

KENT INTERMEDIATE SCHOOL DISTRICT

GRAND RAPIDS, MICHIGAN

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

KENT INTERMEDIATE SCHOOL DISTRICT

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund and Major Special Revenue Funds	17-18
Statement of Net Assets – Internal Service Fund	19
Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Fund	20
Statement of Cash Flows – Internal Service Fund	21
Statement of Net Assets – Fiduciary Funds	22
Statement of Changes in Net Assets – Private Purpose Trust Fund	23
Notes to the Financial Statements	24-36
Combining and Individual Fund Financial Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds	37-38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	39-40
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Cooperative Education	41
Statement of Changes in Assets and Liabilities – Agency Fund	42



REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

November 12, 2007

Board of Education
Kent Intermediate School District
Grand Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **KENT INTERMEDIATE SCHOOL 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 management of Kent Intermediate School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Kent Intermediate School District as of June 30, 2007, and the respective changes in financial position thereof and the respective budgetary comparison of each major 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 Kent Intermediate School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kent Intermediate School District's basic financial statements. The combining and individual fund financial statements and schedules, are presented for purposes of additional analysis and are not a required part of the Kent Intermediate School District's basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

To understand our financial statements, you must first know Kent Intermediate School District (Kent ISD) and its purpose.

Created by state legislation in 1962 to serve local schools and act as a liaison between them and the Michigan Department of Education, Kent ISD is one of 57 intermediate school districts across the state. It is known for its regional cooperation and the strength of its programs. Kent ISD is a shared community resource, providing an extensive network of supportive service that helps families and local schools successfully grow preschoolers into graduates and lifelong learners.

Kent ISD offers a wide range of services focused on learning. Kent ISD serves the schools and communities of its 20 traditional public school districts, along with non-public, home schools and charter schools. That means serving nearly 330 schools, 123,100 students and 10,000 educators and staff, with programs and services that would be too resource-intensive or costly to maintain at a district level.

From its highly advanced, career-oriented Kent Career Technical Center (KC/TC), to the adaptive vocational education center-Kent Transition Center (KTC), Kent ISD is helping teach and inspire the young minds of the future throughout the Grand Rapids metropolitan area. As an educational advocate, Kent ISD helps make the needs of children and their schools known to community leaders, legislators, service agencies and media.

Our Educational Service Center (ESC) hosts 40,000 guests each year for training and professional meetings. Under REMC8 (serving the counties of Kent, Ionia and Montcalm) we have distributed approximately 13,700 media library items, provided over 62,000 video streaming clips, and had our couriers travel almost 47,000 miles delivering materials to our schools. Our technology staff serves more than 6,500 teachers each year with equipment training and other services. We also register 1,462 substitute teachers for Kent County schools. Through research and development of effective curriculum, our Kent County Collaborative Core Curriculum (KC4) has been sold throughout the United States.

Our Kent Career/Technical Center (KC/TC) serves over 2,600 students in 25 technical programs, from over 70 public and private high schools in Kent County. KC/TC provides students with quality training in career and technical programs that include technical training, academic integration and alignment with post-secondary education. KC/TC also has satellite programs at Northview High School and at Byron Center High School for Regional Theatre Technology and at Gerald R. Ford International Airport for Aviation Mechanics.

Our Kent Transition Center (KTC) provides a wide variety of entry-level job skills, vocational training and work experience for 414 students who are academically challenged, at-risk, or who need hands-on learning. Approximately 69 area companies serve as KTC partners. The center has been recognized as an *Exemplary School* for its work in adapted vocational training and job placement of students.

Visit our web site at www.kentisd.org to see what sets us apart.

Reporting the District as a Whole - District-wide Financial Statements

One of the most important questions asked about Kent ISD is, “As a whole, what is the District’s financial condition as a result of the year’s activities?” The Statement of Net Assets and the Statement of Activities, which appear first in the District’s financial statements, report information on the District as a whole and its activities in a way that helps answer this question. We prepared these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets and Statement of Activities report the governmental activities for the District, which encompass all of the District’s services, including instruction, supporting services, and community services. Property taxes, unrestricted state aid and state and federal grants finance most of these activities.

These two statements report the District’s net assets - the difference between assets and liabilities-in the Statement of Net Assets, as one way to measure the District’s financial health, or financial position. Over time, increases or decreases in the District’s net assets - as reported in the Statement of Activities - are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District’s operating results; whether the District had a profit or a loss at year end. However, unlike the private-sector, the District’s mission is to strengthen communities by providing leadership for learning, not to generate profits as commercial entities do. The District accomplishes its mission through innovative partnerships, technology, training, professional development and research. It is Kent ISD’s vision to “lead learning.”

Reporting the District’s Most Significant Funds - Fund Financial Statements

The District’s fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law or by bond covenants. However, the District establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. All of the District’s services are reported in governmental funds. The governmental funds of the District use the following accounting approach:

Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information 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. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation statement.

The District as Trustee - Reporting the District’s Fiduciary Responsibilities

The District is the trustee, or fiduciary for funds it holds for other groups. All of the District’s fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the District’s other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. Table 1 provides a summary of the District's net assets as of June 30, 2007 and June 30, 2006, respectively:

	Governmental Activities (in millions)	
	2007	2006
Assets		
Current and other assets	\$ 54.9	\$ 48.0
Capital assets	<u>33.2</u>	<u>34.3</u>
Total asset	88.1	82.3
Liabilities		
Current liabilities	30.5	26.8
Long-term liabilities	<u>.5</u>	<u>.4</u>
Total liabilities	31.0	27.2
Net Assets		
Invested in property and equipment –		
Net of related debt	33.1	34.0
Restricted	19.5	17.8
Unrestricted	<u>4.3</u>	<u>3.3</u>
Total net assets	<u>\$ 57.1</u>	<u>\$ 55.1</u>

The above analysis focuses on the net assets (Table 1). The District's net assets were \$57.1 million at June 30, 2007, and \$55.1 million at June 30, 2006, increasing by \$2.0 million in 2007. This increase is due to a positive change in our cash position, brought about by an increase in taxable values of approximately 5.4%. Capital assets in 2007 and 2006, net of related debt, totaling \$33.2 million and \$34.0 million respectively, is arrived at by taking the historical cost of the asset and subtracting the accumulated depreciation expense and any debt obligation arising from the assets' purchase. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. Restricted net assets increased to \$19.5 million in 2007 from \$17.8 million in 2006. The remaining amount of net assets, \$4.3 million in 2007, and \$3.3 million in 2006 was unrestricted.

The \$4.3 million in unrestricted net assets for 2007 represents the *accumulated* results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities, we would have \$4.3 million left. The operating results of the District will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the District as a whole are reported in the Statement of Activities (Table 2), which shows the changes in net assets for fiscal years 2007 and 2006.

TABLE 2

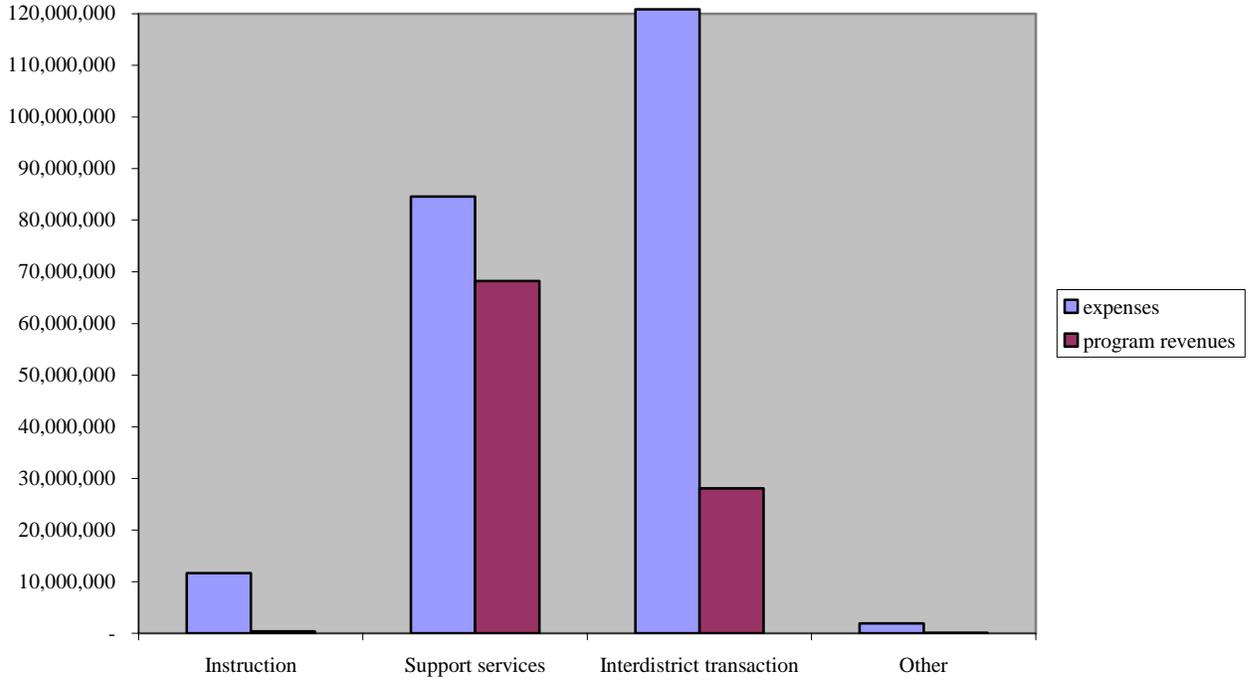
	Governmental Activities (in millions)	
	<u>2007</u>	<u>2006</u>
Revenue		
Program revenue:		
Charges for services	\$ 63.6	\$ 75.6
Operating grants	33.1	35.6
Capital grants	.1	.1
General revenue:		
Property taxes	95.4	88.9
Unrestricted State Aid	26.1	2.7
Other	<u>2.7</u>	<u>2.8</u>
Total revenue	\$ 221.0	\$ 205.7
 Expenses		
Function/Program Expenses		
Instruction	\$ 11.6	\$ 12.4
Support services	84.6	79.5
Community services	.9	.2
Interdistrict transfers	120.9	112.1
Other	<u>1.0</u>	<u>1.1</u>
Total expenses	219.0	205.3
 Increase in Net Assets	 <u>\$ 2.0</u>	 <u>\$.4</u>

As reported in the Statement of Activities, the cost of all of our *governmental* activities this year was \$219.0 million. Certain activities were partially funded from those who benefited from the programs (\$63.6 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$33.1 million). We paid for the remaining “public benefit” portion of our governmental activities with \$95.4 million in taxes, \$26.1 million in state aid, and with our other revenues, like interest and general entitlements.

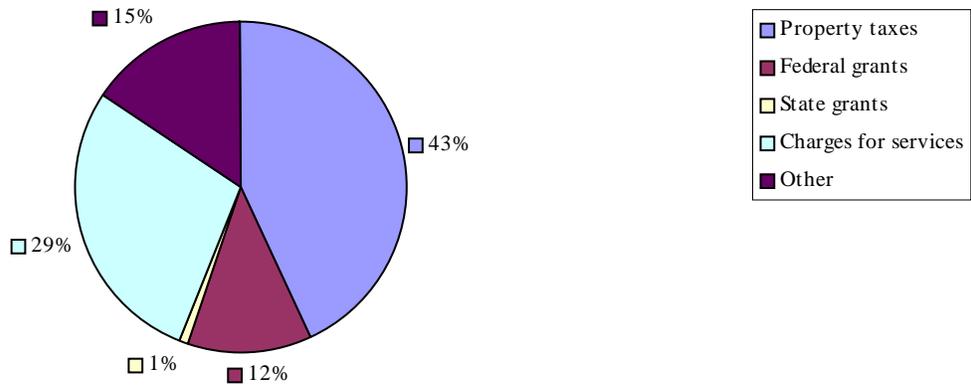
The District's revenue increased in 2007 by \$15.2 million dollars over 2006. The increase is partially due to additional property tax revenue (\$6.5 million). Charges for services declined in 2006-2007 by \$12 million. The District had previously recorded State Aid Revenue for Special Education Transportation as charges for services. These funds are now recorded as State school aid. The District's expenses increased in 2007 by \$13.7 million, mainly due to recording outgoing transfers to local districts as expense for the cost of Special Education Transportation. Overall, Kent ISD's transfers to local districts increased by \$8.8 million.

The District experienced an increase in net assets of \$2.0 million for fiscal year 2007, meaning that revenue exceeded expenses by this amount. The prior year increase in net assets was \$.4 million. As stated above, this increase is due in part to the increase in taxable values by about 5.4%.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



The District's Funds

As we noted earlier, the District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District's overall financial health.

The District's overall fund balance increased slightly in 2007, at \$.3 million, as compared to an increase of \$.5 million in 2006.

General Fund fund balance is available to meet the costs related to District operating purposes. The current year increase to \$4.2 million from \$2.8 million was the result of moving certain expenses for services provided to other funds within the district to an internal service fund.

Our Special Revenue Funds showed a net increase of \$2.8 million dollars over the prior year. The main reason for this increase is that our special revenue funds realized an increase in property taxes over the prior year of over \$5 million dollars, while holding a fiscally responsible position on spending.

The District does not have any debt obligations other than Durant debt obligations, which are funded by annual State appropriations, accordingly.

The combined Capital Projects Funds fund balance decreased by \$.5 million as the district repaired and renovated several "center program" school buildings.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires the budget be amended to insure expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year-end. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided as a basic financial statement).

There were revisions made to the 2006-2007 original budgets. Budgeted revenues were increased \$4 million over the original budget, due to private donations to the Kent School Services Network program, new and increased state aid categoricals, and grant funds that were not originally anticipated.

Budgeted expenditures and transfers out were also increased \$3.8 million over the original budget, to expend the revenue for Kent School Services Network, and the grant funds entrusted to the District.

Significant variances between the final budget amounts and actual were as follows:

Local and Federal Revenue, have unfavorable variances of \$1.2 million and \$52,384 respectively, relating to timing differences across fiscal years for grant funds.

State Revenue had a favorable variance of \$189,127 due to unexpected grant funding late in the year.

Favorable variances in expenses are due primarily to timing differences in grant expenditures for Instructional Staff, Interdistrict Transactions, and Pupil Services. The favorable variance in Business Services is the result of moving the District Print Shop from General Fund to the Internal Service Fund. The impact of this action on General Fund resources was unclear, so a budget was created to allow for any negative impact.

Instructional Staff	\$ 208,564	Business Services	\$ 331,855
Interdistrict Transactions	\$ 166,939	Pupil Services	\$ 373,864

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007, the District had \$58.7 million invested in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net increase (including additions and deductions but before depreciation) of approximately \$.9 million, or 1.6 percent, from last year.

	<u>2007</u>	<u>2006</u>
Land	\$ 474,740	\$ 474,740
Construction in progress	420,732	45,985
Buildings and Structures	43,972,143	43,896,076
Furniture and equipment	13,290,057	12,692,260
Vehicles	<u>595,405</u>	<u>733,377</u>
Total capital assets	<u>\$58,753,077</u>	<u>\$57,842,438</u>

Additions of \$1,073,865, net of prior year's construction in progress, included vocational education equipment, technology, building renovations and site improvements. No debt was issued for these additions.

At this time, there are no major capital projects planned for the 2007-2008 fiscal year. Outstanding projects for the 2006-2007 fiscal year include \$100,000 for a voice communication system. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this fiscal year, the District had \$300,693 in bonds outstanding.

Other obligations include accrued compensated absences, and early retirement incentives. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Currently Known Facts, Decisions, or Conditions

The District is committed to providing its internal and external customers with the tools necessary to complete their tasks in a timely fashion for the benefit of the district's student population. To achieve this task, the District has designed a data warehouse, which is facilitating the compilation and exchange of information needed for reporting and analysis. This data warehouse has cost Kent ISD over \$3 million dollars.

The District has entered into an agreement with the Michigan Military Preservation Society and the Kent County Board of Aeronautics for a facility which was built on the grounds of the Gerald R. Ford International Airport. The agreement provides for Kent ISD to lease a portion of this new building for our Aviation Mechanics Program. This program is very popular with Kent ISD Vocational Education students and will give the District an opportunity to expand this program. The total cost of this lease will be almost \$1.3 million and covers a period of 17 years. There are 14 years left on this lease.

Our Board and administration consider many factors when setting the District's 2007/2008 fiscal year budget. One of those factors is estimating the amount of state aid that the State of Michigan will provide for the upcoming year. The board must estimate how the State's revenue shortfalls will be passed along to Kent ISD in the form of decreased funding of grants and categoricals.

Our Board must also consider the ever increasing cost of employee benefits. Estimating what those costs will be for the upcoming year is always a challenge. Kent ISD is now self-insured in many areas, and is hoping to achieve some cost savings as a result of this.

The 2007/2008 budget was adopted in June 2007.

In an effort to be good stewards of taxpayer dollars, the District is involved in several programs which allow the District to take advantage of reduced prices on some goods and services we purchase. Additionally, Kent ISD is one of the charter members of the Michigan School Energy Cooperative (MISEC). This is an energy cooperative of approximately 300 school districts who purchase natural gas and electricity through a bid process. Kent ISD alone saves approximately \$20,000 yearly on the purchase of these two utility commodities through MISEC. Kent ISD has also made modifications internally to promote additional savings on energy by installing sensor switches on room lighting and implementing an awareness program to encourage employees to conserve energy. Kent Intermediate School District is committed to finding the most cost effective ways to make efficient use of the resources entrusted to us.

FINANCIAL SECTION

KENT INTERMEDIATE SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 18,318,888
Investments	14,368,056
Accounts receivable	50,188
Due from other governmental units	19,012,373
Inventories	1,030,526
Prepaid items	2,169,451
Total current assets	<u>54,949,482</u>
Noncurrent assets:	
Capital assets not being depreciated	895,472
Capital assets being depreciated, net	32,292,515
Total noncurrent assets	<u>33,187,987</u>
Total assets	<u>88,137,469</u>
Liabilities	
Current liabilities:	
Accounts payable	4,637,218
Accrued liabilities:	
Salaries payable	5,231,850
Employee benefits	1,989,888
Interest payable	52,051
Due to other governmental units	15,096,675
Unearned revenue	3,445,458
Compensated absences payable within one year	71,659
Total current liabilities	<u>30,524,799</u>
Noncurrent liabilities:	
Bonds payable	300,693
Compensated absences/severance payable, net of current portion	192,311
Total noncurrent liabilities	<u>493,004</u>
Total liabilities	<u>31,017,803</u>
Net assets	
Invested in capital assets, net of related debt	33,187,987
Restricted for:	
Special education	4,272,653
Vocational education	8,328,488
Capital projects	6,871,765
Unrestricted	4,458,773
Total net assets	<u>\$ 57,119,666</u>

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

KENT INTERMEDIATE SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2007

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 11,658,228	\$ 279,642	\$ 68,221	\$ 50,925	\$ (11,259,440)
Supporting services	84,605,569	63,316,312	4,931,350	-	(16,357,907)
Community services	883,103	-	38,935	-	(844,168)
Interest on long-term debt	9,785	-	-	-	(9,785)
Interdistrict transactions	120,874,889	-	28,052,136	-	(92,822,753)
Unallocated depreciation	992,661	-	-	-	(992,661)
Total governmental activities	\$ 219,024,235	\$ 63,595,954	\$ 33,090,642	\$ 50,925	(122,286,714)
General revenues:					
Property taxes					95,405,646
State school aid					26,131,222
Payments received in lieu of taxes and other revenue					2,461,760
Unrestricted investment earnings					244,491
Total general revenues					124,243,119
Change in net assets					1,956,405
Net assets, beginning of year					55,163,261
Net assets, end of year					\$ 57,119,666

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

KENT INTERMEDIATE SCHOOL DISTRICT

**Balance Sheet
Governmental Funds**

June 30, 2007

	General Fund	Special Education	Regional Vocational Education	Nonmajor Funds	Total
Assets					
Cash and cash equivalents	\$ 2,780,684	\$ 10,000,949	\$ 4,361,549	\$ 733,685	\$ 17,876,867
Investments	971,218	4,251,838	3,907,144	5,237,856	14,368,056
Accounts receivable	31,527	1,505	960	-	33,992
Due from other funds	180,270	3,745	-	-	184,015
Due from other governmental units	1,075,451	17,042,945	471,602	422,375	19,012,373
Inventories	8,349	-	1,022,177	-	1,030,526
Prepaid items	427,412	378,617	221,590	1,050,000	2,077,619
Total assets	\$ 5,474,911	\$ 31,679,599	\$ 9,985,022	\$ 7,443,916	\$ 54,583,448
Liabilities					
Accounts payable	\$ 292,266	\$ 3,769,722	\$ 376,888	\$ 168,482	\$ 4,607,358
Accrued liabilities:					
Salaries payable	208,635	4,099,812	923,403	-	5,231,850
Employee benefits	42,933	1,612,897	334,058	-	1,989,888
Due to other governmental units	70,540	15,004,526	21,609	-	15,096,675
Due to other funds	3,745	178,042	576	-	182,363
Deferred revenue	703,511	2,741,947	-	403,669	3,849,127
Total liabilities	1,321,630	27,406,946	1,656,534	572,151	30,957,261
Fund balances					
Reserved for:					
Inventories	8,349	-	1,022,177	-	1,030,526
Prepaid items	427,412	378,617	221,590	1,050,000	2,077,619
Unreserved:					
Designated - tax tribunals	1,630	58,551	16,183	1,326	77,690
Designated - KC4 Conversion & CD	100,000	-	-	-	100,000
Designated - Curriculum designer	300,000	-	-	-	300,000
Designated - S.M.A.R.T.	35,000	-	-	-	35,000
Designated - Lincoln facility expansion	-	1,500,000	-	1,500,000	3,000,000
Designated - Lincoln program extension	-	25,000	-	-	25,000
Designated - WAN & Fiber	37,500	37,500	175,000	-	250,000
Designated - Aviation program facility	-	-	1,750,000	-	1,750,000
Designated - Health careers program	-	-	75,000	-	75,000
Designated - Disaster recovery, continuity planning and data center	78,750	78,750	367,500	-	525,000
Designated - RESCON sites	-	-	750,000	-	750,000
Designated - Early childhood	50,000	-	-	-	50,000
Designated - ESC Project	-	-	-	1,000,000	1,000,000
Undesignated reported in:					
Nonmajor capital projects funds	-	-	-	3,320,439	3,320,439
Undesignated	3,114,640	2,194,235	3,951,038	-	9,259,913
Total fund balances	4,153,281	4,272,653	8,328,488	6,871,765	23,626,187
Total liabilities and fund balances	\$ 5,474,911	\$ 31,679,599	\$ 9,985,022	\$ 7,443,916	\$ 54,583,448

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

KENT INTERMEDIATE SCHOOL DISTRICT

**Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets**

June 30, 2007

Fund balances - total governmental funds	\$ 23,626,187
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Amounts reported for governmental activities in the statement of net assets are different because:

Long term receivables are reported as an asset and revenue when earned on the statement of net assets while the governmental funds report these balances as an asset and deferred revenue until the availability criterion for revenue recognition is met.

Add - deferred long-term receivables	403,669
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An internal service fund is used by management to charge the costs of certain activities, such as compensated absences and insurance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities.

Add - net assets of governmental activities accounted for in the internal service fund	254,567
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets not being depreciated	895,472
Add - capital assets being depreciated, net	32,292,515

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(300,693)
Deduct - accrued interest on bonds payable	(52,051)

Net assets of governmental activities	<u>\$ 57,119,666</u>
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The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2007

	<u>General Fund</u>	<u>Special Education</u>	<u>Regional Vocational Education</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Local sources	\$ 3,971,306	\$ 82,672,607	\$ 19,459,512	\$ 883,743	\$ 106,987,168
State sources	5,149,882	22,131,780	1,218,057	74,318	28,574,037
Federal sources	775,165	23,637,098	1,692,058	-	26,104,321
Interdistrict	1,372,681	57,924,476	62,442	-	59,359,599
	<u>11,269,034</u>	<u>186,365,961</u>	<u>22,432,069</u>	<u>958,061</u>	<u>221,025,125</u>
Total revenues					
Expenditures					
Current:					
Instruction	108,351	-	10,268,539	-	10,376,890
Supporting services	11,374,711	64,165,567	8,610,513	-	84,150,791
Community service	29,311	112,416	-	-	141,727
Other services	93,980	14,500	131,693	5,183	245,356
Interdistrict transactions	310,621	119,991,133	147,000	-	120,448,754
Capital outlay	39,463	25,708	1,013,440	1,506,579	2,585,190
	<u>11,956,437</u>	<u>184,309,324</u>	<u>20,171,185</u>	<u>1,511,762</u>	<u>217,948,708</u>
Total expenditures					
Revenues over (under) expenditures	<u>(687,403)</u>	<u>2,056,637</u>	<u>2,260,884</u>	<u>(553,701)</u>	<u>3,076,417</u>
Other financing sources (uses)					
Transfers in	2,325,373	-	483,641	-	2,809,014
Transfers out	(283,012)	(907,776)	(1,037,079)	(581,147)	(2,809,014)
	<u>2,042,361</u>	<u>(907,776)</u>	<u>(553,438)</u>	<u>(581,147)</u>	<u>-</u>
Total other financing sources (uses)					
Net changes in fund balances	1,354,958	1,148,861	1,707,446	(1,134,848)	3,076,417
Fund balances, beginning of year	<u>2,798,323</u>	<u>3,123,792</u>	<u>6,621,042</u>	<u>8,006,613</u>	<u>20,549,770</u>
Fund balances, end of year	<u>\$ 4,153,281</u>	<u>\$ 4,272,653</u>	<u>\$ 8,328,488</u>	<u>\$ 6,871,765</u>	<u>\$ 23,626,187</u>

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

KENT INTERMEDIATE SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2007

Net change in fund balances - total governmental funds	\$ 3,076,417
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add - capital outlay	1,073,865
Deduct - depreciation expense	(2,174,028)
Deduct - net disposal of capital assets	(25,868)
Revenues in the statement of activities that provide economic resources regardless of the date of receipt are recorded when measurable and available in the fund statements.	
Deduct - change in deferred long-term receivables	(41,140)
Internal service funds are used by management to charge the costs of certain personnel costs to individual funds. The net increase in the net assets of the internal service funds are reported with governmental activities.	
Add - net income for the internal service fund	56,944
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the statement of revenues, expenditures and changes in fund balances.	
Deduct - increase in accrued interest payable on bonds	<u>(9,785)</u>
Change in net assets of governmental activities	<u>\$ 1,956,405</u>

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

KENT INTERMEDIATE SCHOOL DISTRICT

**Statement of Revenues, Expenditures
and Changes in Fund Balances
Budget and Actual
General Fund and Major Special Revenue Funds**

For the Year Ended June 30, 2007

	General Fund			
	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Local sources	\$ 3,666,835	\$ 5,151,343	\$ 3,971,306	\$ (1,180,037)
State sources	3,097,949	4,960,755	5,149,882	189,127
Federal sources	497,733	827,999	775,165	(52,834)
Interdistrict	1,075,964	1,367,528	1,372,681	5,153
Total revenues	8,338,481	12,307,625	11,269,034	(1,038,591)
Expenditures				
Current:				
Instruction:				
Basic programs	37,490	138,516	108,351	(30,165)
Adult continuing education	-	-	-	-
Student instruction and added needs	-	-	-	-
Supporting services:				
Pupil services	1,415,515	2,513,926	2,140,062	(373,864)
Instructional staff	3,175,082	4,685,412	4,476,848	(208,564)
General administration	591,060	679,428	581,537	(97,891)
School administration	-	-	-	-
Business services	1,450,759	1,422,629	1,090,774	(331,855)
Operation and maintenance	392,517	473,874	426,690	(47,184)
Transportation services	-	-	-	-
Central services	1,757,076	2,634,531	2,658,800	24,269
Other services	61,716	155,406	93,980	(61,426)
Community service	51,245	52,403	29,311	(23,092)
Interdistrict transactions	450,420	477,560	310,621	(166,939)
Capital outlay	79,162	94,812	39,463	(55,349)
Total expenditures	9,462,042	13,328,497	11,956,437	(1,372,060)
Revenues over (under) expenditures	(1,123,561)	(1,020,872)	(687,403)	333,469
Other financing sources (uses)				
Transfers in	2,175,000	2,175,000	2,325,373	150,373
Transfers out	(1,138,969)	(1,156,620)	(283,012)	873,608
Total other financing sources (uses)	1,036,031	1,018,380	2,042,361	1,023,981
Net changes in fund balances	(87,530)	(2,492)	1,354,958	1,357,450
Fund balances, beginning of year	2,798,323	2,798,323	2,798,323	-
Fund balances, end of year	\$ 2,710,793	\$ 2,795,831	\$ 4,153,281	\$ 1,357,450

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

Special Education Fund				Vocational Education Fund			
Budget Amounts		Actual	Variance with Final Budget	Budget Amounts		Actual	Variance with Final Budget
Original	Final			Original	Final		
\$ 79,526,299	\$ 79,575,147	\$ 82,672,607	\$ 3,097,460	\$ 19,399,000	\$ 19,652,000	\$ 19,459,512	\$ (192,488)
14,406,672	21,092,736	22,131,780	1,039,044	925,000	925,000	1,218,057	293,057
26,994,013	27,367,798	23,637,098	(3,730,700)	1,369,885	1,841,053	1,692,058	(148,995)
45,472,142	54,945,313	57,924,476	2,979,163	-	60,000	62,442	2,442
166,399,126	182,980,994	186,365,961	3,384,967	21,693,885	22,478,053	22,432,069	(45,984)
-	-	-	-	-	-	-	-
-	-	-	-	275,817	44,595	33,572	(11,023)
-	-	-	-	10,933,132	11,395,370	10,234,967	(1,160,403)
41,322,802	42,715,093	42,039,084	(676,009)	2,216,700	1,355,031	1,221,587	(133,444)
831,315	1,195,255	1,081,899	(113,356)	1,705,105	1,901,565	1,695,661	(205,904)
239,977	239,977	89,353	(150,624)	255,234	321,606	313,453	(8,153)
-	-	-	-	1,392,220	1,415,695	1,445,918	30,223
502,250	502,250	494,421	(7,829)	134,000	124,000	130,143	6,143
389,985	418,906	373,801	(45,105)	3,556,970	3,570,198	3,092,217	(477,981)
16,333,142	16,284,313	19,845,255	3,560,942	54,250	54,250	48,813	(5,437)
232,714	247,305	241,754	(5,551)	686,965	700,782	662,721	(38,061)
50,000	50,000	14,500	(35,500)	196,454	206,454	131,693	(74,761)
91,114	143,398	112,416	(30,982)	-	-	-	-
105,029,697	118,492,774	119,991,133	1,498,359	158,000	157,000	147,000	(10,000)
23,000	37,000	25,708	(11,292)	1,504,472	1,523,907	1,013,440	(510,467)
165,045,996	180,326,271	184,309,324	3,983,053	23,069,319	22,770,453	20,171,185	(2,599,268)
1,353,130	2,654,723	2,056,637	(598,086)	(1,375,434)	(292,400)	2,260,884	2,553,284
-	-	-	-	2,815,600	1,523,600	483,641	(1,039,959)
(2,334,054)	(1,004,644)	(907,776)	96,868	(1,080,000)	(1,080,000)	(1,037,079)	42,921
(2,334,054)	(1,004,644)	(907,776)	96,868	1,735,600	443,600	(553,438)	(997,038)
(980,924)	1,650,079	1,148,861	(501,218)	360,166	151,200	1,707,446	1,556,246
3,123,792	3,123,792	3,123,792	-	6,621,042	6,621,042	6,621,042	-
\$ 2,142,868	\$ 4,773,871	\$ 4,272,653	\$ (501,218)	\$ 6,981,208	\$ 6,772,242	\$ 8,328,488	\$ 1,556,246

KENT INTERMEDIATE SCHOOL DISTRICT

Statement of Net Assets Internal Service Fund

For the Year Ended June 30, 2007

	Internal Service Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 442,021
Accounts receivable	16,196
Due from other funds	1,279
Prepaid items	91,832
	<hr/>
Total current assets	551,328
	<hr/>
Liabilities	
Current liabilities:	
Accounts payable	29,860
Due to other funds	2,931
Compensated absences payable within one year	71,659
	<hr/>
Total current liabilities	104,450
Noncurrent liabilities:	
Compensated absences, net of current portion	192,311
	<hr/>
Total liabilities	296,761
	<hr/>
Net assets	
Unrestricted	\$ 254,567
	<hr/> <hr/>

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

KENT INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets Internal Service Fund

For the Year Ended June 30, 2007

	Internal Service Fund
Operating revenues	
Charges for services	\$ 2,553,498
Operating expenses	
Personnel services	2,489,142
Supplies	29,935
Total operating expenses	<u>2,519,077</u>
Operating income	34,421
Non operating revenues	
Interest income	<u>22,523</u>
Change in net assets	56,944
Net assets, beginning of year	<u>197,623</u>
Net assets, end of year	<u><u>\$ 254,567</u></u>

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

KENT INTERMEDIATE SCHOOL DISTRICT

Statement of Cash Flows Internal Service Fund

For the Year Ended June 30, 2007

	Internal Service Fund
Cash flows from operating activities	
Receipts from interfund services provided	\$ 2,540,233
Payments to employees	(2,571,927)
Payments to vendors	(75)
	<hr/>
Net cash used in operating activities	(31,769)
Cash flows from non-capital financing activities	
Due from other funds	21,337
Cash flows from investing activities	
Interest earned on investments	22,523
	<hr/>
Net increase in cash and cash equivalents	12,091
Cash and cash equivalents, beginning of year	429,930
	<hr/>
Cash and cash equivalents, end of year	\$ 442,021
	<hr/> <hr/>
Cash flows from operating activities	
Operating income	\$ 34,421
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in operating assets and liabilities which provided (used) cash:	
Accounts receivables	(16,196)
Prepaid items	(59,200)
Accounts payable	29,860
Due to other funds	2,931
Compensated absences	(23,585)
	<hr/>
Net cash used in operating activities	\$ (31,769)
	<hr/> <hr/>

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

KENT INTERMEDIATE SCHOOL DISTRICT

Statement of Net Assets Fiduciary Funds

June 30, 2007

	<u>Private Purpose Trust Robert Scutt Fund</u>	<u>Agency Fund</u>
Assets		
Cash and cash equivalents	\$ 128,334	\$ 217,874
Accounts receivable	-	710
	<u>128,334</u>	<u>218,584</u>
Total assets	<u>128,334</u>	<u>\$ 218,584</u>
Liabilities		
Due to other governmental units	-	<u>\$ 218,584</u>
Net assets		
Restricted for scholarships	112,083	
Unrestricted	<u>16,251</u>	
Total net assets	<u>\$ 128,334</u>	

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

KENT INTERMEDIATE SCHOOL DISTRICT

**Statement of Changes in Net Assets
Private Purpose Trust Fund**

For the Year Ended June 30, 2007

	Robert Scutt Fund
Additions	
Contributions	\$ 6,431
Deductions	
Scholarship payments	-
Change in net assets	6,431
Net assets held in trust	
Beginning of year	121,903
End of year	<u>\$ 128,334</u>

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

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Kent Intermediate School District (the “District”) was created by state law and is governed by a five-member Board of Education elected by member districts. The District has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be included in its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from fiduciary activities which are utilized to account for the assets of other entities for which the District acts in an agency capacity. The District had no *business-type activities* during the year ended June 30, 2007.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, 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.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. 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 provider have been met.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are 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 government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received within 60 days of year end, expenditure driven grant revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Special Education Fund* accounts for monies received from federal, state and local sources which are restricted to instruction and services related to providing special education.

The *Regional Vocational Education Fund* accounts for monies received from federal, state and local sources which are restricted to instruction and services related to providing vocational education.

Additionally, the District reports the following fund types:

The *Special Revenue Fund* accounts for the accumulation and disbursement of resources which are restricted or earmarked for a specific purpose.

The *Capital Projects Funds* account for accumulation and disbursement of resources for the acquisition or construction of capital assets.

The *Debt Service Fund* accounts for accumulation and disbursement of resources for debt service on the Durant bonds which are payable only by state appropriation.

The *Internal Service Fund* accounts for earned, but unused, sick, vacation, and termination benefits that the ISD may be liable for upon employee retirement or termination.

The *Agency Fund* accounts for assets held for other groups and organizations and is custodial in nature.

The *Private-Purpose Trust Fund* accounts for amounts entrusted to the District for scholarship awards.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

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

D. Assets, liabilities and net assets or equity

1. Deposits and investments

The District's cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds”.

3. *Inventories and prepaid items*

Inventories, which consist of supplies and lots held for construction are valued at cost. Inventories are recorded as expenditures when consumed rather than when purchased.

Payments made to vendors for services that will benefit periods beyond the District’s fiscal year-end are recorded as prepaid items in both government-wide and fund financial statements.

4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Building renovations are capitalized if the cost is greater than \$50,000 per renovation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Equipment	5-15
Vehicles	5-10

5. *Compensated absences*

It is the District’s policy to permit employees to accumulate earned but unpaid vacation, sick pay and termination benefits. All employee benefits are accrued when incurred in the internal service fund.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

6. Long-term obligations

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

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method.

7. Fund equity

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The General and Special Revenue Funds are under formal budgetary control. Budgets adopted by the District are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgets displayed in the financial statements consist of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted at the program level. All annual appropriations lapse at fiscal year end.

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

1. The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain local district comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except for internal service funds.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

5. Adoption and amendments of all budgets used by the District are governed by Public Act 621, which was followed for the year ended June 30, 2007. Expenditures may not exceed appropriations at the function level (the legal level of budgetary control). The appropriations resolutions are based on the projected expenditures budget of the District. Any amendment to the original budget must meet the requirements of Public Act 621.

B. Excess of Expenditures over Appropriations in Budgetary Funds

During the year ended June 30, 2007, the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund			
Supporting services:			
Central services	\$ 2,634,531	\$ 2,658,800	\$ 24,269
Special Education Fund			
Supporting services:			
Transportation services	16,284,313	19,845,255	3,560,942
Interdistrict transactions	118,492,774	119,235,248	1,498,359
Vocational Education Fund			
Supporting services:			
School administration	1,415,695	1,445,918	30,223
Business services	124,000	130,143	6,143

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

The captions on the financial statements relating to cash and cash equivalents and investments are as follows:

	Governmental Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$ 18,318,888	\$ 346,208	\$ 18,665,096
Investments	14,368,056	-	14,368,056
Total	\$32,686,944	\$ 346,208	\$33,033,152

These deposits are in two (2) financial institutions located in Michigan. State policy limits the District's investing options to financial institutions located in Michigan. All accounts are in the name of the District and a specific fund or common account. They are recorded in District records at fair value.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

The District's cash and investments are comprised of the following:

Checking/savings accounts	\$ 7,869,438
Investments	25,163,689
Petty cash	<u>25</u>
Total	<u>\$33,033,152</u>

The District chooses to disclose its investments by specifically identifying each. As of year-end, the District had the following investments:

	Maturity	Fair Value	Rating
Sweep Investments	n/a	\$16,881,473	Not rated
Huntington Money Market IV	n/a	456,795	Not rated
Federal Home Loan Bank	10/12/2007	99,406	AAA S&P
Federal Home Loan Bank	07/28/2007	155,365	AAA S&P
Federal Home Loan Mortgage Corp.	08/14/2007	249,790	AAA S&P
Federal Home Loan Bank	02/08/2008	199,812	AAA S&P
Federal Home Loan Bank	06/16/2008	124,961	AAA S&P
Federal Farm Credit Bank	06/18/2008	197,688	AAA S&P
Federal Home Loan Bank	12/04/2007	99,438	AAA S&P
Federal Home Loan Bank	09/06/2007	149,859	AAA S&P
Federal Home Loan Bank	03/24/2008	218,007	AAA S&P
Federal Home Loan Bank	12/19/2008	198,062	AAA S&P
Federal Home Loan Bank	12/28/2007	234,413	AAA S&P
Federal Home Loan Bank	05/14/2008	299,718	AAA S&P
Federal Home Loan Mortgage Corp.	03/27/2009	149,609	AAA S&P
Federal Home Loan Mortgage Corp.	04/15/2009	197,990	AAA S&P
Federal Home Loan Mortgage Corp.	04/15/2009	98,995	AAA S&P
Federal Home Loan Mortgage Corp.	04/15/2009	168,292	AAA S&P
Federal National Mortgage Assn.	05/26/2009	749,295	AAA S&P
Federal Home Loan Bank	05/26/2009	299,718	AAA S&P
Federal National Mortgage Assn.	06/03/2009	99,688	AAA S&P
Huntington Premier Money Market	n/a	2,700,947	Not rated
LaSalle Public Funds Money Market	n/a	<u>1,134,368</u>	Not rated
		<u>\$ 25,163,689</u>	

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the District's specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1 (summary of significant accounting policies). The investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year-end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the District's investment policy. As of year-end, \$8,770,257 of the District's bank balance of \$8,970,257 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. Of the above \$25,163,689 in investments the District has a custodial credit risk exposure of \$20,871,579 because the related securities are uninsured, unregistered and held in the counterparty's trust department's name.

Concentration of Credit Risk – Investments. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

B. Capital assets

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

	<u>Balance July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 474,740	\$ -	\$ -	\$ 474,740
Construction in progress	45,985	374,747	-	420,732
Total capital assets, not being depreciated	<u>520,725</u>	<u>374,747</u>	<u>-</u>	<u>895,472</u>
Capital assets, being depreciated:				
Buildings and structures	43,896,076	76,067	-	43,972,143
Furniture and equipment	12,692,260	623,051	(25,254)	13,290,057
Vehicles	733,377	-	(137,972)	595,405
Total capital assets, being depreciated	<u>57,321,713</u>	<u>699,118</u>	<u>(163,226)</u>	<u>57,857,605</u>

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Less accumulated depreciation for:				
Buildings and structures	\$ 17,073,079	\$ 1,147,529	\$ -	\$ 18,220,608
Furniture and equipment	5,880,117	975,824	(25,254)	6,830,687
Vehicles	575,224	50,675	(112,104)	513,795
Total accumulated depreciation	23,528,420	2,147,028	(137,358)	25,565,090
Net capital assets, being depreciated	33,793,293	(1,474,910)	(25,868)	32,292,515
Net governmental activities capital assets	\$ 34,314,018	\$ (1,100,163)	\$ (25,868)	\$ 33,187,987

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
Instruction	\$ 848,306
Supporting services	333,061
Unallocated depreciation	992,661
Total depreciation expense – governmental activities	\$2,174,028

C. Interfund receivables, payables and transfers

The composition of interfund balances as of June 30, 2007, is as follows:

	Due From Other Funds	Due To Other Funds
Major Governmental Funds		
General Fund	\$180,270	\$ 3,745
Special Education	3,745	178,042
Vocational Education	-	576
Internal Service Fund	1,279	2,931
Total	\$185,294	\$185,294

Interfund balances represent short-term borrowings between funds for cash flow purposes.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

The composition of transfers for the year ended June 30, 2007 is as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General	\$2,325,373	\$ 283,012
Special Education	-	907,776
Vocational Education	483,641	1,037,479
Nonmajor Governmental Funds	-	581,147
Total	<u>\$2,809,014</u>	<u>\$2,809,014</u>

D. Operating Leases

The District leases equipment under noncancellable operating leases expiring through 2011. Total costs for such leases were \$197,938 for the current year. The future minimum lease payments for these leases are as follows:

<u>Years Ending June 30</u>	<u>Total</u>
2008	\$174,014
2009	171,364
2010	171,364
2011	171,364
Total	<u>\$688,106</u>

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

E. Long-term liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>Balance June 30, 2007</u>	<u>Due in One Year</u>
1998 School Improvement Revenue Bonds (Durant Settlement), \$509,250 issued, due in amounts ranging from \$27,053 through \$142,440 plus interest at 4.8% payable through 2013 (payable only by an annual State of Michigan appropriation to the District)	\$300,693	\$ -	\$ -	\$300,693	\$ -
Compensated absences/severance pay	<u>287,555</u>	<u>96,812</u>	<u>(120,397)</u>	<u>263,970</u>	<u>71,659</u>
Total long-term liabilities	<u>\$588,248</u>	<u>\$ 96,812</u>	<u>\$(120,397)</u>	<u>\$564,663</u>	<u>\$ 71,659</u>

Compensated absences and the early retirement incentive are generally liquidated from the general, special education and vocational education funds.

Annual debt service requirements to maturity for the revenue bonds are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ -	\$ -	\$ -
2009	28,341	7,421	35,762
2010	174,531	65,742	240,273
2011	31,104	4,658	35,762
2012	32,583	3,177	35,760
2013	<u>34,134</u>	<u>1,625</u>	<u>35,759</u>
Totals	<u>\$300,693</u>	<u>\$82,623</u>	<u>\$383,316</u>

IV. OTHER INFORMATION

A. Public entity risk (insurance) pool self-insurance plan

Kent ISD participates in a public entity insurance pool with other governmental units in the West Michigan Health Insurance Pool (a non-profit corporation). This is a self-insurance fund which provides members with health insurance benefits. The pool was created on July 1, 2005 and organized under Public Act 138 of 1982, as amended, as a governmental group self-insurance pool. Kent ISD began participation in this pool on September 1, 2005. There were no significant reductions in coverage and settlements did not exceed insurance coverage during the fiscal year ended June 30, 2007.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

The pool does not maintain separate funds for members and consequently the District's share of the total assets and equity is unknown. Audited financial statements of the fund are available.

B. Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2007, the District carried insurance to cover all risks of losses. The District has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

C. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 or December 1 of the following year by the various governmental units within the District. Delinquent real taxes are advanced to the District by the Revolving Tax Funds of the counties within the District.

D. Defined benefit pension plan

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

The rate from July to September was 16.34% and was 17.74% from October to June of covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2007, 2006, and 2005 were \$8,186,551, \$7,319,425, and \$6,392,351, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage which is funded as part of the above pension contribution. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

E. Contingencies

Federal Grant Programs

The District participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, not to be material.

F. Subsequent Event

Subsequent to year-end, the District leased a hangar for its vocational education program in the amount of \$1,750,000.

* * * * *

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

KENT INTERMEDIATE SCHOOL DISTRICT

**Combining Balance Sheet
Nonmajor Governmental Funds**

June 30, 2007

	Special Revenue		Capital Projects	
	Cooperative Education	General Education	Special Education	Vocational Education
Assets				
Cash and cash equivalents	\$ -	\$ 113,308	\$ 405,042	\$ 215,335
Investments	-	727,075	2,560,434	1,950,347
Due from other governmental units	-	-	18,706	50,925
Prepaid items	-	-	-	1,050,000
Total assets	\$ -	\$ 840,383	\$ 2,984,182	\$ 3,266,607
Liabilities				
Accounts payable	\$ -	\$ -	\$ 168,482	\$ -
Deferred revenue	-	-	-	50,925
Total liabilities	-	-	168,482	50,925
Fund balances				
Reserved for:				
Prepaid items	-	-	-	1,050,000
Unreserved:				
Designated for tax tribunals	-	-	1,326	-
Designated - ESC Project	-	290,000	100,000	610,000
Designated - Lincoln facility expansion	-	-	1,500,000	-
Undesignated	-	550,383	1,214,374	1,555,682
Total fund balance	-	840,383	2,815,700	3,215,682
Total liabilities and fund balances	\$ -	\$ 840,383	\$ 2,984,182	\$ 3,266,607

Debt Service Durant	Total
-	\$ 733,685
-	5,237,856
352,744	422,375
-	1,050,000
<u>\$ 352,744</u>	<u>\$ 7,443,916</u>
\$ -	\$ 168,482
352,744	403,669
<u>352,744</u>	<u>572,151</u>
-	1,050,000
-	1,326
-	1,000,000
-	1,500,000
-	3,320,439
<u>-</u>	<u>6,871,765</u>
<u>\$ 352,744</u>	<u>\$ 7,443,916</u>

KENT INTERMEDIATE SCHOOL DISTRICT

**Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds**

For the Year Ended June 30, 2007

	Special Revenue		Capital Projects	
	Cooperative Education	General Education	Special Education	Vocational Education
Revenues				
Local sources	\$ 12,961	\$ 40,593	\$ 725,322	\$ 104,867
State sources	-	-	23,393	50,925
Total revenues	<u>12,961</u>	<u>40,593</u>	<u>748,715</u>	<u>155,792</u>
Expenditures				
Current:				
Support services	-	-	5,183	-
Capital outlay	-	216,420	897,144	393,015
Total expenditures	<u>-</u>	<u>216,420</u>	<u>902,327</u>	<u>393,015</u>
Revenues over (under) expenditures	12,961	(175,827)	(153,612)	(237,223)
Other financing uses				
Transfers out	<u>(581,147)</u>	-	-	-
Net changes in fund balances	(568,186)	(175,827)	(153,612)	(237,223)
Fund balances, beginning of year	<u>568,186</u>	<u>1,016,210</u>	<u>2,969,312</u>	<u>3,452,905</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 840,383</u>	<u>\$ 2,815,700</u>	<u>\$ 3,215,682</u>

Debt Service		
Durant		Total
\$ -	\$ 883,743	
-	74,318	
-	958,061	
-	5,183	
-	1,506,579	
-	1,511,762	
-	(553,701)	
-	(581,147)	
-	(1,134,848)	
-	8,006,613	
<u>\$ -</u>	<u>\$ 6,871,765</u>	

KENT INTERMEDIATE SCHOOL DISTRICT

**Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
Cooperative Education Fund**

For the Year Ended June 30, 2007

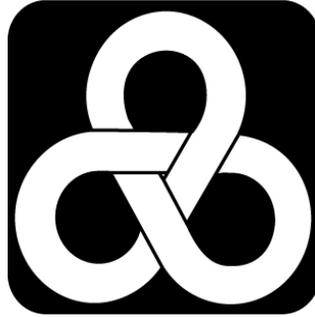
	Budget		Actual	Variance With Final Budget
	Original	Amended		
Revenues				
Local sources	\$ -	\$ 12,961	\$ 12,961	\$ -
Other financing uses				
Transfers out	(500,000)	(581,147)	(581,147)	-
Net changes in fund balances	(500,000)	(568,186)	(568,186)	-
Fund balance, beginning of year	568,186	568,186	568,186	-
Fund balance, end of year	\$ 68,186	\$ -	\$ -	\$ -

KENT INTERMEDIATE SCHOOL DISTRICT

Statement of Changes in Assets and Liabilities Agency Fund

For the Year Ended June 30, 2007

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
Assets				
Cash and cash equivalents	\$ 198,748	\$ 2,224,288	\$ 2,205,162	\$ 217,874
Accounts receivable	615	63,660	63,565	710
	<hr/>			
Total assets	\$ 199,363	\$ 2,287,948	\$ 2,268,727	\$ 218,584
	<hr/>			
Liabilities				
Accounts payable	\$ 1,798	\$ 175,077	\$ 176,875	\$ -
Due to other governmental units	197,565	140,413	119,394	218,584
Due to other funds	-	1,278,321	1,278,321	-
	<hr/>			
Total liabilities	\$ 199,363	\$ 1,593,811	\$ 1,574,590	\$ 218,584
	<hr/>			



KENT INTERMEDIATE SCHOOL DISTRICT

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

KENT INTERMEDIATE SCHOOL DISTRICT

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	3-4
Schedule of Expenditures of Federal Awards	5-6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Subrecipient Expenditures of Federal Awards	8-16
Schedule of Findings and Questioned Costs	17-18



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

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

November 12, 2007

Board of Education
Kent Intermediate School District
Grand Rapids, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Kent Intermediate School District, as of and for the year ended June 30, 2007, and have issued our report thereon dated November 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the 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. We consider finding 2007-1 as described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

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

Our considering of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Kent Intermediate School District in a separate letter dated November 12, 2007.

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

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive style with a large, prominent initial 'L'.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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

November 12, 2007

Board of Education
Kent Intermediate School District
Grand Rapids, Michigan

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Kent Intermediate School District as of and for the year ended June 30, 2007 and have issued our report thereon dated November 12, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Kent Intermediate School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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



KENT INTERMEDIATE SCHOOL DISTRICT

Schedule of Expenditures of Federal Award

For the Year Ended June 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Award Amount	(Memo Only) Prior Year Expenditures	Accrued or (Deferred) Revenue at July 1, 2006	Federal Funds/ Payments In-kind Received	Expenditures	Accrued or (Deferred) Revenue at June 30, 2007
U.S. Department of Agriculture							
<i>Passed through Michigan State University</i>							
Food Stamps	10.551	\$ 60,946	\$ -	\$ -	\$ -	\$ 45,617	\$ 45,617
U.S. Department of Education							
<i>Passed through the Michigan Department of Education</i>							
<i>Special Education Cluster</i>							
<i>IDEA Flow Through/State Initiated Department</i>							
Flow Through 070450-0607	84.027	22,099,410	-	-	15,136,851	21,611,466	6,474,615
Flow Through 060450-0506	84.027	21,894,045	21,820,073	5,420,073	5,474,663	73,967	19,377
State Initiated/Competitive 070480-EOSD	84.027A	65,000	-	-	61,094	65,000	3,906
State initiated/Competitive 070490-TS	84.027A	115,000	-	-	95,220	115,000	19,780
Total IDEA Flow Through/State Initiated Department		44,173,455	21,820,073	5,420,073	20,767,828	21,865,433	6,517,678
<i>IDEA Preschool</i>							
Preschool Incentive 070460-0607	84.173	933,653	-	-	628,741	909,703	280,962
Preschool Incentive 060460-0506	84.173	947,152	945,756	245,756	247,152	1,396	-
Total IDEA Preschool		1,880,805	945,756	245,756	875,893	911,099	280,962
<i>Infant and Toddler Early Intervention Program</i>							
Formula Grant 071340-190	84.181	660,870	-	-	514,675	623,278	108,603
Formula Grant 061340-190	84.181	681,044	600,667	69,974	129,205	80,377	21,146
Total Infant and Toddler Early Intervention		1,341,914	600,667	69,974	643,880	703,655	129,749
<i>Title V</i>							
Innovative Education Program 070250-0607	84.298	45,949	-	-	24,611	38,935	14,324
Innovative Education Program 060250-0607	84.298	16,302	-	-	14,262	13,966	(296)
Innovative Education Program 060250-0506	84.298	82,571	66,270	2,028	2,028	-	-
Innovative Education Program 050250-0506	84.298	7,512	7,512	(458)	(458)	-	-
Total Title V		152,334	73,782	1,570	40,443	52,901	14,028
<i>Title I</i>							
Regional Assistance Grants 061570-0607	84.010	630,000	-	-	-	114,219	114,219
<i>Title II D</i>							
Enhancing Education through Technology 074240	84.318X	200,000	-	-	183,727	183,727	-
<i>Safe and Drug Free Schools and Communities</i>							
Drug Free Formula 072860/0607	84.186	349,058	-	-	139,146	226,075	86,929
Drug Free Formula 062860/0607	84.186	109,205	-	-	64,711	109,205	44,494
Drug Free Formula 062860/0506	84.186	410,181	301,136	119,268	119,268	-	-
Total Safe and Drug Free Schools and Communities		868,444	301,136	119,268	323,125	335,280	131,423
<i>Carl D. Perkins Vocational and Applied Technology Education Act of 1990</i>							
Regional Allocation-Special Needs 073520/701213	84.048A	1,244,936	-	-	1,000,600	1,244,936	244,336
<i>Passed through Grand Valley State University</i>							
Kent Can 06/07	84.027A	35,000	-	-	35,000	20,097	(14,903)
Kent Can 05/06	84.027A	35,000	35,000	3,500	3,500	-	-
		70,000	35,000	3,500	38,500	20,097	(14,903)
<i>Passed through Ferris State University</i>							
Freedom to Learn ISD Support Services	84.318	24,000	15,042	(6,541)	-	6,541	-
<i>Passed through Grand Rapids Community College</i>							
<i>Tech Prep Grant</i>							
Tech Prep Grant 06/07	84.243	138,350	-	-	51,918	83,220	31,302
Tech Prep Grant 05/06	84.243	110,371	110,371	26,240	26,240	-	-
Total Tech Prep Grant		248,721	110,371	26,240	78,158	83,220	31,302
Total U.S. Department of Education		50,834,609	23,901,827	5,879,840	23,952,154	25,521,108	7,448,794

KENT INTERMEDIATE SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards (Continued)

For the Year Ended June 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Award Amount	(Memo Only) Prior Year Expenditures	Accrued or (Deferred) Revenue at July 1, 2006	Federal Funds/ Payments In-kind Received	Expenditures	Accrued or (Deferred) Revenue at June 30, 2007
U.S. Department of Labor							
<i>Passed through ACSET</i>							
Education Advisory Group	17.259	\$ 41,450	\$ -	\$ -	\$ 41,450	\$ 41,450	\$ -
WIA Youth 05/06	17.259	20,989	16,894	16,894	20,989	4,095	-
WIA Youth 06/07	17.259	409,222	-	-	223,962	318,357	94,395
Total U.S. Department of Labor		471,661	16,894	16,894	286,401	363,902	94,395
Corporation for National and Community Service							
<i>Passed through the Michigan Department of Labor and Economic Growth</i>							
Learn and Serve-Michigan	94.004	40,000	-	-	2,189	36,880	34,691
U.S. Department of Health and Human Services							
<i>Passed through the Michigan Department of Education</i>							
<i>Medicaid Outreach</i>							
Medicaid Outreach	93.778	N/A	32,711	(2,046,234)	592,739	19,869	(2,619,104)
School Based Medicaid 06-07	93.778	116,945	-	-	116,945	116,945	-
Total U.S. Department of Health and Human Services		116,945	32,711	(2,046,234)	709,684	136,814	(2,619,104)
Total Expenditures of Federal Awards		\$ 51,524,161	\$ 23,951,432	\$ 3,850,500	\$ 24,950,428	\$ 26,104,321	\$ 5,004,393

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

Basis of Accounting

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

Expenditures are in agreement with amounts reported in the basic financial statements. Management has utilized the Grants Section Auditors Report (form R7120) and the Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards. The Medicaid Outreach Funds which have been deferred at year end are subject to final allowable cost review (back casting). This balance will be recognized as revenue upon completion of the review process.

Reconciliation of Basic Financial Statements

Revenues from federal sources per the June 30, 2007 financial statements agree with federal revenues from the June 30, 2007 Schedule of Expenditures of Federal Awards.

Medicaid Administrative Outreach

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

Deferred revenue – July 1, 2006	\$ 2,046,234
Revenue deferred during the year	<u>572,870</u>
Deferred revenue – June 30, 2007	<u>\$ 2,619,104</u>

The amounts deferred are the result of possible repayments that may be made in the future resulting from the back casting process. The District will be evaluating past history related to these funds and a reasonable proration will be distributed to the local districts during the fiscal year ending June 30, 2008.

KENT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
CLUSTERS		
U.S. DEPARTMENT OF EDUCATION		
<i>Passed through the Michigan Department of Education:</i>		
Special Education Fund		
IDEA Flow Through		
Flow Through 060450-0506:	84.027	
Passed through to:		
Byron Center Public Schools		\$ 201,426
Caledonia Community Schools		188,542
Cedar Springs Public Schools		224,215
Chandler Woods Charter Academy		15,385
Comstock Park Public Schools		122,059
Cross Creek Charter Academy		22,877
East Grand Rapids Public Schools		158,604
Excel Charter Academy		33,538
Forest Hills Public Schools		616,439
Godfrey-Lee Public Schools		105,066
Godwin Heights Public Schools		159,922
Grand Rapids Public Schools		1,880,457
Grandville Public Schools		335,314
Horizons High School		13,444
Kelloggsville Public Schools		95,275
Kent City Community Schools		61,020
Kentwood Public Schools		520,978
Knapp Charter Academy		37,053
Lowell Area Schools		262,307
Northview Public Schools		224,631
Ridge Park Academy		28,719
Rockford Public Schools		382,342
Thornapple Kellogg Public Schools		97,039
Vanguard Academy		24,094
Vista Charter Academy		23,332
Walker Charter Academy		24,253
William C. Abney Academy		8,082
West Michigan Academy of Environmental Science		17,405
Wyoming Public Schools		368,939
Total Flow Through 060450-0506		6,252,757

KENT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Flow Through 070450-0607:	84.027	
<i>Passed through to:</i>		
Byron Center Charter School		\$ 26,095
Byron Center Public Schools		413,162
Caledonia Community Schools		473,857
Cedar Springs Public Schools		411,295
Chandler Woods Charter Academy		60,768
Comstock Park Public Schools		313,946
Creative Technologies Academy		35,130
Cross Creek Charter Academy		65,951
East Grand Rapids Public Schools		238,801
Excel Charter Academy		84,842
Forest Hills Public Schools		1,016,916
Gateway Middle/High School		27,362
Godfrey-Lee Public Schools		165,266
Godwin Heights Public Schools		258,470
Grand Rapids Child Discovery Center		21,670
Grand Rapids Public Schools		4,867,947
Grandville Public Schools		533,358
Horizons High School		16,634
Kellogsville Public Schools		171,060
Kenowa Hills Public Schools		341,986
Kent City Community Schools		178,488
Kentwood Public Schools		1,199,490
Knapp Charter Academy		89,695
Lowell Area Schools		402,474
New Branches School		17,039
Northview Public Schools		463,818
Ridge Park Academy		98,024
Rockford Public Schools		712,510
Sparta Area Schools		588,932
Thornapple-Kellog Public Schools		212,509
Vanguard Academy		75,383
Vista Academy		75,724
Walker Charter Academy		78,750
West Michigan Academy of Environmental Science		31,887
William C. Abney Academy		18,893
Wyoming Public Schools		704,652
Total Flow Through 070450-0607		14,492,784
Total IDEA Flow Through/State Initiated Department		20,745,541

KENT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
IDEA Preschool:		
Preschool Incentive 060460-0506:	84.173	
<i>Passed through to:</i>		
Byron Center Public Schools		\$ 10,298
Caledonia Community Schools		10,339
Cedar Springs Public Schools		10,010
Chandler Woods Charter Academy		439
Comstock Park Public Schools		6,007
East Grand Rapids Public Schools		3,045
Forest Hills Public Schools		10,040
Godfrey-Lee Public Schools		4,910
Godwin Heights Public Schools		9,539
Grand Rapids Public Schools		109,410
Grand Rapids Child Discovery Center		294
Grandville Public Schools		17,126
Kent City Community Schools		2,601
Kentwood Public Schools		36,284
Knapp Charter Academy		613
Lowell Area Schools		13,423
Northview Public Schools		9,926
Ridge Park Academy		2,334
Rockford Public Schools		20,548
Thornapple Kellogg Public Schools		6,267
Vista Charter Academy		659
Walker Charter Academy		342
West Michigan Academy of Environmental Science		985
Wyoming Public Schools		19,494
Total Preschool Incentive 060460-0506		304,933
Preschool Incentive 070460-0607:	84.173	
<i>Passed through to:</i>		
Byron Center Public Schools		20,708
Caledonia Community Schools		18,077
Cedar Springs Public Schools		21,176
Chandler Woods Charter Academy		1,079
Comstock Park Public Schools		13,501
Creative Technologies Academy		883
Cross Creek Charter Academy		2,107
East Grand Rapids Public Schools		9,395
Excel Charter Academy		1,378
Forest Hills Public Schools		32,502

KENT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Preschool Incentive 070460-0607 (Continued):		
Godfrey-Lee Public Schools		\$ 9,482
Godwin Heights Public Schools		14,567
Grand Rapids Public Schools		242,150
Grandville Public Schools		25,871
Kelloggsville Public Schools		13,539
Kenowa Hills Public Schools		12,189
Kent City Community Schools		5,797
Kentwood Public Schools		40,904
Knapp Charter Academy		2,112
Lowell Area Schools		15,541
Northview Public Schools		17,916
Ridge Park Charter Academy		2,503
Rockford Public Schools		37,702
Sparta Area Schools		22,080
Thornapple Kellogg Public Schools		11,006
Vanguard Charter Academy		1,066
Vista Charter Academy		779
Walker Charter Academy		1,509
West Michigan Academy of Environmental Science		1,006
Wyoming Public Schools		30,216
		628,741
Total Preschool Incentive 070460-0607		628,741
		933,674
State Initiated/Competitive 070490-TS:		
<i>Passed through to:</i>		
Caledonia Community Schools		1,666
East Grand Rapids Public Schools		1,682
Forest Hills Public Schools		1,666
Grand Rapids Public Schools		10,000
Kelloggsville Public Schools		10,000
Kentwood Public Schools		1,666
Lowell Area Schools		1,666
Northview Public Schools		10,000
Thornapple Kellogg Public Schools		1,666
		40,012
Total State Initiated/Competitive 070490-TS		40,012
		21,719,227

KENT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
OTHER AWARDS:		
U.S. DEPARTMENT OF EDUCATION		
<i>Passed through the Michigan Department of Education</i>		
General Education Fund		
Title V		
Innovative Education Program 060250-0506:	84.298	
Passed through to:		
Ada Christian School		\$ 148
Blessed Sacrement School		(106)
Byron Center Christian School		1,366
Calvin Christian High School		934
Calvin Christian Junior High School		78
Creston Mayfield Christian School		75
Dutton Christian Elementary School		72
Eastside Christian School		134
Evergreen Christian School		9
Grand Rapids Christian High School		766
Grandville Christian School		549
Holy Spirit School		39
Holy Trinity Catholic School		144
Immaculate Heart of Mary School		75
Immanual St. James Lutheran School		38
Kelloggsville Christian School		(105)
Legacy Christian School		4
Montessori Society of Greater Grand Rapids		247
North Hills Classical Academy		121
Northpointe Christian High School		145
Oakdale Christian School		6
Our Savior Lutheran School		7
Plymouth Christian Elementary School		(163)
Plymouth Christian High School		(116)
Potters House High School		427
Potters House School		625
Rockford Christian School		52
Sacred Heart Catholic School		304
St. Francis Xavier Catholic School		47
St. James Lutheran School		240
St. John Vianney School		252
St. Jude Elementary School		419
St. Patrick School		41
St. Peter and Paul Catholic School		132
St. Thomas Catholic School		(159)

KENT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Innovative Education Program 060250-0506 (Continued):		
South Christian High School		\$ 295
Trinity Lutheran School		6
West Catholic High School		(33)
West Side Christian School		44
		7,159
Total Innovative Education Program 060250-0506		7,159
Innovative Education Program 070250-0607:	84.298	
<i>Passed through to:</i>		
Ada Christian School		910
Blessed Sacrament School		325
Byron Center Christian School		804
Calvin Christian Elementary School		315
Calvin Christian High School		922
Calvin Christian Junior High School		276
Creston-Mayfield Christian School		380
Dutton Christian Elementary		214
Eastside Christian School		106
Evergreen Christian Elementary School		157
Grand Rapids Christian High School		2,025
Grand Rapids Christian Middle School		545
Holy Spirit School		652
Holy Trinity Catholic School		298
Immaculate Heart of Mary School		707
Immanuel St. James Lutheran School		276
Legacy Christian School		647
North Hills Classical Academy		175
Northpointe Christian Middle/High School		805
Oakdale Christian School		395
Our Savior Lutheran School		111
Plymouth Christian Elementary School		412
Plymouth Christian High School		7
Rockford Christian School		369
Sacred Heart Catholic School		208
St. Andrew School		308
St. John Vianney School		419
St. Jude Elementary School		93
St. Patrick School		194
St. Paul the Apostle School		401
St. Thomas Catholic School		501
South Christian High School		1,415
Trinity Lutheran School		63
Tri-Unity Christian Elementary		35
Tri-Unity Christian High School		231

KENT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Innovative Education Program 070250-0607 (Continued):		
Tri-Unity Christian Middle School		\$ 637
West Catholic High School		1,189
West Side Christian School		768
Zion Christian School School		253
Total Innovative Education Program 070250-0607		18,548
Total Title V		25,707
Safe and Drug Free Schools and Communities		
Drug Free Formula 062860/0607:	84.186	
<i>Passed through to:</i>		
Belding Area Schools		692
Byron Center Charter School		91
Byron Center Public Schools		1,270
Carson City-Crystal Area Schools		1,500
Central Montcalm Public Schools		7,640
Godfrey-Lee Public Schools		1,177
Godwin Heights Public Schools		1,933
Greenville Public Schools		3,827
Kenowa Hills Public Schools		5,917
Kent City Community Schools		1,269
Kentwood Public Schools		5,000
Lowell Area Schools		2,654
Montcalm Area ISD		220
Montabella Community Schools		5,144
Palo Community School		375
Portland Public Schools		3,668
Sparta Area Schools		2,727
Saranac Community Schools		3,179
Tri-County Area Schools		5,232
West Michigan Academy of Environmental Science		2,603
Total Drug Free Formula 062860/0607		56,118
Safe and Drug Free Schools and Communities		
Drug Free Formula 072860/0607:	84.186	
<i>Passed through to:</i>		
Belding Area Schools		7,317
Byron Center Charter School		251
Byron Center Public Schools		96
Caledonia Community Schools		5,820
Carson City-Crystal Area Schools		4,654

KENT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Drug Free Formula 072860/0607 (Continued):		
Cedar Springs Public Schools		\$ 7,974
Central Montcalm Public Schools		
Comstock Park Public Schools		5,751
East Grand Rapids Public Schools		3,221
Forest Hills Public Schools		15,310
Gateway Middle/High School		731
Godfrey-Lee Public Schools		2,390
Godwin Heights Public Schools		3,906
Grandville Public Schools		10,633
Greenville Public Schools		6,509
Ionia County ISD		654
Ionia Public Schools		10,761
Kelloggsville Public Schools		5,121
Kenowa Hills Public Schools		2,565
Kent City Community Schools		3,071
Kentwood Public Schools		7,248
Lakeview Community Schools		5,587
Lakewood Public Schools		5,932
Lowell Area Schools		3,122
Montabella Community Schools		220
Montcalm ISD		267
New Branches Charter School		433
Northview Public Schools		6,829
Palo Community School		29
Portland Public Schools		3,021
Rockford Public Schools		13,411
Sparta Area Schools		5,454
Thornapple-Kellogg Schools		5,211
Tri-County Area Schools		
Vestaburg Community Schools		1,761
West Michigan Academy of Environmental Science		182
William C. Abney Academy		2,374
Total Drug Free Formula 072860/0607		157,816
Total General Education Fund		239,641
Vocational Education Fund		
Carl D. Perkins Vocational and Applied Technology Education Act of 1990		
Regional Allocation-Special Needs 073520/501213:	84.048A	
<i>Passed through to:</i>		
Allegan County ISD		147,000
Total U.S. Department of Education		22,105,868

KENT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
<i>Passed through the Michigan Department of Education</i>		
Special Education Fund		
School Based Medicaid 06/07:	93.778	
<i>Passed through to:</i>		
Byron Center Charter School		\$ 3
Byron Center Public Schools		1,904
Caledonia Community Schools		1,178
Cedar Springs Public Schools		4,344
Comstock Park Public Schools		1,231
East Grand Rapids Public Schools		904
Forest Hills Public Schools		3,473
Godfrey-Lee Public Schools		1,230
Godwin Heights Public Schools		1,918
Grand Rapids Public Schools		31,049
Grandville Public Schools		2,638
Kelloggsville Public Schools		1,956
Kenowa Hills Public Schools		2,210
Kent City Community Schools		1,389
Kentwood Public Schools		4,746
<i>Passed through the Michigan Department of Education</i>		
School Based Medicaid 06/07:		
<i>Passed through to:</i>		
Lowell Area Schools		1,468
Northview Public Schools		2,420
Rockford Public Schools		3,489
Sparta Area Schools		1,677
Thornapple-Kellogg Public Schools		869
West Michigan Academy of Environmental Sciences		16
Wyoming Public Schools		7,467
Total School Based Medicaid 06/07		77,579
Total Special Education		77,579
Total Federal Financial Assistance Provided to Subrecipients		\$ 22,183,447

KENT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2007

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: *Unqualified*

Internal controls over financial reporting:
Material weakness(es) identified? _____ yes x no
Significant deficiency(ies) identified not
considered to be material weaknesses? x yes _____ none reported

Noncompliance material to financial
statements noted? _____ yes x no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? _____ yes x no
Significant deficiency(ies) identified not
considered to be material weaknesses? _____ yes x none reported

Type of auditors’ report issued on compliance
for major programs: *Unqualified*

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section 510(a)? _____ yes x no

Identification of Major Programs

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
84.027	Special Education Programs
84.173	Preschool Programs
84.048A	Vocational Education Program

Dollar threshold used to distinguish
between Type A and Type B programs: \$ 783,129

Auditee qualified as low risk auditee? x yes _____ no

KENT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2007-1 – Significant Audit Adjustments

Criteria: Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition: During our audit, we identified and proposed several significant adjustments (which were approved and posted by management) to adjust the District's general ledger to the appropriate balances. These adjustments included recording the current year change in inventory, correcting the balances in certain liability accounts, adjusting cash balances to actual, and reversing prior year adjustments.

Cause: This condition was the result of various oversights by management in reconciling the general ledger and closing out the fiscal year.

Effect: As a result of this condition, the District's accounting records were initially misstated by amounts significant to the financial statements.

Recommendation: We recommend that the District reconcile all general ledgers to subsidiary detail on a monthly basis in order to have a more accurate financial picture throughout the year.

View of Responsible Officials: It is the view of Kent ISD that there is a need for additional general ledger reconciliations throughout the fiscal year. Beginning with the 07/08 Fiscal Year, Kent ISD has established monthly general ledger account reconciliations. With the changes brought about by SAS 112, Kent ISD recognizes the need for additional procedures and controls, and are initiating a county wide internal audit solution for Kent ISD and our local districts.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS

None

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

November 12, 2007

To the Board of Education of the
Kent Intermediate School District
Grand Rapids, Michigan

We have audited the financial statements of Kent Intermediate School District for the year ended June 30, 2007, and have issued our report thereon dated November 12, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated June 5, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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

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

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Kent Intermediate School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Kent Intermediate School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Kent Intermediate School District's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed certain journal entries, all of which were recorded by management, which in our judgment, had a significant effect on Kent Intermediate School District's financial reporting process.

Disagreements with Management

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

This letter and the accompanying memorandum are intended for the use of the Board of Education, management, and federal awarding agencies and pass-through entities and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Lehmann Johnson". The signature is written in black ink and is positioned to the right of the "Very truly yours," text.

Kent Intermediate School District

Comments and Recommendations

For the Year Ended June 30, 2007

In planning and performing our audit of the financial statements of Kent Intermediate School District 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 the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the District's Single Audit Report.

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 did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Other Matters

Approval of General Journal Entries

During our audit, we noted that there is not a process in place for review and approval of all general journal entries. We recommend that all general journal entries be reviewed and approved by an individual other than the preparer to ensure proper recording and reduce the risk of fraud.

Review and Approval of Bank Reconciliations

During our review of the District's internal controls, we noted that the District is diligent in completing its bank reconciliations on a timely basis and having those reconciliations reviewed by a second individual. However, neither the preparer nor the reviewer of the bank reconciliations initial and date these documents to provide a record of when and by whom the internal control procedures were performed. We recommend that the preparer and reviewer of monthly bank reconciliations initial and date these documents.