

Manistee Intermediate School District

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2007

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

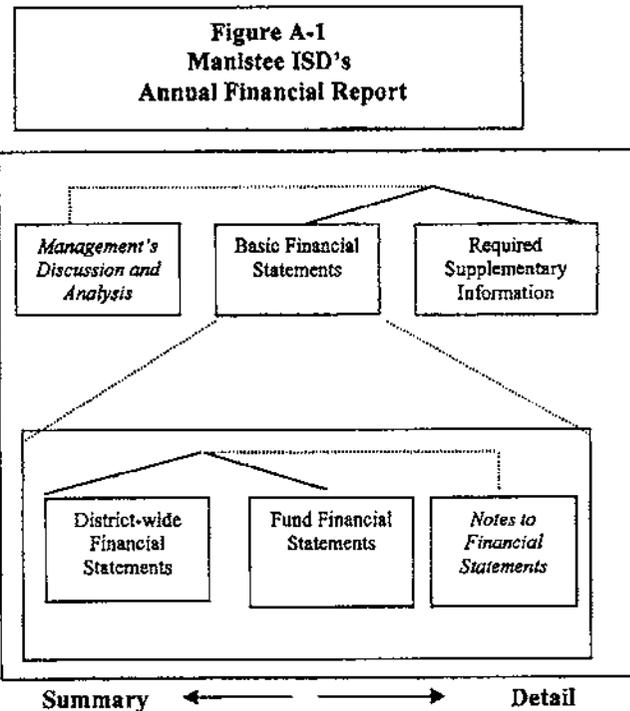
FINANCIAL HIGHLIGHTS

- The District's financial status improved due to increased revenues and flat expenses despite increases in benefits and energy costs. Net assets increased by approximately \$391,000 and fund balances increased by approximately \$260,000, excluding the Capital Projects Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic services* like regular and special education were financed in the *short-term* as well as what remains for future spending.
- The *proprietary funds* use the accrual basis of accounting; the same as on the government-wide statements, therefore the statements will essentially match the business-type activities portion of the government-wide statements.
- The *fiduciary funds* provide information about assets held by the district in a trustee or agent capacity.



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

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

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

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

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include *all* of the District's assets and liabilities, excluding fiduciary funds. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

The District's Activities

The district-wide financial statements include the following:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, vocational education, transportation and administration. Property taxes and State formula aid finance most of these activities.
- Business-type activities - The Business Cooperative and MISD Net are included here. Charges to other governmental units finance most of these activities.

FUND FINANCIAL STATEMENTS

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

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

Most of the District's activities are accounted for in governmental funds.

- *Governmental funds* – The District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information is provided with the governmental funds statements that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

During the year, the District's *Total net assets* increased by \$390,819 to a total of \$2,400,843. The District's *Invested in capital assets, net of related debt net assets* increased by approximately \$636,000 due to the completion of the Capital Project Fund, *Restricted net assets* decreased by approximately \$378,000 due to closing out the prior year Capital Projects Fund and *Unrestricted net assets* increased by approximately \$132,000. The *Restricted net assets* consist of Special Education, Capital Projects and Debt Service funds. The *Unrestricted net assets* may be used to fund the educational services provided to students and business-type activities.

The District's improved financial position is the product of several independent factors. During the year, increased property taxes, grants and responsible spending were significant contributors to this improvement.

Summary of Net Assets (provides a perspective of the District as a whole).

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2007	2006	2007	2006	2007	2006
Current assets	\$ 3,587,413	\$ 3,092,593	\$ 206,799	\$ 79,271	\$ 3,794,212	\$ 3,171,864
Non-current assets	1,462,248	745,585	4,804	5,405	1,467,052	750,990
Total assets	<u>5,049,661</u>	<u>3,838,178</u>	<u>211,603</u>	<u>84,676</u>	<u>5,261,264</u>	<u>3,922,854</u>
Current liabilities	440,075	637,790	9,914	31,063	449,989	668,853
Non-current liabilities	2,410,432	1,243,977	-	-	2,410,432	1,243,977
Total liabilities	<u>2,850,507</u>	<u>1,881,767</u>	<u>9,914</u>	<u>31,063</u>	<u>2,860,421</u>	<u>1,912,830</u>
Net assets						
Invested in capital assets - net of debt	234,800	(396,967)	4,804	-	239,604	(396,967)
Restricted	1,310,632	1,690,275	-	-	1,310,632	1,690,275
Unrestricted	653,722	663,103	196,885	53,613	850,607	716,716
Total net assets	<u>\$ 2,199,154</u>	<u>\$ 1,956,411</u>	<u>\$ 201,689</u>	<u>\$ 53,613</u>	<u>\$ 2,400,843</u>	<u>\$ 2,010,024</u>

Statement of Activities (provides the results of operations of the District as a whole).

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues						
Charges for services	\$ 66,405	\$ 37,153	\$ -	\$ -	\$ 66,405	\$ 37,153
Operating grants and contributions	1,651,694	2,279,317	-	-	1,651,694	2,279,317
General revenues						
Property taxes	1,981,200	1,837,925	-	-	1,981,200	1,837,925
Grants and state aid	1,167,831	372,836	-	-	1,167,831	372,836
Investment earnings	103,938	93,278	-	-	103,938	93,278
Other	35,155	28,928	467,391	436,787	502,546	465,715
Total revenues	5,006,223	4,649,437	467,391	436,787	5,473,614	5,086,224
Functions/Program expenses						
Instruction	839,135	897,123	-	-	839,135	897,123
Support services	3,584,336	3,403,128	-	-	3,584,336	3,403,128
Community service	2,099	2,157	-	-	2,099	2,157
Food services	10,338	29,216	-	-	10,338	29,216
Intergovernmental transfers	205,747	40,122	-	-	205,747	40,122
Loss on sale of assets	-	23,145	-	-	-	23,145
Other	28,884	4,849	-	-	28,884	4,849
Interest on long-term debt	17,428	15,692	-	-	17,428	15,692
Depreciation - unallocated	75,513	39,681	-	-	75,513	39,681
Business Co-op services	-	-	238,282	264,786	238,282	264,786
Internet services	-	-	81,033	125,226	81,033	125,226
Total expenses	4,763,480	4,455,113	319,315	390,012	5,082,795	4,845,125
Increase in net assets	242,743	194,324	148,076	46,775	390,819	241,099
Net assets, beginning of year	1,956,411	1,723,332	53,613	6,838	2,010,024	1,730,170
Residual equity transfer	-	38,755	-	-	-	38,755
Net assets, end of year	\$ 2,199,154	\$ 1,956,411	\$ 201,689	\$ 53,613	\$ 2,400,843	\$ 2,010,024

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General Fund:

The District's General Fund is the chief operating fund of the District. Fund balance for the general fund increased by \$20,456 during the year with the increase coming primarily from the control of expenditures during the year. Revenues increased by approximately \$15,000 primarily as a result of an increase in State aid and Federal grants offset against the prior year building sale. Expenditures increased by approximately \$84,000 primarily due to the offset of grant revenue matching the expenditures. The major sources of general fund revenues are State aid and property taxes.

Special Education Fund:

Fund balance for the Special Revenue Fund increased by \$178,676 during the year. Revenue increased by approximately \$222,000 primarily as a result of increased State revenue and local grants. Expenditures increased by approximately \$186,000 due to increased support service costs. The major sources of special education fund revenues are Federal grants, State aid and taxes.

Career Tech Fund:

The Board made a decision to close the Career Tech Fund at the end of fiscal year June 30, 2007. This decision was based on the fact that the Career Tech Fund was not financially sound on its own and student interest was at an all time low.

2005 Capital Projects Fund:

Net assets for the 2005 Capital Projects Fund decreased by \$624,188 during the year. Interest of \$10,935 was earned and capital outlays of \$670,533 were expensed.

2007 Capital Projects Fund:

Net assets for the 2007 Capital Projects Fund increased by \$1,077,546 during the year. Bond and note proceeds were \$1,140,000, interest of \$16,234 was earned and capital outlays of \$78,688 were expensed.

Proprietary Fund:

Net assets for the Proprietary Fund increased by \$148,076 during the year. Revenues increased by approximately \$30,000 primarily as a result of timing of refunds and conservative budgeting. Expenditures decreased by approximately \$70,000 due to additional services incurred in the prior year.

General Fund Budgetary Highlights

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

- Changes made in the third and fourth quarters to account for final enrollment counts, staffing assignments and changes in grant funding since the original budget was adopted.

While the District's final budget for the general fund anticipated that revenues and expenditures would reflect a decrease of \$128,947, the actual results for the year showed a surplus of \$20,456.

- Actual revenues were \$1,162,963 or \$104,210 less than expected due to the timing of Federal grant revenues.
- The actual expenditures and interfund transfers were \$1,142,507, or \$253,613 below budget, due to the timing of federal revenues/expenditures, lower than anticipated support services and final adjustments to other funds.

Special Education Fund Budgetary Highlights

Over the course of the year, the District revised the Special Education Budget several times. These budget amendments were:

- Changes made in the third and fourth quarters to account for final enrollment counts, staffing assignments and changes in grant funding since the original budget was adopted.
- While the District's final budget for the Special Education Fund anticipated that revenues and expenditures would reflect a deficit of \$175,473, the actual results for the year show a surplus of \$178,676. This was due to an increase in prior year State revenue, lower than anticipated capital outlay expenditures and utilities and unanticipated staffing adjustments made during the year.
- Actual revenues were \$3,672,183, \$161,062 more than expected, due to an increase in anticipated revenues in State and other sources.
- The actual expenditures were \$3,416,573, or \$193,021 below budget, due primarily to lower than expected capital outlay expenditures, utilities and the loss of staffing during the year.

Career Tech Fund Budgetary Highlights

Over the course of the year, the District revised the Career Tech Budget several times. These budget amendments were:

- Changes made in the third and fourth quarters to account for final enrollment counts, staffing assignments and changes in grant funding since the original budget was adopted.
- The District's final budget for the Career Tech Fund anticipated that revenues and expenditures would reflect a break even year-end result, which is reflected in the financial statements.
- Actual revenues were \$200,800, \$4,922 less than expected, due to a decrease in student count.
- The actual expenditures were \$253,651, or \$31,172 below budget, due to closing out the program.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Depreciable assets for the 2006/07 school year totaled \$1,869,670. During the year, the District invested an additional \$1,060,334 in building improvements, new equipment and furniture and a van.

	2006	Additions	Retirements	2007
Governmental Activities				
Building and building improvements	\$ 460,738	\$ 1,008,505	\$ -	\$ 1,469,243
Buses and other vehicles	74,669	14,949	-	89,618
Furniture and equipment	267,923	36,880	-	304,803
Total depreciable assets	803,330	1,060,334	-	1,863,664
Less accumulated depreciation	(386,400)	(75,513)	-	(461,913)
Construction-in-process	324,224	56,066	(324,224)	56,066
Land	4,431	-	-	4,431
Net governmental capital assets	\$ 745,585	\$ 1,040,887	\$ (324,224)	\$ 1,462,248
Business-Type Activities				
Equipment	\$ 6,006	\$ -	\$ -	\$ 6,006
Less accumulated depreciation	(601)	(601)	-	(1,202)
Total capital assets, net	\$ 5,405	\$ (601)	\$ -	\$ 4,804

The District's fiscal year 2008 capital budgets will spend over \$1,000,000 for capital improvement projects related to a fiber project connecting all local districts and the ISD.

Long-term Debt

At year-end, the District had \$1,832,052 in general obligation bonds, \$525,000 in an installment purchase agreement and \$145,464 in accumulated leave liability. (More detailed information about the District's long-term liabilities is presented in Note F to the financial statements.)

	2006	Additions	Payments	2006
General obligation debts				
(financed with property taxes)	\$ 1,217,052	\$ 615,000	\$ -	\$ 1,832,052
Note payable	-	525,000	-	525,000
Unamortized bond issuance costs	(74,500)	-	6,208	(68,292)
Accumulated Sick & Vacation	115,627	29,837	-	145,464
Total	\$ 1,258,179	\$ 1,169,837	\$ 6,208	\$ 2,434,224

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- As student enrollment continues to decline so too will State aid for special education and general education funds.
- Health insurance costs continue to remain unstable. Staff's health insurance costs decreased during the year due to a change in insurance plans.
- A major construction project, laying fiber, will be completed in the 2007-08 school year. The fiber project will result in connecting all of the local districts and the ISD.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Manistee Intermediate School District Business Office at 1710 Merkey Road, Manistee, MI, 49660.



Business and Financial Advisors
Our clients' success - our business

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Manistee Intermediate School District

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2007 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in assessing the results of our audit.

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The management's discussion and analysis on pages i - ix and the budgetary comparison information on pages 29 - 31, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Dennis, Garthland & Niergarth

October 10, 2007

Manistee Intermediate School District

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,756,209	\$ 201,599	\$ 2,957,808
Restricted cash and cash equivalents	120,335	-	120,335
Due from other governments	656,682	5,200	661,882
Prepaid expenses	44,363	-	44,363
Due from business-type funds	9,824	-	9,824
Total current assets	3,587,413	206,799	3,794,212
Non-current assets			
Capital assets, net of accumulated depreciation	1,462,248	4,804	1,467,052
Total assets	\$ 5,049,661	\$ 211,603	\$ 5,261,264
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities			
Accounts payable	\$ 140,381	\$ 90	\$ 140,471
Accrued payroll and related liabilities	238,321	-	238,321
Accrued expenses	11,220	-	11,220
Due to other governments	18,543	-	18,543
Due to governmental funds	-	9,824	9,824
Due to agency funds	7,818	-	7,818
Current portion of long-term liabilities	23,792	-	23,792
Total current liabilities	440,075	9,914	449,989
Non-current portion of long-term obligations	2,410,432	-	2,410,432
Total liabilities	2,850,507	9,914	2,860,421
NET ASSETS			
Invested in capital assets, net of related debt	234,800	4,804	239,604
Restricted for			
Special education	1,185,015	-	1,185,015
Capital projects	16,234	-	16,234
Debt service	109,383	-	109,383
Unrestricted	653,722	196,885	850,607
Total net assets	2,199,154	201,689	2,400,843
Total liabilities and net assets	\$ 5,049,661	\$ 211,603	\$ 5,261,264

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

Manistee Intermediate School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Functions/Program	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges For Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities						
Instruction	\$ 839,135	\$ 64,000	\$ 371,481	\$ (403,654)	\$ -	\$ (403,654)
Support services	3,584,336	-	1,197,673	(2,386,663)	-	(2,386,663)
Community services	2,099	-	-	(2,099)	-	(2,099)
Food service	10,338	2,405	6,765	(1,168)	-	(1,168)
Intergovernmental transfers	205,747	-	75,775	(129,972)	-	(129,972)
Other	28,884	-	-	(28,884)	-	(28,884)
Interest on long-term debt	17,428	-	-	(17,428)	-	(17,428)
Depreciation - unallocated	75,513	-	-	(75,513)	-	(75,513)
Total governmental activities	4,763,480	66,405	1,651,694	(3,045,381)	-	(3,045,381)
Business-type activities						
Business Co-op Services	238,282	-	-	-	(238,282)	(238,282)
Internet Services	80,432	-	-	-	(80,432)	(80,432)
Depreciation - Internet Services	601	-	-	-	(601)	(601)
Total business-type activities	319,315	-	-	-	(319,315)	(319,315)
Total	\$ 5,082,795	\$ 66,405	\$ 1,651,694	\$ (3,045,381)	\$ (319,315)	\$ (3,364,696)
General purpose revenues						
Property taxes						
Levied for general purposes				278,751	-	278,751
Levied for special education				1,702,449	-	1,702,449
State school aid not restricted for specific purposes				1,167,831	-	1,167,831
Investment earnings				103,938	-	103,938
Other revenues				35,155	467,391	502,546
Total general purpose revenues				3,288,124	467,391	3,755,515
Change in net assets				242,743	148,076	390,819
Net assets, beginning of year				1,956,411	53,613	2,010,024
Net assets, end of year				\$ 2,199,154	\$ 201,689	\$ 2,400,843

-6- The accompanying notes are an integral part of these financial statements.

Manistee Intermediate School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2007

	Major Funds					Total Governmental Funds
	General Fund	Special Education Fund	2007 Capital Projects Fund	2005 Capital Projects Fund	Other Governmental Funds	
ASSETS						
Cash and cash equivalents	\$ 579,172	\$1,020,679	\$ 1,156,234	\$ 16	\$ 108	\$ 2,756,209
Restricted cash and cash equivalents	-	-	-	-	120,335	120,335
Due from other governments	185,916	464,954	-	-	5,812	656,682
Due from other funds	43,356	3,932	-	-	12,927	60,215
Prepaid expenses	44,363	-	-	-	-	44,363
Total assets	<u>\$ 852,807</u>	<u>\$1,489,565</u>	<u>\$ 1,156,234</u>	<u>\$ 16</u>	<u>\$ 139,182</u>	<u>\$ 3,637,804</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 8,137	\$ 76,801	\$ 55,318	\$ -	\$ 125	\$ 140,381
Accrued payroll and related liabilities	27,128	199,374	-	-	11,819	238,321
Due to other funds	16,230	13,939	23,370	16	4,654	58,209
Due to other governmental units	2,126	14,436	-	-	1,981	18,543
Total liabilities	<u>53,621</u>	<u>304,550</u>	<u>78,688</u>	<u>16</u>	<u>18,579</u>	<u>455,454</u>
FUND BALANCES						
Reserved for special education	-	1,185,015	-	-	-	1,185,015
Reserved for capital projects	-	-	1,077,546	-	-	1,077,546
Reserved for prepaid expenses	44,363	-	-	-	-	44,363
Reserved for debt service	-	-	-	-	120,603	120,603
Unreserved	754,823	-	-	-	-	754,823
Total fund balances	<u>799,186</u>	<u>1,185,015</u>	<u>1,077,546</u>	<u>-</u>	<u>120,603</u>	<u>3,182,350</u>
Total liabilities and fund balances	<u>\$ 852,807</u>	<u>\$1,489,565</u>	<u>\$ 1,156,234</u>	<u>\$ 16</u>	<u>\$ 139,182</u>	

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

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$1,924,161 and the accumulated depreciation is \$461,913. 1,462,248

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	\$ 2,357,052	
Accrued interest on bonds	11,220	
Unamortized bond issuance costs	(68,292)	
Accumulated leave liability	145,464	<u>(2,445,444)</u>

Total net assets - governmental activities \$ 2,199,154

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

Manistee Intermediate School District

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

Year Ended June 30, 2007

	Major Funds					Total Governmental Funds
	General Fund	Special Education Fund	2007 Capital Projects Fund	2005 Capital Projects Fund	Other Governmental Funds	
Revenues						
Local revenues	\$ 315,308	\$ 1,703,857	\$ -	\$ -	\$ 133,402	\$ 2,152,567
Interest	23,992	48,307	16,234	10,935	4,356	103,824
Intermediate sources	37,850	-	-	-	-	37,850
State revenues	678,258	835,340	-	-	12,550	1,526,148
Federal revenues	85,109	972,505	-	-	60,094	1,117,708
Other	<u>22,446</u>	<u>112,174</u>	<u>-</u>	<u>-</u>	<u>2,406</u>	<u>137,026</u>
Total revenues	<u>1,162,963</u>	<u>3,672,183</u>	<u>16,234</u>	<u>10,935</u>	<u>212,808</u>	<u>5,075,123</u>
Expenditures						
Instruction	82,455	677,830	-	-	150,203	910,488
Supporting services	817,003	2,639,976	-	-	100,490	3,557,469
Community services	1,001	1,098	-	-	-	2,099
Food service	-	-	-	-	10,338	10,338
Intergovernmental transfers	170,911	34,836	-	-	-	205,747
Other	-	-	22,622	851	2,958	26,431
Capital outlay	<u>625</u>	<u>62,833</u>	<u>56,066</u>	<u>669,682</u>	<u>-</u>	<u>789,206</u>
Total expenditures	<u>1,071,995</u>	<u>3,416,573</u>	<u>78,688</u>	<u>670,533</u>	<u>263,989</u>	<u>5,501,778</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>90,968</u>	<u>255,610</u>	<u>(62,454)</u>	<u>(659,598)</u>	<u>(51,181)</u>	<u>(426,655)</u>
Other financing sources (uses)						
Operating transfers in	-	-	-	35,410	112,036	147,446
Operating transfers out	(70,512)	(76,934)	-	-	-	(147,446)
Proceeds from bond issue	-	-	615,000	-	-	615,000
Proceeds from installment purchase agreement	<u>-</u>	<u>-</u>	<u>525,000</u>	<u>-</u>	<u>-</u>	<u>525,000</u>
Total other financing sources (uses)	<u>(70,512)</u>	<u>(76,934)</u>	<u>1,140,000</u>	<u>35,410</u>	<u>112,036</u>	<u>1,140,000</u>
REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	20,456	178,676	1,077,546	(624,188)	60,855	713,345
Fund balance, beginning of year	<u>778,730</u>	<u>1,006,339</u>	<u>-</u>	<u>624,188</u>	<u>59,748</u>	<u>2,469,005</u>
Fund balance, end of year	<u>\$ 799,186</u>	<u>\$ 1,185,015</u>	<u>\$ 1,077,546</u>	<u>\$ -</u>	<u>\$ 120,603</u>	<u>\$ 3,182,350</u>

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

Manistee Intermediate School District

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

Year Ended June 30, 2007

Total Net Change in Fund Balances - Governmental Funds \$ 713,345

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

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

	Capital outlays \$ 792,176	
	Depreciation expense <u>(75,513)</u>	716,663

In the statement of activities, certain operating expenses - accumulated leave liability (sick leave and compensated time) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick leave and compensated time used was less than the amounts earned by \$29,837. (29,837)

Amortization of bond issuance costs (6,208)

Some of the capital assets acquired this year were financed with bond and installment purchase agreement proceeds. The amount financed by the bond proceeds is reported in the governmental funds as a source of financing. On the other hand, the bond proceeds are not revenues in the statement of activities but rather constitute long-term liabilities in the statement of net assets. (1,140,000)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The increase in interest reported in the statement of activities is the net result of the increase in accrued interest on bonds payable. (11,220)

Changes in Net Assets of Governmental Activities \$ 242,743

Manistee Intermediate School District

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2007

	<u>Non-Major Enterprise Funds</u>		
	Business Co-op Fund	MISD Net	Total Proprietary Funds
ASSETS			
Current assets			
Cash	\$ 47,124	\$ 154,475	\$ 201,599
Due from other governments	-	5,200	5,200
Due from governmental funds	962	-	962
Non-current assets			
Equipment, net	-	4,804	4,804
 Total assets	 <u>\$ 48,086</u>	 <u>\$ 164,479</u>	 <u>\$ 212,565</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 90	\$ -	\$ 90
Due to other funds	<u>3,399</u>	<u>7,387</u>	<u>10,786</u>
 Total liabilities	 <u>3,489</u>	 <u>7,387</u>	 <u>10,876</u>
NET ASSETS			
Invested in capital assets	-	4,804	4,804
Unrestricted	<u>44,597</u>	<u>152,288</u>	<u>196,885</u>
 Total liabilities and net assets	 <u>\$ 48,086</u>	 <u>\$ 164,479</u>	 <u>\$ 212,565</u>

Manistee Intermediate School District

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS

Year Ended June 30, 2007

	<u>Non-Major Enterprise Funds</u>		
	Business Co-op Fund	MISD Net	Total Proprietary Funds
Operating revenues	\$ 261,013	\$ 206,378	\$ 467,391
Operating expenses	<u>238,282</u>	<u>81,033</u>	<u>319,315</u>
CHANGE IN NET ASSETS	22,731	125,345	148,076
Net assets, beginning of year	<u>21,866</u>	<u>31,747</u>	<u>53,613</u>
Net assets, end of year	<u>\$ 44,597</u>	<u>\$ 157,092</u>	<u>\$ 201,689</u>

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

Manistee Intermediate School District

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended June 30, 2007

	<u>Non-Major Enterprise Funds</u>		Total
	Business Co-op Fund	MISD Net	Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	\$ 22,731	\$ 125,345	\$ 148,076
Adjustments to reconcile change in net assets in net cash from operating activities			
Depreciation expense	-	601	601
Decrease in due from governmental funds	24,950	48,159	73,109
Decrease in accounts payable	(3,654)	(27,017)	(30,671)
Decrease in accrued payroll and related liabilities	(302)	-	(302)
Increase in due to other funds	<u>3,399</u>	<u>7,387</u>	<u>10,786</u>
Net cash flows provided by operating activities	47,124	154,475	201,599
CASH AND CASH EQUIVALENTS, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 47,124</u>	<u>\$ 154,475</u>	<u>\$ 201,599</u>

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

Manistee Intermediate School District

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	Agency Funds			Total
	SPARC Food Co-op	RICC Fund	Student Services	
ASSETS				
Cash and cash equivalents	\$ 30,093	\$ -	\$ -	\$ 30,093
Due from other funds	-	2,510	5,308	7,818
 Total assets	 \$ 30,093	 \$ 2,510	 \$ 5,308	 \$ 37,911
LIABILITIES				
Due to other governmental units	\$ 29,740	\$ 1,197	\$ -	\$ 30,937
Due to student groups	-	-	5,284	5,284
Accounts payable	353	1,313	24	1,690
 Total liabilities	 \$ 30,093	 \$ 2,510	 \$ 5,308	 \$ 37,911

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

Manistee Intermediate School District

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The Manistee Intermediate School District (the "School District") primarily serves approximately 3,750 students within Manistee and surrounding communities. The School District consists of two facilities, one education center and one administration center. There are four public school districts, one public academy, two non-public schools and one community college in the School District's service area. As of June 30, 2007, the School District employed 26 professional staff and 21 non-professional staff and had 54 students enrolled within its School District.

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

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

The Financial Reporting Entity

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

District-Wide and Fund Financial Statements

District-Wide Financial Statements

The statement of net assets and statement of activities display information on all non-fiduciary activities of the School District. 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 business-type activities, which rely to a significant extent on fees and charges for support.

NOTES TO FINANCIAL STATEMENTS - Continued

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

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds even though the latter are excluded from the district-wide financial statements. The balance sheet and statement of revenues, expenditures and changes in fund balances for the School District's governmental funds and the statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows for the School District's proprietary funds (i.e., fund financial statements) are presented after the district-wide statements. These statements display information about each major fund and non-major funds in the aggregate. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures and 5% of combined assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

The district-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds) as are the proprietary fund financial statements. Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

The proprietary funds use the accrual basis of accounting and are accounted for on a cost-of-services or "capital maintenance" measurement focus. Under the capital maintenance measurement focus, all assets and liabilities associated with the fund's activities are included on its balance sheet. Under the accrual basis, revenues are recognized when earned and expenses are recognized when they are incurred. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The fiduciary funds use the accrual basis of accounting and the capital maintenance measurement focus. All assets and liabilities associated with the fund's activities are included on its balance sheet. Revenues are recognized when earned and expenses are recognized when they are incurred.

Fund Types and Major Funds

Activities in Major Governmental Funds

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

The Special Education Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for special education programs.

The 2005 and 2007 Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Activities in Non-Major Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Career Tech Fund and the Food Service Fund. Any operating deficit generated by this activity is the responsibility of the General Fund.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, bond principal, interest, and related costs.

Activities in Non-Major Proprietary Funds

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services be accounted primarily through user charges. The enterprise funds maintained by the School District are the MISD Net and Business Co-op Funds.

NOTES TO FINANCIAL STATEMENTS - Continued

Fiduciary Funds

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

Cash and Equivalents

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

Investments

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value.

Capital Assets

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

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

Buildings and improvements	20-50 years
Furniture and equipment	5-10 years
Buses and vehicles	5-10 years

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

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes.

Program Revenues

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

The School District's most significant program revenues are special education revenues, which are reported as operating grants and contributions.

Spending Policy

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

Encumbrance Accounting

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

Allocation of Expenses

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

The School District has elected not to allocate indirect expenses.

Use of Estimates in the Preparation of Financial Statements

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

NOTE B - BUDGETARY POLICY AND PRACTICE

Excess of Expenditures over Appropriations in Budgeted Funds

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Instruction	\$ 80,248	\$ 82,455	\$ 2,207
Pupil support	44,689	45,032	343
Special Education Fund			
Community services	-	1,098	1,098

The final Board adopted Special Education Fund budget assigned \$58,136 to Debt Service. This amount was actually transferred to the QZAB Bond Retirement Fund for the future repayment of bond obligations.

NOTE C - CASH AND INVESTMENTS

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

	<u>Cash and Equivalents</u>
Cash on hand	\$ 800
Bank deposits	1,568,278
Investment pools	<u>1,539,158</u>
	<u>\$ 3,108,236</u>

Custodial Credit Risk - Deposits

All of the School District's bank deposits are with financial institutions which provide FDIC insurance coverage. However, in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2007, \$1,390,138 of the School District's bank deposits were uninsured.

Investments

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

1. Bonds and other obligations of the United States; the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificate of deposits issued by financial institutions organized and authorized to operate in Michigan.

NOTES TO FINANCIAL STATEMENTS - Continued

3. Certain commercial paper.
4. Securities issued or guaranteed by agencies or instruments of the United States government.
5. United States government of Federal agency obligation repurchase agreements.
6. Banker's acceptance issued by a bank that is a member of the FDIC.
7. Certain mutual funds.
8. Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982.

Investments at June 30, 2007 consisted of the following:

Investment Type	Fair Value	Investment Maturities (in years)			
		Current	1-5	6-10	More than 10
MILAF	\$ 1,539,158	\$ 1,539,158	\$ -	\$ -	\$ -

Interest Rate Risk

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

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District's investment in the MILAF investment pool was rated AAAM by Standard and Poor's.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

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

During the fiscal year, \$0.2848 and \$1.8031 per \$1,000 of equalized homestead and non-homestead property value in the School District of \$946 million were levied for general operating and special education purposes, respectively.

NOTES TO FINANCIAL STATEMENTS - Continued

Intergovernmental Receivables and Deferred Revenue

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

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Due from the State of Michigan State Aid	\$ 187,285	\$ -
Due from Federal grants	288,725	-
Other	<u>180,672</u>	<u>5,200</u>
	<u>\$ 656,682</u>	<u>\$ 5,200</u>

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

Governmental Activities

	<u>June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2007</u>
Buildings and improvements	\$ 460,738	\$ 1,008,505	\$ -	\$ 1,469,243
Furniture and equipment	267,923	36,880	-	304,803
Buses and vehicles	<u>74,669</u>	<u>14,949</u>	-	<u>89,618</u>
Total depreciable assets	803,330	1,060,334	-	1,863,664
Less accumulated depreciation	(386,400)	(75,513)	-	(461,913)
Construction-in-process	324,224	56,066	(324,224)	56,066
Land	<u>4,431</u>	<u>-</u>	<u>-</u>	<u>4,431</u>
Total capital assets, net	<u>\$ 745,585</u>	<u>\$ 1,040,887</u>	<u>\$ (324,224)</u>	<u>\$ 1,462,248</u>

Business-Type Activities

	<u>June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2007</u>
Equipment	\$ 6,006	\$ -	\$ -	\$ 6,006
Less accumulated depreciation	<u>(601)</u>	<u>(601)</u>	<u>-</u>	<u>(1,202)</u>
Total capital assets, net	<u>\$ 5,405</u>	<u>\$ (601)</u>	<u>\$ -</u>	<u>\$ 4,804</u>

NOTES TO FINANCIAL STATEMENTS - Continued

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

Governmental activities	
Unallocated	\$ 75,513
Business-type activities	
Internet services	<u>601</u>
Total depreciation expense	<u>\$ 76,114</u>

NOTE F - LONG-TERM LIABILITIES

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

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$1,217,052	\$ 615,000	\$ -	\$1,832,052	\$ 10,000
Installment purchase agreement	-	525,000	-	525,000	20,000
Unamortized bond issuance costs	(74,500)	-	6,208	(68,292)	(6,208)
Accumulated leave liability*	<u>115,627</u>	<u>29,837</u>	<u>-</u>	<u>145,464</u>	<u>-</u>
Long-term debt	<u>\$1,258,179</u>	<u>\$1,169,837</u>	<u>\$ 6,208</u>	<u>\$2,434,224</u>	<u>\$ 23,792</u>

*Accumulated leave liability payments represents the net effect of additional vacation days used in excess of being earned during the year.

Payments on general obligation bonds are made by the Debt Service Funds. The accumulated leave liability will be liquidated primarily by the Special Education Fund.

NOTES TO FINANCIAL STATEMENTS - Continued

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

1998 School Improvement Bond (Durant); due in annual installments of \$19,487 to \$99,695 through May 15, 2013; average interest rate of 4.76%. This debt will be repaid using revenues provided by the State of Michigan specifically for this purpose. If the Michigan Legislature fails to appropriate funds, the School District is not liable for repayment of these bonds.	\$ 237,717
2004 School Improvement Bonds (QZAB); due in August 2018; no annual installments; interest rate at zero.	979,335
2007 Honor State Bank Installment Purchase Agreement; due in annual installments of principal for eighteen years beginning May 1, 2008 with semi-annual interest thereon at a rate of 4.59%.	525,000
2007 West Shore Bank School Technology Bond; due in annual installments of principal for fifteen years beginning May 1, 2008 with semi-annual interest thereon at a rate of 4.59%.	<u>615,000</u>
Total general obligation bonds payable	2,357,052
Unamortized bond issue costs	(68,292)
Accumulated leave liability	<u>145,464</u>
Total long-term debt	<u><u>\$ 2,434,224</u></u>

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

<u>Years Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 30,000	\$ 58,903
2009	67,406	55,048
2010	182,978	99,177
2011	74,589	48,908
2012	75,759	45,547
2013-2017	311,985	181,601
2017-2027	<u>1,614,335</u>	<u>135,870</u>
	<u><u>\$ 2,357,052</u></u>	<u><u>\$ 625,054</u></u>

Interest expense for the year ended June 30, 2007 was \$11,220.

Accumulated Leave Liability

Employees of the School District accumulate days of compensated sick leave and compensated time benefits, as specified by the bargaining units' contract. This benefit vests after 5 years of employment. Upon either resignation or retirement, the employees are compensated at daily rates specified in the bargaining units' contracts.

2004 School Improvement Bonds

The 2004 School Improvement Bonds are "qualified zone academy bonds" ("QZAB") under Section 1397E(d)(6) of the Internal Revenue Code, allowing holders of the bonds certain income tax credits. The QZAB bonds are due in August 2018 but require annual deposits of \$58,136 into a Sinking Fund beginning August 2005. The Sinking Fund deposits plus the interest earned thereon, which is fixed at 2.71%, will be sufficient to pay off the bonds upon maturity. Any spread from the Sinking Fund account will be paid to the purchaser of the bonds.

NOTE G - RISK MANAGEMENT

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

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

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

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

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

Receivables and Payables

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

NOTES TO FINANCIAL STATEMENTS - Continued

At June 30, 2007, the School District's interfund balances consisted of the following:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds		
General	\$ 43,356	\$ 16,230
Special Education	3,932	13,939
2005 Capital Projects	-	16
2007 Capital Projects	-	23,370
Other Governmental Funds		
Career Tech	8,844	962
Food Service	3,815	3,692
Debt Service	268	-
Non-Major Proprietary Funds		
Business Co-Op	962	3,399
MISD Net	-	7,387
Fiduciary Funds		
RICC	2,510	-
Student Services	5,308	-
	<u>\$ 68,995</u>	<u>\$ 68,995</u>

Transfers and Payments

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

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

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

<u>Fund</u>	<u>Transfer in</u>	<u>Fund</u>	<u>Transfer out</u>
Other Governmental Funds		Major Governmental Funds	
Debt Service Fund	58,136		
Career Tech Fund	52,851		
Food Service Fund	1,049	General Fund	70,512
2005 Capital Projects Fund	<u>35,410</u>	Special Education Fund	<u>76,934</u>
	<u>\$ 147,446</u>		<u>\$ 147,446</u>

NOTE I - PENSION PLAN

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

Funding Policy

Plan members who participate in MIP are required to contribute 3.0% to 4.3% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the Plan; and Manistee Intermediate School District is required to contribute at an actuarially determined rate. The rate was 16.34% for the period July 1, 2006 to September 30, 2006 and 17.74% for the period October 1, 2006 to June 30, 2007 of annual covered payroll. The contribution requirements of plan members and Manistee Intermediate School District are established and may be amended by the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2007, 2006 and 2005 were \$354,000, \$353,000 and \$328,000, respectively, which is equal to the required contribution for the year.

Post employment benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care are included as part of the School District's total contribution to the MPSERS plan discussed above.

NOTE J - COMMITMENTS AND CONTINGENCIES

Capital Projects

As of June 30, 2007, the School District has committed to a total project cost of \$1,140,000, of which \$78,688 has been expended to date, leaving a remaining construction commitment of \$1,061,312. The 2007 Capital Projects Fund balance was \$1,077,546 at June 30, 2007. The expected completion date is September 2007.

Federal and State Grants

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

NOTES TO FINANCIAL STATEMENTS - Continued

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Manistee Intermediate Education Association. The Board of Education and the Manistee Intermediate Education Association's contract expired June 30, 2007.

NOTE K - CHARTER SCHOOL CONTRACT

On July 1, 2000, the School District entered into a contract with CASMAN Academy to charter a public school academy. The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

REQUIRED SUPPLEMENTARY INFORMATION

Manistee Intermediate School District

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final Budget	Final Budget To Actual
Revenues					
Local revenues	\$ 308,483	\$ 325,579	\$ 339,300	\$ 17,096	\$ 13,721
Intermediate sources	12,960	37,850	37,850	24,890	-
State revenues	519,853	654,504	678,258	134,651	23,754
Federal revenues	26,317	229,076	85,109	202,759	(143,967)
Other financing sources	44,729	20,164	22,446	(24,565)	2,282
Total revenues	<u>912,342</u>	<u>1,267,173</u>	<u>1,162,963</u>	<u>354,831</u>	<u>(104,210)</u>
Expenditures					
Instruction	106,147	80,248	82,455	25,899	(2,207)
Support services					
Pupil support	46,427	44,689	45,032	1,738	(343)
Instructional staff support	165,037	178,943	175,283	(13,906)	3,660
General administration	241,856	275,151	269,858	(33,295)	5,293
Business services	102,129	104,839	98,803	(2,710)	6,036
Operations and maintenance	91,193	113,425	68,712	(22,232)	44,713
Other central support	116,608	316,328	159,940	(199,720)	156,388
Total support services	<u>763,250</u>	<u>1,033,375</u>	<u>817,628</u>	<u>(270,125)</u>	<u>215,747</u>
Community service	-	1,906	1,001	(1,906)	905
Other					
Intergovernmental transfers	59,777	180,755	170,911	(120,978)	9,844
Total other	<u>59,777</u>	<u>180,755</u>	<u>170,911</u>	<u>(120,978)</u>	<u>9,844</u>
Total expenditures	<u>929,174</u>	<u>1,296,284</u>	<u>1,071,995</u>	<u>(367,110)</u>	<u>224,289</u>
REVENUES OVER (UNDER) EXPENDITURES	(16,832)	(29,111)	90,968	(12,279)	120,079
Other financing uses					
Operating transfers out	(60,278)	(99,836)	(70,512)	39,558	29,324
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	(77,110)	(128,947)	20,456	27,279	149,403
Fund balance, beginning of year	778,730	778,730	778,730	-	-
Fund balance, end of year	<u>\$ 701,620</u>	<u>\$ 649,783</u>	<u>\$ 799,186</u>	<u>\$ 27,279</u>	<u>\$ 149,403</u>

Manistee Intermediate School District

BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL EDUCATION FUND

Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final Budget	Final Budget To Actual
Revenues					
Local revenues	\$ 1,764,618	\$ 1,836,337	\$ 1,752,164	\$ 71,719	\$ (84,173)
State revenues	541,562	701,656	835,340	160,094	133,684
Federal revenues	951,401	957,620	972,505	6,219	14,885
Other	22,000	15,508	112,174	(6,492)	96,666
Total revenues	<u>3,279,581</u>	<u>3,511,121</u>	<u>3,672,183</u>	<u>231,540</u>	<u>161,062</u>
Expenditures					
Instruction	645,113	681,148	677,830	(36,035)	3,318
Supporting services	2,665,013	2,889,946	2,702,809	(224,933)	187,137
Community services	1,600	-	1,098	1,600	(1,098)
Intergovernmental transfers	40,100	38,500	34,836	1,600	3,664
Total expenditures	<u>3,351,826</u>	<u>3,609,594</u>	<u>3,416,573</u>	<u>(257,768)</u>	<u>193,021</u>
REVENUES OVER (UNDER) EXPENDITURES	(72,245)	(98,473)	255,610	(26,228)	354,083
Other financing uses					
Operating transfers out	(58,137)	(77,000)	(76,934)	(18,863)	66
Total other financing uses	<u>(58,137)</u>	<u>(77,000)</u>	<u>(76,934)</u>	<u>(18,863)</u>	<u>66</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(130,382)	(175,473)	178,676	(45,091)	354,149
Fund balance, beginning of year	1,006,339	1,006,339	1,006,339	-	-
Fund balance, end of year	<u>\$ 875,957</u>	<u>\$ 830,866</u>	<u>\$ 1,185,015</u>	<u>\$ (45,091)</u>	<u>\$ 354,149</u>

Manistee Intermediate School District

BUDGETARY COMPARISON SCHEDULE FOR THE CAREER TECH FUND

Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final Budget	Final Budget To Actual
Revenues					
Local revenues	\$ 135,400	\$ 134,757	\$ 133,402	\$ (643)	\$ (1,355)
State revenues	14,301	12,949	12,432	(1,352)	(517)
Federal revenues	42,650	42,734	53,329	84	10,595
Other	11,832	15,282	1,637	3,450	(13,645)
Total revenues	<u>204,183</u>	<u>205,722</u>	<u>200,800</u>	<u>1,539</u>	<u>(4,922)</u>
Expenditures					
Instruction	157,283	175,755	150,203	(18,472)	25,552
Supporting services	101,578	102,248	100,490	(670)	1,758
Other	5,600	6,820	2,958	(1,220)	3,862
Total expenditures	<u>264,461</u>	<u>284,823</u>	<u>253,651</u>	<u>(20,362)</u>	<u>31,172</u>
REVENUES OVER (UNDER) EXPENDITURES	(60,278)	(79,101)	(52,851)	(18,823)	26,250
Other financing uses					
Operating transfers in	60,278	79,101	52,851	18,823	(26,250)
Total other financing uses	<u>60,278</u>	<u>79,101</u>	<u>52,851</u>	<u>18,823</u>	<u>(26,250)</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-	-	-	-	-
Fund balance, beginning of year	-	-	-	-	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**COMBINING FINANCIAL STATEMENTS OF
NON-MAJOR GOVERNMENTAL FUNDS**

Manistee Intermediate School District

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2007

	Special Revenue Fund		Debt Service Funds		Total Non-Major Governmental
	Career Tech Fund	Food Service Fund	Debt Service Fund	QZAB Bond Retirement Fund	
ASSETS					
Cash and cash equivalents	\$ 108	\$ -	\$ -	\$ -	\$ 108
Investments	-	-	-	120,335	120,335
Due from other governments	5,812	-	-	-	5,812
Due from other funds	8,844	3,815	268	-	12,927
Total assets	\$ 14,764	\$ 3,815	\$ 268	\$ 120,335	\$ 139,182
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 2	\$ 123	\$ -	\$ -	\$ 125
Accrued payroll and related liabilities	11,819	-	-	-	11,819
Due to other governments	1,981	-	-	-	1,981
Due to other funds	962	3,692	-	-	4,654
Total liabilities	14,764	3,815	-	-	18,579
FUND BALANCES					
Reserved for debt service	-	-	268	120,335	120,603
Total liabilities and fund balances	\$ 14,764	\$ 3,815	\$ 268	\$ 120,335	\$ 139,182

Manistee Intermediate School District

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

Year Ended June 30, 2007

	Special Revenue Fund		Debt Service Funds		Total Non-Major Governmental
	Career Tech Fund	Food Service Fund	Debt Service Fund	QZAB Bond Retirement Fund	
Revenues					
Interest	\$ 1,637	\$ -	\$ -	\$ 2,719	\$ 4,356
Local revenues	133,402	-	-	-	133,402
State revenues	12,432	118	-	-	12,550
Federal revenues	53,329	6,765	-	-	60,094
Other	<u>-</u>	<u>2,406</u>	<u>-</u>	<u>-</u>	<u>2,406</u>
Total revenues	<u>200,800</u>	<u>9,289</u>	<u>-</u>	<u>2,719</u>	<u>212,808</u>
Expenditures					
Instruction	150,203	-	-	-	150,203
Supporting services	100,490	-	-	-	100,490
Food service	-	10,338	-	-	10,338
Other	<u>2,958</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,958</u>
Total expenditures	<u>253,651</u>	<u>10,338</u>	<u>-</u>	<u>-</u>	<u>263,989</u>
REVENUES OVER (UNDER) EXPENDITURES	(52,851)	(1,049)	-	2,719	(51,181)
Other financing sources					
Operating transfers in	<u>52,851</u>	<u>1,049</u>	<u>-</u>	<u>58,136</u>	<u>112,036</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	-	-	-	60,855	60,855
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>268</u>	<u>59,480</u>	<u>59,748</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 268</u>	<u>\$ 120,335</u>	<u>\$ 120,603</u>

OTHER SUPPLEMENTARY INFORMATION

Manistee Intermediate School District

2004 SCHOOL BUILDING AND SITE BOND QUALIFIED ZONE ACADEMY BOND ISSUE
CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

For the Two Year and Three Hundred Twelve Day Period Ended June 30, 2007

Revenue	
Investment income	<u>\$ 70,722</u>
Expenditures	
Capital outlay	
Construction costs	998,574
Bond costs and fees	<u>86,916</u>
Total expenditures	<u>1,085,490</u>
REVENUES UNDER EXPENDITURES	<u>(1,014,768)</u>
Other financing sources	
Bond proceeds	979,358
Operating transfer in	<u>35,410</u>
Total other financing sources	<u>1,014,768</u>
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	-
Fund balances, beginning of period	<u>-</u>
Fund balances, end of period	<u><u>\$ -</u></u>

Manistee Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2006	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2007
Special Education I.D.E.A Cluster							
United States Department of Education							
Passed through Michigan Department of Education							
Special Education - I.D.E.A.	84.027	\$ 738,538	\$ 213,292	\$ 738,538	\$ 225,256	\$ 11,964	\$ -
060450-0506		45,000	12,069	45,000	12,069	-	-
060480-EOSD		60,000	9,033	60,000	9,033	-	-
060490-TS		60,000	-	-	45,725	60,000	14,275
070490-TS		45,000	-	-	38,038	45,000	6,962
070480-EOSD		749,724	-	-	573,395	749,724	176,329
070450-0607		4,000	-	-	4,000	-	4,000
070440-0607		1,702,262	234,394	843,538	903,516	870,688	201,566
Total I.D.E.A.		33,050	10,208	33,050	10,208	-	-
Preschool Incentive Grant	84.173	32,666	-	-	21,066	32,666	11,600
060460-0506		65,716	10,208	33,050	31,274	32,666	11,600
070460-0607		1,767,978	244,602	876,588	934,790	903,354	213,166
Total Preschool Incentive Grant		71,743	1,822	5,007	1,822	-	-
Total Special Education I.D.E.A. Cluster	84.181	71,058	22,424	71,058	22,424	-	-
Infant and Toddler Early Childhood Intervention Program		69,151	-	-	54,432	69,151	14,719
051340-190		211,952	24,246	76,065	78,678	69,151	14,719
061340-190		35,829	20,642	25,829	30,642	10,000	-
071340-190		18,766	-	-	11,969	18,766	6,797
Total Infant and Toddler		54,595	20,642	25,829	42,611	28,766	6,797
Safe and Drug-Free Schools and Communities	84.186	-	-	-	-	-	-
062860-0506		-	-	-	-	-	-
072860-0607		-	-	-	-	-	-
Total Safe and Drug-Free Schools and Communities		-	-	-	-	-	-

-38- The accompanying notes are an integral part of these financial statements.

Manistee Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2006	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2007
Title VA - Innovation Educational Program Strategies 060250-0506 070250-0607	84.298	\$ 350 172	\$ 350	\$ 350	\$ 350 162	\$ - 172	\$ - 10
Total Title VA - Innovation Educational Program Strategies		522	350	350	512	172	10
Title IIA - Improving Teacher Quality 060520-0506 070520-0607	84.367	138 138	138	138	138 138	- 138	- -
Total Title IIA - Improving Teacher Quality		276	138	138	276	138	-
Title I - Regional Assistance Grant 061570-0607	84.010	70,000	-	-	-	2,805	2,805
Title II Part D 074240-2-1 Ed Tech Competitive Grant	84.318	200,000	-	-	-	53,228	53,228
Total passed through Michigan Department of Education		2,305,323	289,978	978,970	1,056,867	1,037,614	290,725
Passed through Traverse Bay Area ISD Vocational Education - Tech Prep	84.243	12,576	-	-	12,576	12,576	-
Passed through Wexford-Missaukee Area ISD Perkins Grant	84.048	42,735	-	-	40,753	40,753	-
Total United States Department of Education		2,360,634	289,978	978,970	1,110,196	1,110,943	290,725

Manistee Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Award/Grant Amount	Accrued Revenue June 30, 2006	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2007
United States Department of Agriculture Nutrition Cluster							
Passed through Michigan Department of Education							
National School Lunch Program	10.555	\$ 981	\$ -	\$ 981	\$ -	\$ -	\$ -
1950 All Lunches	10.555	5,738	-	-	5,738	5,738	-
1960 Free and Reduced	10.553	1,027	-	-	1,027	1,027	-
1970 Breakfast							
Total Nutrition Cluster		<u>7,746</u>	<u>-</u>	<u>981</u>	<u>6,765</u>	<u>6,765</u>	<u>-</u>
Total United States Department of Agriculture		<u>7,746</u>	<u>-</u>	<u>981</u>	<u>6,765</u>	<u>6,765</u>	<u>-</u>
Total Federal financial assistance		<u>\$ 2,368,380</u>	<u>\$ 289,978</u>	<u>\$ 979,951</u>	<u>\$ 1,116,961</u>	<u>\$ 1,117,708</u>	<u>\$ 290,725</u>

Manistee Intermediate School District

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PROVIDED TO SUBRECIPIENTS**

Year Ended June 30, 2007

Program Title/Grant Number Subrecipient Name	CFDA Number	Subrecipient Award/ Contract Amount	Due To (From) Subrecipient June 30, 2006	(Memo Only) Subrecipients Prior Year Expenditures	Current Year Cash Transferred To Subrecipient	Subrecipient Current Year Expenditures	Due To (From) Subrecipient June 30, 2007
United States Department of Education							
Safe and Drug-Free Schools and Communities							
Program Number: 062860-0506							
Passed through to:							
Bear Lake School District	84.186	\$ 1,030	\$ -	\$ 1,570	\$ 1,030	\$ 1,030	\$ -
CASMAN Academy		350	-	530	350	350	-
Kaleva Norman Dickson School District		3,240	-	4,792	3,240	3,240	-
Manistee Area Public Schools		5,520	-	8,483	5,520	5,520	-
Onekama Consolidated School District		1,330	-	2,052	1,330	1,330	-
Total passed through United States Department of Education		11,470	-	17,427	11,470	11,470	-
United States Department of Health and Human Services							
Medicaid - Outreach							
Passed through to:							
Bear Lake School District	93.778	2,052	-	1,380	2,052	2,052	-
Kaleva Norman Dickson School District		5,108	-	4,158	5,108	5,108	-
Manistee Area Public Schools		8,599	-	5,699	8,599	8,599	-
Onekama Consolidated School District		2,308	-	1,799	2,308	2,308	-
Total passed through United States Department of Health and Human Services		18,067	-	13,036	18,067	18,067	-
Total Federal financial assistance provided to subrecipients		\$ 29,537	\$ -	\$ 30,463	\$ 29,537	\$ 29,537	\$ -

-41- The accompanying notes are an integral part of these financial statements.

Manistee Intermediate School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2007

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



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

Board of Education
Manistee Intermediate School District

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of *Manistee Intermediate School District* ("the School District"), as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the School District, in a separate letter dated October 10, 2007.

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

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

Dennis, Gartland & Niergarth

October 10, 2007



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

Board of Education
Manistee Intermediate School District

Compliance

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

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

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

Internal Control Over Compliance

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

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Accordingly, we do not express an opinion on the effectiveness of School District 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.

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

Dennis, Garland & Niergarth

October 10, 2007

Manistee Intermediate School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2007

PRIOR YEAR

No findings.

CURRENT YEAR

Section 1 - Summary of Auditors' Results

1. The auditor's report represents an unqualified opinion on the basic financial statements of Manistee Intermediate School District (the "School District").
2. The auditor's report does not disclose any significant deficiencies in internal control as a result of the audit of the financial statements.
3. There were no compliance findings disclosed that were material to the School District's financial statements.
4. The auditor's report does not disclose any significant deficiencies in internal control over major programs.
5. The report over compliance for the major program was unqualified.
6. There were no audit findings relative to the major program that are required to be reported.
7. The School District's major program was Special Education Cluster (CFDA #84.027 and #84.173).
8. The dollar threshold for distinguishing between Type A and Type B programs was \$300,000.
9. Manistee Intermediate School District qualified as a low risk auditee.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Section 2 - Findings in Accordance with Governmental Auditing Standards

Finding Number 2007-1

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

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

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

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

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

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

No findings or questioned costs.



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AUDIT-RELATED COMMUNICATIONS

To the Board of Education
Manistee Intermediate School District

We have audited the financial statements of Manistee Intermediate School District (the "School District") for the year ended June 30, 2007, and have issued our report thereon dated October 10, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 18, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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

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

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

Reporting Financial Data

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

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

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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

Audit Adjustments

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

Unrecorded Adjustments

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

Recorded payroll expenditures were less than reported on Form 941. Both we and the School District's management consider this difference to be immaterial.

There Were No Disagreements with Management

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

There Were No Difficulties Encountered in Performing the Audit

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

General Comments and Observations

Agency Funds

During the current year audit, we noted one instance with the agency funds, particularly the Sunshine Fund, whereby disbursements exceeded receipts, which resulted in a deficit balance in the Sunshine Fund. We recommend closely monitoring this fund or consider dissolving this fund in order to mitigate this in the future.

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

Dennis, Gartland & Niergarth

October 10, 2007