u><u>\$ (659,835)</u></u>

Financial Analysis of the District as a Whole

The District’s financial position is the product of many factors. Growth during the year in taxes and operating grants were the largest contributors to revenue increases. Expenditures have resumed an upward trend this year after two consecutive years of decline. The previous decline in expenditures was due to \$2.9 million of budget reductions instituted by the school board in recent years.

The Districts’s total revenues increased four percent to \$37.1 million. Property taxes and unrestricted state aid accounted for most of the District’s revenue, contributing 81 cents of every dollar raised. Another 13.1 percent came from state and federal aid for specific programs and the remainder from fees charged for services, interest earnings and miscellaneous sources.

Management's Discussion and Analysis
June 30, 2007

The total cost of all programs and services increased five percent to \$34.9 million. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (67 percent). The District's administrative and business activities accounted for 10 percent of total costs. Operation and maintenance expenses accounted for \$3.1 million or 9 percent.

Total revenues surpassed expenses, increasing net assets by \$2,185,111 from last year.

The improved status of the District's finances this past year can be attributed to maintaining strategies aimed at reducing or restraining increases in operating costs. Cost reduction strategies continue to be applied in the school district's largest fund, the General Fund. Attributes of the District's current financial picture are as follows:

- Rising real estate values led to a 4.3 percent increase in property tax revenues. The District has not raised property tax rates since 1996 when a bond issue was last approved.
- The cost of all governmental activities this year was \$34.9 million.
- Some of the cost was financed by the users of the District's programs (\$1.2 million).
- The federal and state governments subsidized certain programs with grants and contributions (\$4.86 million) an increase of \$320,000 over the previous year.
- Most of the District's costs (\$31 million), however, were financed by District and State taxpayers.
- The \$34.9 million of governmental activities was financed with \$14.4 million in property taxes and \$15.8 million of unrestricted state aid based on the statewide education aid formula. Other financing sources were investment earnings and revenues from other local sources totaling \$.9 million.

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 you 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 at the bottom of the governmental funds statements explains the relationship (or differences) between them.
- *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship Funds and Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it 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. Kenowa Hills Public School's funds are described as follows:

Major Fund

General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of \$31,935,471, total expenditures of \$30,321,782, and total other financing uses of \$309,760. It ended the fiscal year with a fund balance of \$5,779,911, an increase of \$1,303,929 from the fund balance of \$4,475,982 at June 30, 2006. The increase in fund balance of the General Fund was due mostly to underexpenditures of expenditure budgets totaling more \$816,967 in the 2006-07 fiscal year and year end State Aid that exceeded final budget estimates by \$251,726.

Nonmajor Funds

Special Revenue Funds

The District operates two Special Revenue Funds, for the food service and athletic programs. Total revenues were \$1,497,925 and other financing sources were \$309,760, with total expenditures of \$1,822,736. The ending fund balance of \$113,543 was attributable to the Food Service Fund.

Debt Service Funds

The District maintains one Debt Service Fund. Total revenues were \$3,734,259 and total expenditures were \$3,552,239. The ending fund balance in the Debt Service Fund was \$668,756.

Fiduciary Funds

The District has Scholarship Funds and a Student Activities Fund. The assets of these funds are being held for the benefit of the District's students. Balances on hand at June 30, 2007 totaled \$165,747.

General Fund Budgetary Highlights

Over the course of the year, the District revised its initial annual operating budget two times. These budget revisions included three important changes:

- Changes made to account for the final student enrollment that determines how much foundation grant per pupil or State school aid will be received during the fiscal year.
- Final changes made in late May and approved in mid-June to more closely reflect anticipated revenues.
- Final changes made in late May and approved in mid-June for increases in various appropriations to prevent budget overruns.

Although the District's final budget for the General Fund anticipated that revenues would exceed expenditures by \$235,056 the ending result was an excess of revenues of \$1,303,929.



- Actual revenues were \$251,726 higher than expected, due in part to reimbursements from Kent Intermediate School District at year-end for Transportation and Medicaid Fee for Service that exceeded final budget projections by \$74,190 and \$77,180 respectively. State aid was higher than anticipated due to a year end credit of \$484,058 from the Michigan Public School Employees Pension System that became known after final budget adjustments for fiscal 2006-07 were completed.
- Actual expenditures and transfers were \$798,940 below budget, due primarily to unspent budget appropriations from a variety of departments within the school district’s fiscal 2006-07 budget. Classroom supply budgets were underspent by \$127,804. Grants for instructional staff services budget were underspent by \$100,433. Operations and maintenance budgets were underspent by \$129,406. Please note that upsent budgets for certain departments are carried over to fiscal 2007-08 budget year for availability and use by those departments.

Capital Asset and Debt Administration

Capital Assets

By the end of 2006-07, the District had invested \$44.8 million in a broad range of capital assets, including land, school buildings, athletic facilities, vehicles, computer equipment and software, and administrative offices. This amount represents a net decrease of less than one percent from last year. (More detailed information about capital assets can be found in the Notes to Basic Financial Statements.) Total depreciation expense for the year was \$1.13 million while building improvements and additions to equipment and furniture amounted to approximately \$35,000.

The District’s fiscal year 2007-08 capital budget calls for spending on capital projects in the following areas:

- \$50,000 to update software that controls enviromental systems at the Middle School.
- \$23,500 for interior and exterior remodeling at various school buildings.
- \$10,000 for parking lot pavement repairs at various school buildings.
- \$10,000 for furniture replacement at various school buildings.
- \$248,000 to replace instructional hardware (computers), network switches, servers, printers and data projectors at various school buildings.

At June 30, 2007, the District’s investment in capital assets (net of accumulated depreciation), including land, land improvements, buildings, vehicles, furniture and equipment, was \$28.8 million. This represents a decrease of approximately \$1.1 million from the previous year-end.

Land	\$ 1,108,000
Land improvements	569,511
Buildings and additions	25,912,245
Furniture and equipment	295,555
Vehicles	<u>899,604</u>
Net Capital Assets	<u><u>\$ 28,784,915</u></u>



Long-Term Debt

At year end, the District had \$33.4 million in general obligation bonds and other long-term debt outstanding – a net reduction of \$1.86 million from last year. The District continued to pay down its debt, retiring \$1.915 million of outstanding bonds and \$217,000 of employee retirement payments.

The District's bond rating (Standard & Poors) for General Obligation, Unlimited Tax debt remains "AAA". This rating is a carryover of the State of Michigan's bond rating since the general obligation bonds issued by the school district were qualified by the State at the time of issuance.

The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within a district's boundaries. The District's other long term obligations include early retirement incentive and accumulated sick leave. We present more detailed information about our long-term liabilities in the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

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

- Major changes impacting State tax policies were approved by the State Legislature in recent months. Taxes such as the Single Business Tax have been eliminated and replaced with the Michigan Business Tax. Also, a new 6% service tax was recently approved by the legislature and was scheduled to go into effect on December 1, 2007. The new service tax has since been repealed by the legislature and discussions are now underway to find a replacement tax. The State income tax rate was recently increased from 3.9% to 4.35%. Another recent change in State tax law was the exemption of personal property held by commercial and industrial taxpayers from school taxes. State Treasury officials have made estimates of how these new tax policies will impact collections across the State. Most of the aforementioned taxes impact schools either directly or indirectly as well as the economic climate in the State. Once the first fiscal year for the State of Michigan is completed under these new tax policies, their impact on school funding and the State economy will become more clear.
- Negotiated contract settlements were reached with teacher and support staff unions representing 350 employees which will cover the 2006-07 and 2007-08 fiscal years. The agreement with the teacher's union continues to include a salary provision which will impact the 2008-09 and 2009-10 fiscal years. That provision will require that teacher salary steps increase by 1.5 times rather than the traditional 1.0 rate of increase in 2008-09 and 2009-10. The estimated cost of the additional salary step increase for the two years is \$400,000.
- Cost increases exceeding the general rate of inflation continue to be expected for the district relative to health care and for pension contribution obligations in 2008-09 and beyond. These costs represent a significant portion of the District's budget and their rate of increase continues to be a concern to management. Recent surges in prices of energy commodities such as diesel, gasoline and to a lesser extent natural gas are also a concern. Recent prices for some of these commodities are approaching record levels on an inflation adjusted basis.



- The State of Michigan continues in an economic slump that has been in place for the past six (6) years. State school aid funding and tax collections that help to subsidize the State school aid fund for K-12 schools are sensitive to the rate of economic growth in Michigan. Weak economic performance in Michigan generally means little or no growth in the State foundation grant (State school aid) to K-12 schools. At this time, a State aid increase of \$88 per student (about 1.2%) is anticipated for fiscal 2007-08. Given the persistent weakness of the state economy along with an almost across the board weakening of real estate values in Michigan, District management is cautious about the outlook for further increases in per pupil funding in the future and the State's ability to fund them. Growth in property tax assessments may be noticeably less than historical rates of increase or even decline in the future years, leading to less or even reduced property tax collections by the State and local school districts.
- The District's fund balance in its primary operating fund, the General Fund, increased by \$1,458,100 during the 2006-07 fiscal year to \$5,779,911. The continued uptrend in fund balance is viewed as a positive financial development and should help to maintain the stability of school programming during the 2007-08 school year and 2008-09 school years.
- Budget reductions totaling \$1.6 million were implemented at the start of the 2005-06 fiscal year to maintain or improve the financial position of the school district's General Fund. Earlier reductions in fiscal 2004-05 totaled more than \$1.3 million. These recent year budget reductions totaling a combined \$2.9 million remain mostly in place today in the District. Both management and the Board of Education are committed to the goals of maintaining the financial stability of the school district and to maintaining a solid core of instructional programming and opportunities for all students. While the financial strength of the District has been improved significantly by these budget reductions, there are still reasons to be cautious about the District's financial outlook, due to its heavy dependency on State funding. Changes in State tax policy, the State's economic difficulties and the difficult environment for real estate values described earlier in this discussion and analysis section will be monitored closely by management.

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 Robert Zeitter, Assistant Superintendent, Kenowa Hills Public Schools, 2325 Four Mile Road, N.W., Grand Rapids, MI 49544. Contact by e-mail: rzeitler@khps.org.

BASIC FINANCIAL STATEMENTS

KENOWA HILLS PUBLIC SCHOOLS
Statement of Net Assets
June 30, 2007

	Governmental Activities
Assets	
Current Assets	
Cash	\$ 1,050
Cash equivalents, deposits and investments (Note B)	5,926,457
Receivables:	
Taxes (Note C)	86,535
Accounts	1,254
Due from other governmental units (Note C)	3,401,678
Inventory (Note A)	80,829
Prepaid expenses	517,963
Total Current Assets	10,015,766
Noncurrent Assets	
Capital assets (Note E)	44,756,237
Less accumulated depreciation	(15,971,322)
Total Noncurrent Assets	28,784,915
Total Assets	38,800,681
Liabilities	
Current Liabilities	
Accounts payable	498,186
Due to other governmental units	758,430
Accrued interest payable	255,427
Salaries payable	1,597,774
Deferred revenue	512,632
Current portion of long term obligations	1,970,000
Total Current Liabilities	5,592,449
Noncurrent Liabilities (Notes A, F)	
General obligation bonds payable	32,460,000
Early retirement incentive	522,961
Accumulated sick leave	435,984
Unamortized bond premium	234,011
Current portion of long term obligations	(1,970,000)
Total Noncurrent Liabilities	31,682,956
Total Liabilities	37,275,405
Net Assets	
Invested in capital assets, net of related debt	(3,909,097)
Restricted for:	
Debt service	431,183
Unrestricted	5,003,190
Total Net Assets	\$ 1,525,276

See accompanying notes to basic financial statements.

KENOWA HILLS 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	\$ 18,848,003	\$ 69,514	\$ 3,763,809	\$(15,014,680)
Supporting services	12,235,496	90,399	510,292	(11,634,805)
Community services	363,248	162,920	-	(200,328)
Food service	1,409,632	765,980	593,681	(49,971)
Athletics	439,491	127,948	-	(311,543)
Interest expense	1,624,473	-	-	(1,624,473)
Total Governmental Activities	\$ 34,920,343	\$ 1,216,761	\$ 4,867,782	(28,835,800)
General Revenues				
Taxes:				
				10,748,147
				3,619,031
				15,756,397
				486,052
				5,975
				405,309
				<u>31,020,911</u>
				2,185,111
				<u>(659,835)</u>
				<u>\$ 1,525,276</u>

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2007

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Assets			
Cash	\$ 400	\$ 650	\$ 1,050
Cash equivalents, deposits and investments (Note B)	5,149,089	777,368	5,926,457
Receivables:			
Taxes (Note C)	68,681	17,854	86,535
Accounts	1,254	-	1,254
Due from other funds (Note D)	10,715	-	10,715
Due from other governmental units (Note C)	3,378,550	23,128	3,401,678
Inventory (Note A)	61,563	19,266	80,829
Prepaid expenditures	517,963	-	517,963
	<u>517,963</u>	<u>-</u>	<u>517,963</u>
Total Assets	<u>\$ 9,188,215</u>	<u>\$ 838,266</u>	<u>\$ 10,026,481</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 495,186	\$ -	\$ 495,186
Due to other funds (Note D)	3,000	10,715	13,715
Due to other governmental units	748,994	9,436	758,430
Salaries payable	1,597,774	-	1,597,774
Deferred revenue	563,350	35,816	599,166
	<u>563,350</u>	<u>35,816</u>	<u>599,166</u>
Total Liabilities	<u>3,408,304</u>	<u>55,967</u>	<u>3,464,271</u>
Fund Balances			
Reserved for:			
Debt service	-	668,756	668,756
Unreserved:			
Undesignated, reported in:			
General fund	5,779,911	-	5,779,911
Special revenue funds	-	113,543	113,543
	<u>5,779,911</u>	<u>113,543</u>	<u>5,893,454</u>
Total Fund Balances	<u>5,779,911</u>	<u>782,299</u>	<u>6,562,210</u>
Total Liabilities and Fund Balances	<u>\$ 9,188,215</u>	<u>\$ 838,266</u>	<u>\$ 10,026,481</u>

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2007

Total governmental fund balances		\$ 6,562,210
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 \$44,756,237 and accumulated depreciation is \$15,971,322.		28,784,915
Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.		(234,011)
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	\$(32,460,000)	
Early retirement incentive	(522,961)	
Accumulated sick leave	(435,984)	(33,418,945)
Accrued interest is not included as a liability in governmental funds.		(255,427)
Deferred revenue recognized as revenue in the full accrual statements:		
Property taxes		86,534
Total net assets - governmental activities		\$ 1,525,276

See accompanying notes to basic financial statements.

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

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Revenues			
Local sources	\$ 11,904,973	\$ 4,638,503	\$ 16,543,476
State sources	16,487,766	81,749	16,569,515
Federal sources	1,084,446	511,932	1,596,378
Interdistrict sources	2,458,286	-	2,458,286
Total Revenues	<u>31,935,471</u>	<u>5,232,184</u>	<u>37,167,655</u>
Expenditures			
Current:			
Instruction	17,907,749	-	17,907,749
Supporting services	12,059,804	-	12,059,804
Community services	354,229	-	354,229
Food service	-	1,392,828	1,392,828
Athletics	-	429,908	429,908
Debt service:			
Principal repayment	-	1,915,000	1,915,000
Interest and fiscal charges	-	1,637,239	1,637,239
Total Expenditures	<u>30,321,782</u>	<u>5,374,975</u>	<u>35,696,757</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,613,689</u>	<u>(142,791)</u>	<u>1,470,898</u>
Other Financing Sources (Uses)			
Transfers in	-	309,760	309,760
Transfers out	(309,760)	-	(309,760)
Total Other Financing Sources (Uses)	<u>(309,760)</u>	<u>309,760</u>	<u>-</u>
Net Change In Fund Balances	1,303,929	166,969	1,470,898
Fund Balances, Beginning of Year	<u>4,475,982</u>	<u>615,330</u>	<u>5,091,312</u>
Fund Balances, End of Year	<u>\$ 5,779,911</u>	<u>\$ 782,299</u>	<u>\$ 6,562,210</u>

See accompanying notes to basic financial statements.

KENOWA HILLS 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	\$1,470,898
Amounts reported for governmental activities in the Statement of Activities are different because:	
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:</p>	
Capital outlays	\$ 35,325
Depreciation expense	<u>(1,127,403)</u>
	(1,092,078)
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.	(74,516)
Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.	12,316
Repayment of bond principal 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.	1,915,000
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.	12,766
In the Statement of Net Assets, early retirement incentive, accumulated vacation pay and compensated absences are 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 (\$276,290) exceeded the amounts used/paid (\$217,015).	<u>(59,275)</u>
Total changes in net assets - governmental activities	<u>\$ 2,185,111</u>

See accompanying notes to basic financial statements.

KENOWA HILLS 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	\$11,731,280	\$11,842,103	\$11,904,973	\$ 62,870
State sources	15,570,859	16,350,274	16,487,766	137,492
Federal sources	1,117,464	1,141,092	1,084,446	(56,646)
Interdistrict sources	2,241,608	2,350,276	2,458,286	108,010
Total Revenues	30,661,211	31,683,745	31,935,471	251,726
Expenditures				
Current:				
Instruction:				
Basic programs	14,206,086	14,380,334	14,115,268	265,066
Added needs	3,407,918	3,849,771	3,767,647	82,124
Adult education services	23,397	24,840	24,834	6
Supporting services:				
Pupil services	863,486	2,156,863	2,068,489	88,374
Instructional staff services	1,199,833	1,204,106	1,103,673	100,433
General administrative services	653,688	655,684	657,485	(1,801)
School administrative services	2,002,562	2,002,131	1,963,283	38,848
Business services	625,660	671,849	651,954	19,895
Operation and maintenance services	3,520,078	3,232,204	3,102,798	129,406
Pupil transportation services	1,354,585	1,987,300	1,995,818	(8,518)
Central services	839,852	574,774	516,304	58,470
Community services	348,516	380,866	354,229	26,637
Interdistrict	2,605,100	-	-	-
Total Expenditures	31,650,761	31,120,722	30,321,782	798,940
Excess (Deficiency) Of Revenues Over Expenditures	(989,550)	563,023	1,613,689	1,050,666
Other Financing Sources (Uses)				
Transfers out	(341,399)	(327,967)	(309,760)	18,207
Net Change In Fund Balances	(1,330,949)	235,056	1,303,929	1,068,873
Fund Balances, July 1	4,475,982	4,475,982	4,475,982	-
Fund Balances, June 30	\$ 3,145,033	\$ 4,711,038	\$ 5,779,911	\$ 1,068,873

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2007

	Private Purpose Trust Fund	Agency Fund
Assets		
Cash equivalents, deposits and investments (Note B)	\$ 35,886	\$ 126,861
Due from other funds (Note D)	-	3,000
Total Assets	\$ 35,886	\$ 129,861
Liabilities		
Due to student groups	-	\$ 129,861
Net Assets		
Held in trust for: Individuals and organizations	\$ 35,886	

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the year ended June 30, 2007

	<u>Private Purpose Trust Fund</u>
Additions	
Interest earnings	\$ 1,197
Deductions	
Endowment activities - scholarships	<u>1,814</u>
Change In Net Assets	(617)
Net Assets, Beginning of Year	<u>36,503</u>
Net Assets, End of Year	<u><u>\$ 35,886</u></u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Note A – Summary of Significant Accounting Policies

Kenowa Hills Public Schools was organized under the School Code of the State of Michigan and services a population of approximately 3,574 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 Kenowa Hills 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*.

KENOWA HILLS 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 is the District's only major fund. 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 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.

KENOWA HILLS 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.

Fiduciary Funds

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

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

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

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

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. Kenowa Hills Public Schools has also adopted budgets for its Special Revenue Funds. A school district's Budget Appropriations Act (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

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

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.

Kenowa Hills 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 Assistant Superintendent for Business 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 General Fund consist of teaching and custodial supplies. 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.

KENOWA HILLS 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 additions, 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 additions	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 \$522,961 and \$435,984, 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.

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

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

Statement of Net Assets:	
Governmental activities	\$ 5,926,457
Fiduciary Funds:	
Agency Fund	<u>162,747</u>
	<u>\$ 6,089,204</u>

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Cash Equivalents and Deposits

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

1. Chemical Bank West
2. Mercantile Bank
3. Chase J.P. Morgan Bank, N.A.

Cash equivalents consist of bank public funds checking accounts. Deposits consist of certificates of deposit.

June 30, 2007 balances are detailed as follows:

Cash equivalents	\$ 6,060,804
Deposits	<u>28,400</u>
	<u>\$ 6,089,204</u>

Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$6,089,204 and the bank balance was \$6,798,434. Of the bank balance, \$106,369 was covered by federal depository insurance and \$6,692,065 was uninsured.

Investments

As of June 30, 2007 the District had no surplus funds that were classified as investments under GASB Statement No. 40. The District's policies to minimize investment risk are as follows:

Custodial Credit Risk

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

Interest Rate Risk

The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market.

Concentration of Credit Risk

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

Foreign Currency Risk

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

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

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 Kenowa Hills Public School District, and paid to the State of Michigan, totaled \$6,183,007.

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 Kenowa Hills Public Schools was \$7,429 for 3,552 "Full Time Equivalent" students, generating \$16,501,476 in state aid payments to the District, of which \$2,686,144 was paid to the District in July and August, 2007 and included in "Due From Other Governmental Units" of the General Fund and Food Service Special Revenue Fund of the District.

Property taxes for the District are levied July 1 by the City of Walker and the Charter Townships of Alpine, Plainfield and Tallmadge and the Township of Wright. The taxes are then collected by each governmental unit and remitted to the District. The Counties of Kent and Ottawa, through their Delinquent Tax Revolving Fund, advance all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

Year	General Fund	Debt Service Fund	Total
2006	\$ 51,180	\$ 9,553	\$ 60,733
2005	10,650	5,669	16,319
2004	6,851	2,632	9,483
	\$ 68,681	\$ 17,854	\$ 86,535

Taxes uncollected after three years from the date of levy, unless material in amount, are written off the books of the District.

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

As Kenowa Hills Public Schools' electors had previously (June 8, 1992) approved an operating millage extension, the 18 mill non-homestead property tax was levied in the District for 2006.

The District levied 3.36 mills in 2006 for debt service purposes.

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 are 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.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

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 interfund receivables and payables from other expenditures not yet reimbursed at June 30, 2007, are detailed as follows:

	Due From	Due To
General Fund		
Special Revenue Fund:		
Food Service Fund	\$ 10,715	\$ 3,000
Special Revenue Fund		
Food Service Fund:		
General Fund	—	10,715
Trust & Agency Fund		
Student Activity Fund:		
General Fund	3,000	—
Total All Funds	\$ 13,715	\$ 13,715

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

	Transfers In	Transfers Out
General Fund		
Special Revenue Funds:		
Food Service Fund	\$ —	\$ 7,800
Athletics Fund	—	301,960
Total General Fund	—	309,760
Special Revenue Funds		
Food Service Fund:		
General Fund	7,800	—
Athletics Fund:		
General Fund	301,960	—
Total Special Revenue Funds	309,760	—
Total All Funds	\$ 309,760	\$ 309,760

The General Fund transfer to the Food Service Fund was made to allocate at-risk state aid. The General Fund transfer to the Athletics Fund was made to pay the General Fund share of the District's athletics program for the fiscal year.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Note E – Capital Assets

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

	<u>Balances July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2007</u>
Capital assets not depreciated:				
Land	\$ 1,108,000	\$ —	\$ —	\$ 1,108,000
Capital assets being depreciated:				
Land improvements	1,186,227	—	—	1,186,227
Buildings and additions	38,426,954	—	—	38,426,954
Furniture and equipment	1,664,007	32,696	—	1,696,703
Vehicles	2,499,808	2,629	164,084	2,338,353
	<u>44,884,996</u>	<u>\$ 35,325</u>	<u>\$ 164,084</u>	<u>44,756,237</u>
Totals at historical cost				
	<u>44,884,996</u>	<u>\$ 35,325</u>	<u>\$ 164,084</u>	<u>44,756,237</u>
Less accumulated depreciation for:				
Land improvements	575,893	\$ 40,823	\$ —	616,716
Buildings and additions	11,687,834	826,875	—	12,514,709
Furniture and equipment	1,328,227	72,921	—	1,401,148
Vehicles	1,416,049	186,784	164,084	1,438,749
	<u>15,008,003</u>	<u>\$1,127,403</u>	<u>\$ 164,084</u>	<u>15,971,322</u>
Total accumulated depreciation				
	<u>15,008,003</u>	<u>\$1,127,403</u>	<u>\$ 164,084</u>	<u>15,971,322</u>
Net Capital Assets	<u>\$ 29,876,993</u>			<u>\$ 28,784,915</u>

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	\$ 868,100
Supporting services	225,481
Community services	9,019
Food service	15,220
Athletics	9,583
	<u>\$ 1,127,403</u>

KENOWA HILLS 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	Early Retirement Incentive	Accumulated Sick Leave	Total
Amount Available For Retirement Of Long-Term Debt				
Debt Service Funds	\$ 668,756	\$ —	\$ —	\$ 668,756
Amounts To Be Provided For Retirement Of Long-Term Debt				
General Fund	—	522,961	435,984	958,945
Debt Service Funds	31,791,244	—	—	31,791,244
Total Amounts Available and To Be Provided	\$ 32,460,000	\$ 522,961	\$ 435,984	\$ 33,418,945

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:				
March 17, 2005 Refunding	\$ 34,375,000	—	1,915,000	\$ 32,460,000
Early retirement incentive	436,572	200,986	114,597	522,961
Accumulated sick leave	463,098	75,304	102,418	435,984
	\$ 35,274,670	\$ 276,290	\$ 2,132,015	\$ 33,418,945

Long-term bonds 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				
\$34,490M General Obligation Refunding Bonds				
March 17, 2005:				
Annual maturities of \$1,190M to \$2,370M	May 1, 2026	3.25 – 5.00	<u>\$ 32,460,000</u>	<u>\$ 1,670,000</u>

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

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

Year Ended June 30	Principal	Interest	Total
2008	\$ 1,670,000	\$ 1,532,563	\$ 3,202,563
2009	1,835,000	1,465,762	3,300,762
2010	1,895,000	1,406,125	3,301,125
2011	1,970,000	1,330,325	3,300,325
2012	2,050,000	1,251,525	3,301,525
2013	2,150,000	1,149,025	3,299,025
2014	2,255,000	1,041,525	3,296,525
2015	2,370,000	928,775	3,298,775
2016	1,190,000	810,275	2,000,275
2017	1,250,000	753,750	2,003,750
2018	1,310,000	691,250	2,001,250
2019	1,375,000	625,750	2,000,750
2020	1,445,000	557,000	2,002,000
2021	1,520,000	484,750	2,004,750
2022	1,590,000	408,750	1,998,750
2023	1,670,000	329,250	1,999,250
2024	1,750,000	245,750	1,995,750
2025	1,760,000	158,250	1,918,250
2026	1,405,000	70,250	1,475,250
	\$ 32,460,000	\$ 15,240,650	\$ 47,700,650

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 \$16,881,263. 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.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPSERS plan. The contribution rate was 16.34% for the fiscal year ending September 30, 2006 and 17.74% for the fiscal year beginning October 1, 2007. The District's contributions to the plan for the fiscal years ended June 30, 2007, 2006 and 2005 were \$2,969,549, \$2,660,525, and \$2,487,982, respectively.

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

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

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

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

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Note H – Risk Management and Benefits

The District is a member of the SET-SEG Incorporated Insurance Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2007, there were no material pending claims against the District. The District paid \$105,899 in premiums to the Fund for the year ended June 30, 2007.

The District is also a member of the SET-SEG Incorporated Workers' Compensation Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2007, there were no material pending claims against the District. The District paid \$91,354 in premiums to the Fund for the year ended June 30, 2007.

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

Note I – Stewardship, Compliance and Accountability

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

	<u>Budget</u>	<u>Actual</u>	<u>Unfavorable Variance</u>
Food Service Special Revenue Fund	\$ 1,290,000	\$ 1,392,828	\$ 102,828

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.

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Balance Sheet
June 30, 2007 and 2006

	2007	2006
Assets		
Cash	\$ 400	\$ 400
Cash equivalents, deposits and investments	5,149,089	3,908,977
Receivables:		
Taxes	68,681	129,406
Accounts	1,254	-
Due from other funds	10,715	5,570
Due from other governmental units	3,378,550	3,666,908
Inventory	61,563	75,492
Prepaid expenditures	517,963	-
	\$ 9,188,215	\$ 7,786,753
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 495,186	\$ 503,164
Due to other funds	3,000	6,730
Due to other governmental units	748,994	660,368
Salaries payable	1,597,774	1,481,314
Deferred revenue	563,350	659,195
	3,408,304	3,310,771
 Fund Balances		
Unreserved:		
Undesignated	5,779,911	4,475,982
	\$ 9,188,215	\$ 7,786,753

KENOWA HILLS 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	\$ 10,730,372	\$ 10,429,716
Delinquent property taxes	18,082	79,125
Other property taxes	44,329	4,438
Interest on delinquent taxes	16,089	23,651
	<u>10,808,872</u>	<u>10,536,930</u>
Interest earnings:		
Interest on deposits and investments	374,300	244,401
Other local revenue:		
Adult/community education fees	101,248	98,464
Driver education fees	39,490	51,570
Preschool/childcare fees	61,672	66,389
Transportation fees	34,194	20,683
Copy center fees	51,305	53,696
Class fees	30,024	39,268
Rental of school facilities	49,814	57,911
Donations	5,672	7,565
Telephone commission reimbursements	56,205	46,337
Beverage consortium commissions	71,556	74,239
Sale of school property	5,975	2,559
Insurance refunds	40,316	85,209
Refunds of prior years expenditures	112,241	42,116
Miscellaneous	62,089	34,998
	<u>721,801</u>	<u>681,004</u>
Total local sources	11,904,973	11,462,335
State sources:		
State school aid	16,485,489	15,971,116
School improvement	-	2,741
Other	2,277	-
	<u>16,487,766</u>	<u>15,973,857</u>
Total state sources	16,487,766	15,973,857
Federal sources:		
Title I	210,569	162,985
Title I - migrant	50,373	50,373
Title IIA	129,201	119,164
Title IID	4,669	3,647
Title III	18,267	21,100
Title V	726	3,458
Drug free schools	8,482	7,460
I.D.E.A. program	651,939	635,588
Medicaid - school based	2,542	2,210
Literacy grant	2,678	480
SPSR Grant	5,000	-
	<u>1,084,446</u>	<u>1,006,465</u>
Total federal sources	1,084,446	1,006,465

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Interdistrict sources:		
Special education - county	\$ 1,777,370	\$ 1,607,068
Special education - transportation	452,190	503,670
Special education - local school districts	17,838	34,093
Special education - itinerants	58,102	93,038
Durant settlement reimbursements	11,606	11,606
Medicaid fee for service	141,180	115,385
Total interdistrict sources	<u>2,458,286</u>	<u>2,364,860</u>
Total Revenues	<u><u>\$ 31,935,471</u></u>	<u><u>\$ 30,807,517</u></u>

KENOWA HILLS 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	\$ 4,667,560	\$ 4,566,090
Employee benefits	2,224,322	2,144,935
Purchased services	105,971	5,625
Supplies	138,919	150,132
Capital outlay	105,389	29,191
Miscellaneous	6,858	3,690
	<u>7,249,019</u>	<u>6,899,663</u>
Middle school:		
Salaries	1,378,309	1,469,806
Employee benefits	667,859	674,128
Purchased services	42,641	1,169
Supplies	62,194	47,221
Capital outlay	54,161	35,219
Miscellaneous	2,865	2,779
	<u>2,208,029</u>	<u>2,230,322</u>
High school:		
Salaries	2,900,779	2,639,547
Employee benefits	1,377,137	1,247,422
Purchased services	86,223	42,125
Supplies	162,242	119,819
Capital outlay	50,291	16,108
Miscellaneous	10,305	9,100
	<u>4,586,977</u>	<u>4,074,121</u>
Preschool:		
Salaries	51,109	50,977
Employee benefits	17,605	16,888
Purchased services	1,254	416
Supplies	979	1,820
Miscellaneous	296	261
	<u>71,243</u>	<u>70,362</u>
Total basic programs	<u>14,115,268</u>	<u>13,274,468</u>
Added needs:		
Special education:		
Salaries	1,379,374	1,349,029
Employee benefits	676,390	651,372
Purchased services	49,729	2,354
Supplies	15,800	15,099
Capital outlay	475	-
Miscellaneous	1,713	513
Payments to other districts	496,638	-
	<u>2,620,119</u>	<u>2,018,367</u>
Compensatory education:		
Salaries	654,783	581,363
Employee benefits	289,030	257,642
Purchased services	30,768	30,614

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Compensatory education: (Continued)		
Supplies	\$ 8,680	\$ 10,387
Miscellaneous	899	1,215
	<u>984,160</u>	<u>881,221</u>
Career and technology education:		
Salaries	97,938	154,561
Employee benefits	46,916	70,639
Purchased services	1,914	1,313
Supplies	16,465	13,293
Capital outlay	135	3,410
	<u>163,368</u>	<u>243,216</u>
Total added needs	3,767,647	3,142,804
Adult basic education:		
Salaries	12,142	12,720
Employee benefits	3,059	3,301
Purchased services	9,633	8,607
Total adult basic education	<u>24,834</u>	<u>24,628</u>
Pupil services:		
Attendance services:		
Salaries	40,804	40,304
Employee benefits	21,983	20,465
	<u>62,787</u>	<u>60,769</u>
Guidance services:		
Salaries	422,121	419,255
Employee benefits	197,190	201,881
Purchased services	2,131	458
Supplies	2,116	9,782
Miscellaneous	242	459
	<u>623,800</u>	<u>631,835</u>
Health services:		
Employee benefits	316	734
Purchased services	38,695	32,923
Supplies	462	399
Payments to other districts	61,931	-
	<u>101,404</u>	<u>34,056</u>
Psychological services:		
Purchased services	1,735	455
Supplies	1,618	2,636
Miscellaneous	165,346	-
	<u>168,699</u>	<u>3,091</u>
Speech pathology services:		
Salaries	2,100	-
Employee benefits	166	1,196
Purchased services	1,547	1,579
Supplies	1,164	1,814
Payments to other districts	312,016	-
	<u>316,993</u>	<u>4,589</u>

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Social worker services:		
Employee benefits	\$ 409	\$ -
Purchased services	1,401	1,745
Supplies	1,738	2,002
Miscellaneous	200	100
Payments to other districts	515,910	-
	<u>519,658</u>	<u>3,847</u>
Teacher consultant services:		
Salaries	22,784	42,374
Employee benefits	9,513	17,168
Purchased services	2,027	1,085
Supplies	254	280
Payments to other districts	210,334	-
	<u>244,912</u>	<u>60,907</u>
Other pupil services:		
Salaries	8,747	3,495
Employee benefits	2,001	840
Purchased services	9,606	7,254
Supplies	8,110	6,896
Capital outlay	685	-
Miscellaneous	1,087	4,112
	<u>30,236</u>	<u>22,597</u>
Total pupil services	2,068,489	821,691
Instructional staff services:		
Salaries	32,657	57,170
Employee benefits	7,504	13,224
Purchased services	210,308	138,110
Supplies	11,669	10,024
Miscellaneous	1,404	497
	<u>263,542</u>	<u>219,025</u>
Educational media services:		
Salaries	368,885	337,100
Employee benefits	154,744	147,335
Supplies	48,633	44,273
Miscellaneous	29,495	28,397
	<u>601,757</u>	<u>557,105</u>
Supervision and direction of instruction:		
Salaries	160,212	161,578
Employee benefits	72,231	72,720
Purchased services	4,245	7,989
Supplies	1,561	2,046
Miscellaneous	125	50
	<u>238,374</u>	<u>244,383</u>
Total instructional staff services	1,103,673	1,020,513

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
General administrative services:		
Board of education:		
Salaries	\$ 3,293	\$ 4,500
Employee benefits	252	344
Purchased services	61,061	82,503
Miscellaneous	8,288	6,202
	<u>72,894</u>	<u>93,549</u>
Executive administration:		
Salaries	383,216	349,622
Employee benefits	166,773	140,721
Purchased services	16,229	13,424
Supplies	4,631	3,595
Capital outlay	1,559	2,490
Miscellaneous	12,183	4,978
	<u>584,591</u>	<u>514,830</u>
Total general administrative services	657,485	608,379
School administrative services:		
Office of the principal:		
Salaries	1,309,416	1,238,210
Employee benefits	574,992	522,212
Purchased services	26,845	22,956
Supplies	5,541	3,826
Capital outlay	29,451	9,487
Miscellaneous	17,038	19,667
	<u>1,963,283</u>	<u>1,816,358</u>
Total school administrative services	1,963,283	1,816,358
Business services:		
Fiscal services:		
Salaries	250,488	245,373
Employee benefits	103,785	91,616
Purchased services	18,834	25,433
Supplies	3,981	2,568
Miscellaneous	359	390
	<u>377,447</u>	<u>365,380</u>
Internal services:		
Salaries	75,762	72,507
Employee benefits	40,930	35,471
Purchased services	18,545	17,599
Supplies	16,999	14,656
Capital outlay	-	475
	<u>152,236</u>	<u>140,708</u>
Other business services:		
Purchased services	7,131	6,757
Supplies	16,197	-
Miscellaneous	98,943	85,377
	<u>122,271</u>	<u>92,134</u>
Total business services	651,954	598,222

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Operation and maintenance services:		
Operation and maintenance:		
Salaries	\$ 825,445	\$ 859,380
Employee benefits	472,397	450,116
Purchased services	951,848	833,042
Supplies	699,916	791,577
Capital outlay	49,849	15,418
Miscellaneous	4,030	2,982
	<u>3,003,485</u>	<u>2,952,515</u>
Security services:		
Salaries	61,242	62,068
Employee benefits	38,071	32,179
	<u>99,313</u>	<u>94,247</u>
Total operation and maintenance services	3,102,798	3,046,762
Pupil transportation services:		
Pupil transportation:		
Salaries	684,994	672,468
Employee benefits	286,437	254,279
Purchased services	37,300	42,929
Supplies	254,057	237,422
Capital outlay	3,366	327,676
Miscellaneous	3,571	2,983
Payments to other districts	726,093	-
Total pupil transportation services	<u>1,995,818</u>	<u>1,537,757</u>
Central services:		
Communications services:		
Purchased services	61,742	58,429
Staff/personnel services:		
Purchased services	15,443	4,786
Supplies	841	1,926
	<u>16,284</u>	<u>6,712</u>
Technology services:		
Salaries	244,914	233,255
Employee benefits	113,523	108,738
Purchased services	56,388	56,052
Supplies	19,030	13,804
Capital outlay	4,423	85,298
	<u>438,278</u>	<u>497,147</u>
Total central services	516,304	562,288

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Community services:		
Community recreation:		
Salaries	\$ 166,500	\$ 153,300
Employee benefits	58,967	39,865
Purchased services	11,759	11,242
Supplies	12,914	13,308
Miscellaneous	9,292	10,602
	<u>259,432</u>	<u>228,317</u>
Performing Arts Center:		
Salaries	48,165	49,011
Employee benefits	17,377	16,659
Purchased services	8,482	7,615
Supplies	3,985	3,980
Capital outlay	6,024	3,933
	<u>84,033</u>	<u>81,198</u>
Custody and care of children:		
Salaries	5,600	-
Employee benefits	3,448	-
Purchased services	9	-
Supplies	285	-
Capital outlay	626	-
Miscellaneous	796	-
	<u>10,764</u>	<u>-</u>
Total community services	354,229	309,515
Interdistrict:		
Special education - tuition	-	385,823
Special education - transportation	-	627,527
Special education - itinerants	-	1,236,125
Alternative education	-	33,835
Total interdistrict	<u>-</u>	<u>2,283,310</u>
Total Expenditures	<u><u>\$ 30,321,782</u></u>	<u><u>\$ 29,046,695</u></u>

NONMAJOR FUNDS

KENOWA HILLS PUBLIC SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2007

Assets	Special Revenue		Debt Service	
	Food Service	Athletics	1996	Total
Cash	\$ 650	\$ -	\$ -	\$ 650
Cash equivalents, deposits and investments	100,138	-	677,230	777,368
Taxes receivable	-	-	17,854	17,854
Due from other governmental units	22,166	-	962	23,128
Inventory	19,266	-	-	19,266
Total Assets	\$ 142,220	\$ -	\$ 696,046	\$ 838,266
Liabilities and Fund Balances				
Liabilities				
Due to other funds	\$ 10,715	\$ -	\$ -	\$ 10,715
Due to other governmental units	-	-	9,436	9,436
Deferred revenue	17,962	-	17,854	35,816
Total Liabilities	28,677	-	27,290	55,967
Fund Balances				
Reserved for debt service	-	-	668,756	668,756
Unreserved:				
Undesignated	113,543	-	-	113,543
Total Fund Balances	113,543	-	668,756	782,299
Total Liabilities and Fund Balances	\$ 142,220	\$ -	\$ 696,046	\$ 838,266

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

	<u>Special Revenue</u>		<u>Debt Service</u>	
	<u>Food Service</u>	<u>Athletics</u>	<u>1996</u>	<u>Total</u>
Revenues				
Local sources:				
Property taxes	\$ -	\$ -	\$ 3,632,822	\$ 3,632,822
Interest earnings	10,316	-	101,437	111,753
Sales and admissions	765,980	127,948	-	893,928
Total local sources	776,296	127,948	3,734,259	4,638,503
State sources	81,749	-	-	81,749
Federal sources	511,932	-	-	511,932
Total Revenues	<u>1,369,977</u>	<u>127,948</u>	<u>3,734,259</u>	<u>5,232,184</u>
Expenditures				
Current:				
Food service	1,392,828	-	-	1,392,828
Athletics	-	429,908	-	429,908
Debt service:				
Principal repayment	-	-	1,915,000	1,915,000
Interest and fiscal charges	-	-	1,637,239	1,637,239
Total Expenditures	<u>1,392,828</u>	<u>429,908</u>	<u>3,552,239</u>	<u>5,374,975</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(22,851)</u>	<u>(301,960)</u>	<u>182,020</u>	<u>(142,791)</u>
Other Financing Sources				
Transfers in	7,800	301,960	-	309,760
Net Change In Fund Balances	(15,051)	-	182,020	166,969
Fund Balances, July 1	<u>128,594</u>	<u>-</u>	<u>486,736</u>	<u>615,330</u>
Fund Balances, June 30	<u>\$ 113,543</u>	<u>\$ -</u>	<u>\$ 668,756</u>	<u>\$ 782,299</u>

KENOWA HILLS 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

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>
Revenues			
Local sources:			
Interest earnings	\$ 6,500	\$ 10,316	\$ 3,816
Sales and admissions	731,500	765,980	34,480
Total local sources	738,000	776,296	38,296
State sources	82,000	81,749	(251)
Federal sources	485,000	511,932	26,932
Total Revenues	<u>1,305,000</u>	<u>1,369,977</u>	<u>64,977</u>
Expenditures			
Current:			
Food service	1,290,000	1,392,828	(102,828)
Excess (Deficiency) of Revenues Over Expenditures	<u>15,000</u>	<u>(22,851)</u>	<u>(37,851)</u>
Other Financing Sources			
Transfers in	6,800	7,800	1,000
Net Change In Fund Balances	21,800	(15,051)	(36,851)
Fund Balances, July 1	<u>128,594</u>	<u>128,594</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 150,394</u></u>	<u><u>\$ 113,543</u></u>	<u><u>\$ (36,851)</u></u>

KENOWA HILLS 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

	<u>Budget</u>	<u>Actual</u>	Variance - Positive (Negative)
Revenues			
Local sources	<u>\$ 127,310</u>	<u>\$ 127,948</u>	<u>\$ 638</u>
Expenditures			
Current:			
Athletics	<u>446,977</u>	<u>429,908</u>	<u>17,069</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(319,667)</u>	<u>(301,960)</u>	<u>17,707</u>
Other Financing Sources			
Transfers in	<u>319,667</u>	<u>301,960</u>	<u>(17,707)</u>
Net Change In Fund Balances	-	-	-
Fund Balances, July 1	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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.

KENOWA HILLS PUBLIC SCHOOLS
Food Service Special Revenue Fund
Comparative Balance Sheet
June 30, 2007 and 2006

	2007	2006
Assets		
Cash	\$ 650	\$ 650
Cash equivalents, deposits and investments	100,138	116,011
Due from other funds	-	6,730
Due from other governmental units	22,166	11,021
Inventory	19,266	16,796
Total Assets	\$ 142,220	\$ 151,208
 Liabilities and Fund Balances		
Liabilities		
Due to other funds	\$ 10,715	\$ 5,570
Deferred revenue	17,962	17,044
Total Liabilities	28,677	22,614
Fund Balances		
Unreserved:		
Undesignated	113,543	128,594
Total Liabilities and Fund Balances	\$ 142,220	\$ 151,208

KENOWA HILLS 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:		
Sales and admissions:		
Children's lunches	\$ 439,741	\$ 476,702
Adult lunches and banquets	18,613	16,381
Milk	5,046	4,475
Ala carte	228,992	204,356
Other	73,588	31,782
	765,980	733,696
Interest earnings:		
Interest on investments	10,316	6,962
Total local sources	776,296	740,658
State sources	81,749	81,797
Federal sources	511,932	481,840
	1,369,977	1,304,295
Expenditures		
Current:		
Food service:		
Salaries	486,323	462,727
Employee benefits	209,857	190,590
Purchased services	26,556	20,799
Supplies	646,375	581,094
New equipment and furniture	20,968	3,702
Miscellaneous	2,749	3,564
	1,392,828	1,262,476
Total Expenditures	1,392,828	1,262,476
Excess (Deficiency) of Revenues Over Expenditures	(22,851)	41,819
Other Financing Sources		
Transfers in	7,800	6,730
	(15,051)	48,549
Net Change In Fund Balances	(15,051)	48,549
Fund Balances, July 1	128,594	80,045
Fund Balances, June 30	\$ 113,543	\$ 128,594

KENOWA HILLS PUBLIC SCHOOLS
Athletics Special Revenue Fund
Comparative Balance Sheet
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets	<u>\$ -</u>	<u>\$ -</u>
Liabilities and Fund Balances		
Liabilities	<u>\$ -</u>	<u>\$ -</u>
Fund Balances		
Unreserved:		
Undesignated	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>

KENOWA HILLS 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:		
Admissions	\$ 61,896	\$ 68,405
Participation fees	47,205	48,290
Tournament revenue	18,842	21,871
Miscellaneous	5	491
	127,948	139,057
Total Revenues	127,948	139,057
Expenditures		
Current:		
Athletics:		
Salaries	246,801	240,960
Employee benefits	64,348	56,389
Purchased services	50,133	47,036
Supplies	39,246	47,780
New furniture and equipment	14,636	12,442
Miscellaneous	14,744	13,623
	429,908	418,230
Total Expenditures	429,908	418,230
Excess (Deficiency) of Revenues Over Expenditures	(301,960)	(279,173)
Other Financing Sources		
Transfers in	301,960	279,173
	-	-
Net Change In Fund Balances	-	-
Fund Balances, July 1	-	-
Fund Balances, June 30	\$ -	\$ -

AGENCY FUND

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

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

	Balances July 1, 2006	Additions	Deductions	Balances June 30, 2007
Assets				
Cash equivalents, deposits and investments	\$ 117,729	\$ 385,742	\$ 376,610	\$ 126,861
Due from other funds	-	3,000		3,000
	<u>\$ 117,729</u>	<u>\$ 388,742</u>	<u>\$ 376,610</u>	<u>\$ 129,861</u>
Liabilities				
Due to student groups	<u>\$ 117,729</u>	<u>\$ 388,742</u>	<u>\$ 376,610</u>	<u>\$ 129,861</u>

OTHER INFORMATION

KENOWA HILLS PUBLIC SCHOOLS
Summary of 2006 Taxes Levied and Collected
For the year ended June 30, 2007

	Kent County		
	Cities of		
	Grand Rapids	Walker	Alpine
Taxable Valuations			
Operating	\$ 372,762	\$483,284,329	\$ 98,282,320
Debt Service	1,217,113	773,637,620	176,191,030
Rates (Mills)			
General Fund			
1996 Debt Service Fund			
Taxes Levied 2006 Rolls			
General Fund	\$ 6,710	\$ 8,690,566	\$ 1,769,081
1996 Debt Service Fund	4,090	2,599,393	591,995
	<u>10,800</u>	<u>11,289,959</u>	<u>2,361,076</u>
Taxes Uncollected 2006 Rolls			
General Fund	-	49,641	1,059
1996 Debt Service Fund	-	9,266	198
	<u>-</u>	<u>58,907</u>	<u>1,257</u>
Taxes Collected 2006 Rolls			
General Fund	6,710	8,640,925	1,768,022
1996 Debt Service Fund	4,090	2,590,127	591,797
	<u>10,800</u>	<u>11,231,052</u>	<u>2,359,819</u>
Delinquent Taxes Collected			
General Fund	-	17,249	378
1996 Debt Service Fund	-	3,314	71
	<u>-</u>	<u>20,563</u>	<u>449</u>
Total Taxes Collected			
General Fund	6,710	8,658,174	1,768,400
1996 Debt Service Fund	4,090	2,593,441	591,868
	<u>\$ 10,800</u>	<u>\$ 11,251,615</u>	<u>\$ 2,360,268</u>
Taxes Uncollected – June 30, 2007			
General Fund:			
2006	\$ -	\$ 49,641	\$ 1,059
2005	-	9,407	477
2004	-	3,866	-
	<u>-</u>	<u>62,914</u>	<u>1,536</u>
1996 Debt Service Fund:			
2006	-	9,266	198
2005	-	5,418	89
2004	-	2,227	-
	<u>-</u>	<u>16,911</u>	<u>287</u>
Total Taxes Uncollected	<u>\$ -</u>	<u>\$ 79,825</u>	<u>\$ 1,823</u>

Ottawa County			
Townships of			
Plainfield	Tallmadge	Wright	Total
\$ 183,735	\$ 6,935,997	\$11,814,706	\$ 600,873,849
1,283,550	50,017,988	28,153,908	1,030,501,209
			18.0000
			3.3600
			<u>21.3600</u>
\$ 3,307	\$ 124,848	\$ 187,040	\$ 10,781,552
4,313	168,060	95,600	3,463,451
<u>7,620</u>	<u>292,908</u>	<u>282,640</u>	<u>14,245,003</u>
-	7	473	51,180
-	1	88	9,553
<u>-</u>	<u>8</u>	<u>561</u>	<u>60,733</u>
3,307	124,841	186,567	10,730,372
4,313	168,059	95,512	3,453,898
<u>7,620</u>	<u>292,900</u>	<u>282,079</u>	<u>14,184,270</u>
-	151	304	18,082
-	28	57	3,470
<u>-</u>	<u>179</u>	<u>361</u>	<u>21,552</u>
3,307	124,992	186,871	10,748,454
4,313	168,087	95,569	3,457,368
<u>\$ 7,620</u>	<u>\$ 293,079</u>	<u>\$ 282,440</u>	<u>\$ 14,205,822</u>
\$ -	\$ 7	\$ 473	\$ 51,180
176	590	-	10,650
96	842	2,047	6,851
<u>272</u>	<u>1,439</u>	<u>2,520</u>	<u>68,681</u>
-	1	88	9,553
33	129	-	5,669
20	203	182	2,632
<u>53</u>	<u>333</u>	<u>270</u>	<u>17,854</u>
<u>\$ 325</u>	<u>\$ 1,772</u>	<u>\$ 2,790</u>	<u>\$ 86,535</u>

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

CPAs AND CONSULTANTS

November 12, 2007

The Board of Education
Kenowa Hills Public Schools
Kent County, Michigan

The following comments pertain to our audit of the financial records of Kenowa Hills 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 Kenowa Hills 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 Kenowa Hills 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 Kenowa Hills 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 Kenowa Hills 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 Kenowa Hills 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 Kenowa Hills 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 Kenowa Hills 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 statements of Kenowa Hills 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 the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements:

General Fund

1. \$33,098 and \$93,823 to record and write off current and prior years' delinquent personal property taxes receivable at June 30, 2007.
2. \$493,992 and \$529,103 to record and reverse current and prior year end deferred revenue for unspent State supported programs.
3. \$38,460 to reverse special education transportation receivable at June 30, 2007.

Food Service Fund

1. \$56,198 to record USDA bonus and entitlement commodities received during the year.

Debt Service Funds

1. \$6,083 and \$19,874 to record and write off current and prior years' delinquent personal property taxes receivable at June 30, 2006.

Proposed Audit Adjustments

There were no material adjustments proposed during the audit not recorded by Kenowa Hills Public Schools.

Suggestions And Recommendations

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Kenowa Hills Public Schools to the Assistant Superintendent for Business and payroll and accounting personnel 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. We did observe certain control deficiencies in areas of the District's internal control during the course of our audit that we determined to be significant deficiencies or material weaknesses, which have been detailed in a separate letter to the Board of Education. The following recommendations relate to our internal control findings:

- The District should establish review functions within the business office (bank reconciliations, payroll operations, cash receipting/depositing, etc.) and outside of the business office (athletics, food service, student activities, collection/deposit of tuition/fees) in order to overcome the control deficiency of a *lack of monitoring* of control activities that currently exists.
- The District should continue to improve the *documentation* for a uniform set of accounting policies and procedures that are designed to be applied consistently throughout the District; this will increase the efficiency and accountability of the accounting and record keeping process and strengthen in internal control system of the District.
- We encourage the District to support the Assistant Superintendent of Business, district accountants, and other business office personnel in *furthering their education in the area of governmental accounting and financial statement preparation* requirements to achieve and maintain compliance with current GAAP and GASB standards. These are complex and constantly changing requirements that continue to increase and undergo significant modifications.

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 Kenowa Hills 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 increased by \$1,303,929 to \$5,779,911 at June 30, 2007. This balance represents approximately 17.5 percent of the District's 2007-08 expenditure budget, up from 14 percent at June 30, 2006. Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for Kenowa Hills 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.

Kenowa Hills Public Schools
November 12, 2007
Page 5

This communication is intended solely for the information and use of the Kenowa Hills 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 Kenowa Hills 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, Alderson, Nichols & Bentley, P.C.

Certified Public Accountants

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

CPAs AND CONSULTANTS

November 12, 2007

The Board of Education
Kenowa Hills Public Schools
Kent County, Michigan

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

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is *more than a remote likelihood* that a misstatement of the entity's financial statements that is *more than inconsequential* will not be prevented or detected by the entity's internal control.

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

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

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

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

In planning and performing our audit of the financial statements of Kenowa Hills Public Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Kenowa Hills Public School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we do not express an opinion on the

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

- *A lack of independent monitoring* of certain accounting functions in the District business office (payroll operations, cash receipting/depositing, bank reconciliations) and of financial transactions occurring outside the business office (athletics, food service, student activities, tuition and fees).
- District personnel who *lack the knowledge and training* to fulfill certain required functions:
 1. The lack of knowledge and skills present to apply Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) requirements in recording the District's financial transactions or preparing its financial statements (including the notes to basic financial statements) in compliance with current GAAP and GASB requirements.

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

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

Certified Public Accountants