

**Tri County Area Schools
Sand Lake, Michigan**

FINANCIAL STATEMENTS

June 30, 2007

Tri County Area Schools

Sand Lake, Michigan

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June 30, 2007

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Tri County Area Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Tri County Area Schools
Sand Lake, Michigan

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2007 on our consideration of Tri County Area Schools' 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 and testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tri County Area Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 21, 2007

This section of Tri County Area Schools' annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Tri County Area Schools, a K-12 school district located in Montcalm County, Kent County, and Newaygo County Michigan, is in its fifth year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Tri County Area Schools' Management's discussion and analysis of the financial results for the fiscal year ended June 30, 2007.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Tri County Area Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund individually, and the Special Revenue Funds, Debt Service Funds and Capital Project Funds collectively as other non-major governmental funds. The remaining statements, the Statement of Fiduciary Net Assets present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

District-Wide Financial Statements

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

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

District-Wide Financial Statements - continued

The District-wide financial statements are full accrual basis statements. They report all the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-wide financial statements.

Fund Financial Statements

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, the Special Revenue (School Service) Funds which are comprised of: Food Service and Athletics, and Capital Project Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Financial Activities:

The recent good health of the District's finances can be credited to the following innovative approaches during a time of restricted state funding due to a weak economy and significant tax reductions at the state level:

- The continued funding of fund balance designation at the fund financial statement level for future sick day and years of service payouts.
- Utilization of a total cost compensation approach for the negotiation of employee contracts with the district's six employee groups.
- The establishment of energy savings guidelines.
- Cautious usage of the district's financial and material resources.
- The entire district's team approach to improving our district while safeguarding the financial future of the district.

Summary of Net Assets:

The following summarizes the net assets as of June 30, 2007.

Condensed Statement of Net Assets
as of June 30, 2007 and 2006

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
Assets		
Current Assets	\$ 8,990,127	\$ 7,046,356
Capital Assets	<u>14,523,370</u>	<u>14,644,042</u>
Total Assets	23,513,497	21,690,398
Liabilities		
Current Liabilities	4,090,759	2,492,486
Long-Term Liabilities	<u>9,833,176</u>	<u>10,605,712</u>
Total Liabilities	13,923,935	13,098,198
Net Assets		
Invested in capital assets, net of related debt	4,759,850	4,144,584
Restricted	358,039	363,119
Unrestricted	<u>4,471,673</u>	<u>4,084,497</u>
Total Net Assets	<u>\$ 9,589,562</u>	<u>\$ 8,592,200</u>

Analysis of Financial Position:

As detailed above, the district shows a positive total net asset value of \$9,589,562 for the fiscal year ended June 30, 2007. This statement has been affected by the following factors:

- Capital assets reduced \$120,672 due to a greater amount of depreciation of assets than capital outlay purchases.
- Current Assets and Current Liabilities increase substantially due to an outstanding Note against State Aid that was on deposit and paid back during the month of August 2007.
- Retirement of bond and loan principal decreased the districts liabilities by \$735,938.
- The district is also providing a HRA and self-funded prescription program to custodial/maintenance and non-union staff. As of June 30, 2007 a balance of \$51,743 existed in this account. However, it is not reflective of the annual cost/savings since the plan is based on the calendar year not the district's fiscal year.
- The change in net assets increased \$997,362 due to a combination of paying off long-term debt and carefully monitoring spending during uncertain state funding periods.

Results of Operations:

For the fiscal year ended June 30, 2007 and 2006, the District-wide results of operations were:

Condensed Statement of Activities
Year Ended June 30, 2007 and 2006

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
Revenues:		
Program Revenues		
Charges for Services	\$ 553,408	\$ 583,848
Operating and Capital Grants	1,855,824	1,882,171
General Revenues		
Property Taxes	3,063,815	2,809,165
State School Aid-unrestricted	14,804,589	14,287,652
Other	<u>588,327</u>	<u>612,622</u>
Total Revenues	20,865,963	20,175,458
Functions/Program Expenses:		
Instruction	11,658,410	11,339,871
Supporting services	6,059,646	5,567,616
Community services	21,933	28,852
Food service	667,270	683,577
Athletics	361,734	249,590
Interest on long-term debt	408,897	435,161
Payments to Other Districts		3,255
Other	109,289	8,392
Unallocated depreciation	<u>581,422</u>	<u>615,324</u>
Total Expenses	<u>19,868,601</u>	<u>18,934,735</u>
Increase(Decrease) in Net Assets	<u>\$ 997,632</u>	<u>\$ 1,240,723</u>

Analysis of Results of Operations:

During fiscal year ended June 30, 2007 the district's net assets increased by \$997,632. Several factors that helped cause the increase are discussed in the following sections.

A. Governmental Fund Operating Results

The District's revenues from governmental fund operations exceeded expenditures by \$335,899 for the fiscal year ended June 30, 2007. A majority of the assets were capitalized on the District-wide financial statements. Further discussion of the district's operating results is available in the section entitled "Results of 2006-2007 Operations" located on the following pages.

B. Depreciation Expense

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2006-07, district assets depreciated in the amount of \$581,422, causing a reduction in net district assets.

C. Long-Term Debt Activities

The district reduced its long-term debt obligation during 2006-2007 by making principal payments and bond refunding amounting to \$735,938. Accrued compensated absences increased by \$6,685.

Results of 2006-2007 Operations

During fiscal year ended June 30, 2007, the District net assets increased by \$997,632. A few additional significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The General Fund is the main fund for the district and includes all the costs related to educating the students of the Tri County Area Schools such as: Salaries and benefits for Teachers, Classroom Paraprofessionals, Administrators, Secretaries, Accounting Staff, Custodial/Maintenance Staff, Librarians, Counselors, Bus Drivers and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's revenues from General Fund operations exceeded expenditures by \$348,948 for the fiscal year ended June 30, 2007. The General Fund as of June 30, 2007, has a fund balance of \$4,098,244 or 22.06% of expenditures for the 2006-2007 fiscal year. Many of the savings made throughout the district are a result of efficient uses of the district's resources by all employees.

B. Debt Service Fund Operations

The Debt Service Funds consist of three separate debt funds as follows: 1999 Debt, 2003 Bond Refunding, and 2005 Bond Refunding. The Debt Service Funds are set up to collect taxes and pay annual debt payments. At June 30, 2007, the Debt Service Funds had \$435,275 in fund equity available for future bond payments.

The District also had Durant resolution bonds and accrued severance pay outstanding at June 30, 2007, which totaled \$91,334 and \$872,886, respectively.

The District has the following principal balance on bonded long-term debt obligations:

	Principal Balance <u>June 30, 2006</u>
1999 Debt Bonds	\$ 360,000
2003 Refunding Bonds	6,745,000
2005 Refunding Bonds	<u>2,750,000</u>
 Total long-term bond obligations	 <u>\$ 9,946,334</u>

C. School Service Funds

The Tri County Area Schools also has school service funds that include the following: Food Service Fund and Athletics Fund.

The Food Service Fund is a fund that reports the food service program activities. In 2006-2007 the Food Service Fund had revenues of \$699,120 and expenditures of \$667,796. The Food Service Fund is self-supporting and reimburses the General Fund for all identified overhead costs associated with its operation. The Food Service Fund had a fund balance of \$111,786.

The Athletics Fund includes all costs for high school and middle school athletic programs including the cost for coaches, officials, supplies, tournaments, and miscellaneous. Transportation and Indirect costs are accounted for in the Athletic Fund. In 2006-2007 the Athletics Fund had revenues of \$348,029 and expenditures of \$361,608. The Athletics Fund generated \$85,889 in revenue from gate receipts, passes, fees, donations, and other miscellaneous items. The Athletics Fund must have a balanced budget and the District contributed \$262,140 from the General Fund to balance the fund. The Athletics Fund had a fund balance of \$7,333.

D. Net Investment in Capital Assets

The district's net investment in capital assets decreased by \$120,672 during the fiscal year. This can be summarized as follows:

	<u>Balance June 30, 2006</u>	<u>Net Change</u>	<u>Balance June 30, 2007</u>
Capital assets	\$ 22,956,125	\$ 455,450	\$ 23,411,575
Less: accumulated depreciation	<u>(8,312,083)</u>	<u>(576,122)</u>	<u>(8,888,205)</u>
Net investment in capital outlay	<u>\$ 14,644,042</u>	<u>\$ (120,672)</u>	<u>\$ 14,523,370</u>

Various buses and vehicles were disposed of during the 2006-07 year. The district also replaced two busses, classroom furniture and duplicating equipment during 2006-07 year.

IMPORTANT ECONOMIC FACTORS

A. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead property valuation.

B. Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Tri County Area Schools foundation allowance was \$7,085 per student for the 2006-2007 school year. Due to the voters approval of the headlee rollback override the district received the entire \$7,085 per student.

C. Student Enrollment

The District's student enrollment for the fall count of 2006-2007 was 2,431.35 students. The District's enrollment has been slightly increasing for the prior school year's student count. The following summarizes fall student enrollments in the past five years:

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2006-2007	2,432	21
2005-2006	2,411	53
2004-2005	2,358	3
2003-2004	2,355	(10)
2002-2003	2,365	0

D. Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The District levied 18.0000 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue for 2006-2007 fiscal year was \$1,947,774. The non-homestead tax levied revenue increased by 16.4% over the prior year. This increase is mainly due to the voters authorizing the district to levy the full 18.0000 mills in comparison to the prior year during which 16.7244 mills were levied.

E. Debt Fund Property Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2006-2007 the District's debt millage levy was 3.1638 mills, a decrease of 9.5%, which generated revenue of \$1,116,040.

Tri County Area Schools

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

Listed below is an analysis of the original budget and final budget to the final actual.

General Fund Expenditures and Other Uses Budget vs. Actual

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2006-2007	18,664,650	18,802,020	18,575,852	0.5%	1.2%
2005-2006	17,445,960	17,941,770	17,543,513	(0.6%)	2.2%

General Fund Revenues and Other Sources, Budget vs. Actual

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2006-2007	19,005,200	18,841,690	18,924,800	(0.4%)	0.4%
2005-2006	17,238,300	18,162,650	18,179,350	5.4%	0.09%

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Tri County Area Schools amends its budget periodically during the school year. The June 2007 budget amendment was the final budget for the fiscal year.

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

		<u>Percent</u>
Total Expenditures Original Budget	\$ 18,664,650	100.0
Total Expenditures Final Budget	<u>18,802,020</u>	<u>100.7</u>
Increase in Budget Expenditures	<u>\$ 137,370</u>	<u>0.7</u>

The District's actual expenditures were less than the final budget by \$226,168 or 1.2 percent.

Some of the significant changes in expenditure budgets for the year include:

- Installation of a replacement boiler system at the Middle School
- Changes in staffing needs due to special education student needs.

Tri County Area Schools

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007

Revenue Change from Original to Final Budget:

		<u>Percent</u>
Total Revenues Original Budget	\$ 19,005,200	100.0
Total Revenues Final Budget	<u>18,841,690</u>	<u>99.1</u>
Decrease in Budget Revenues	<u>\$ 163,510</u>	<u>(0.9)</u>

The District's final actual general fund revenues were greater than the final budget by \$83,110, a variance of 0.4% from the final budget.

The Final revenue budget reflects the following changes from the Original Budget.

- Local sources increased by \$133,780 due to increased revenues from interest income, property values, and charges for service.
- State aid was decreased by \$338,840 due to changes in property values.
- Special Education revenue decrease by \$9,170 from the county.

Additional Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008 fiscal year is 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The 2008 fiscal year budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 80 percent to 85 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2007-2008 school year, we anticipate that the fall student count will be similar to the estimates used in creating the 2007 fiscal year final budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact Tamera L. Powers, Business Manager, Tri County Area Schools, 94 Cherry Street, Sand Lake, Michigan 49343.

BASIC FINANCIAL STATEMENTS

Tri County Area Schools

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 5,804,173
Accounts receivable	27,649
Taxes receivable	285
Prepays	9,324
Due from other governmental units	3,044,963
Inventory	<u>103,733</u>
Total current assets	8,990,127
Noncurrent assets	
Capital assets not being depreciated	756,211
Capital assets, net of accumulated depreciation	<u>13,767,159</u>
Total noncurrent assets	<u>14,523,370</u>
TOTAL ASSETS	23,513,497
LIABILITIES	
Current liabilities	
Accounts payable	140,326
Accrued payroll	910,992
Accrued interest payable	61,756
Other accrued liabilities	598,169
Short-term notes payable	1,552,595
Unearned revenue	8,211
Current portion of compensated absences	48,710
Current portion of long-term debt	<u>770,000</u>
Total current liabilities	4,090,759
Noncurrent liabilities	
Noncurrent portion of accrued interest payable	15,480
Noncurrent portion of compensated absences	824,176
Noncurrent portion of long-term debt	<u>8,993,520</u>
Total noncurrent liabilities	<u>9,833,176</u>
TOTAL LIABILITIES	13,923,935
NET ASSETS	
Invested in capital assets, net of related debt	4,759,850
Restricted for debt service	358,039
Unrestricted	<u>4,471,673</u>
TOTAL NET ASSETS	<u>\$ 9,589,562</u>

See accompanying notes to financial statements.

Tri County Area Schools
STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

Governmental Activities	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
Functions/Programs		Charges for Services	Operating Grants	Governmental Activities
Instruction	\$ 11,658,410	\$ 116,519	\$ 1,459,721	\$ (10,082,170)
Supporting services	6,059,646	23,737	5,232	(6,030,677)
Community services	21,933	26,463	-	4,530
Food services	667,270	300,888	390,871	24,489
Athletics	361,734	85,801	-	(275,933)
Interest on long-term debt	408,897	-	-	(408,897)
Other transactions	109,289	-	-	(109,289)
Unallocated depreciation	581,422	-	-	(581,422)
TOTAL EXPENSES	\$ 19,868,601	\$ 553,408	\$ 1,855,824	(17,459,369)
General Revenues				
Property taxes				3,063,815
State school aid - unrestricted				14,804,589
Special Education county allocation				209,334
Investment earnings				224,289
Miscellaneous				154,704
TOTAL GENERAL REVENUES				18,456,731
CHANGE IN NET ASSETS				997,362
Net assets, beginning of year				8,592,200
Net assets, end of year				\$ 9,589,562

See accompanying notes to financial statements

Tri County Area Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2007

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 4,411,019	\$ 803,568	\$ 5,214,587
Accounts receivable	27,427	222	27,649
Taxes receivable	-	285	285
Prepays	9,324	-	9,324
Due from other governmental units	3,039,601	5,362	3,044,963
Inventory	93,836	9,897	103,733
TOTAL ASSETS	<u>\$ 7,581,207</u>	<u>\$ 819,334</u>	<u>\$ 8,400,541</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 114,162	\$ 4,053	\$ 118,215
Accrued payroll	910,992	-	910,992
Other accrued liabilities	598,169	-	598,169
Due to other funds	306,365	17,693	324,058
Short-term notes payable	1,552,595	-	1,552,595
Deferred revenue	680	7,531	8,211
TOTAL LIABILITIES	3,482,963	29,277	3,512,240
FUND BALANCES			
Reserved for			
Inventory	93,836	9,897	103,733
Debt service	-	435,275	435,275
Unreserved			
Undesignated, reported in:			
General fund	4,004,408	-	4,004,408
Special revenue funds	-	109,222	109,222
Capital project funds	-	235,663	235,663
TOTAL FUND BALANCES	<u>4,098,244</u>	<u>790,057</u>	<u>4,888,301</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 7,581,207</u>	<u>\$ 819,334</u>	<u>\$ 8,400,541</u>

See accompanying notes to financial statements.

Tri County Area Schools

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

June 30, 2007

Total fund balance - governmental funds \$ 4,888,301

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 23,411,575	
Accumulated depreciation is	<u>(8,888,205)</u>	14,523,370

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in Internal Service Funds		51,743
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Governmental funds report the difference between the carrying amount of the defeased debt and its reacquisition price when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Net Assets. These amounts consist of:

Unamortized defeased debt		182,814
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Long-term liabilities that are not included in a proprietary fund at the fund level and are not due and payable in the current period are not reported as liabilities in the funds. The applicable long-term liabilities at year-end consist of:

Bonds and loans payable	9,946,334	
Accrued interest payable	77,236	
Applicable portion of compensated absences	<u>33,096</u>	<u>(10,056,666)</u>

Net assets of governmental activities \$ 9,589,562

See accompanying notes to financial statements.

Tri County Area Schools

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

Year Ended June 30, 2007

	General	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES			
Local sources	\$ 2,325,724	\$ 1,550,294	\$ 3,876,018
State sources	15,871,183	39,638	15,910,821
Federal sources	398,359	351,231	749,590
OTHER FINANCING SOURCES			
Transfers from other funds	-	272,140	272,140
County special education allocation	209,334	-	209,334
Other transactions	120,200	-	120,200
TOTAL REVENUES AND OTHER FINANCING SOURCES	18,924,800	2,213,303	21,138,103
EXPENDITURES			
Current			
Instruction	11,706,010	-	11,706,010
Supporting services	6,256,310	-	6,256,310
Community services	21,925	-	21,925
Building improvements services	210,178	-	210,178
Food service activities	-	667,038	667,038
Athletic activities	-	361,608	361,608
Capital outlay	-	51,732	51,732
Debt service			
Principal retirement	-	750,000	750,000
Interest, fiscal and other charges	-	395,974	395,974
OTHER FINANCING USES			
Other transactions	109,289	-	109,289
Transfers to other funds	272,140	-	272,140
TOTAL EXPENDITURES AND OTHER FINANCING USES	18,575,852	2,226,352	20,802,204
NET CHANGE IN FUND BALANCE	348,948	(13,049)	335,899
Fund balances, beginning of year	3,749,296	803,106	4,552,402
Fund balances, end of year	<u>\$ 4,098,244</u>	<u>\$ 790,057</u>	<u>\$ 4,888,301</u>

See accompanying notes to financial statements.

Tri County Area Schools

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

Year Ended June 30, 2007

Net change in fund balances - total governmental funds \$ 335,899

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

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

Capital outlay	\$ 460,750	
Depreciation expense	<u>(581,422)</u>	
Excess of depreciation expense over capital outlay		(120,672)

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Net revenue from governmental activities accounted for in Internal Service Funds		51,743
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. Also, governmental funds report the effect of the difference between the carrying amount of defeased debt and its reacquisition price when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. In the current year, these amounts consist of:

Bond and loan principal retirement	750,000	
Amortization of deferred amounts on debt refunding	<u>(14,062)</u>	
		735,938

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

Decrease in accrued interest payable	1,139	
Change in governmental activities reporting of compensated absences	<u>(6,685)</u>	
		<u>(5,546)</u>

Change in net assets of governmental activities \$ 997,362

See accompanying notes to financial statements.

Tri County Area Schools
Proprietary Funds - Internal Service Funds

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 589,586
Due from other funds	<u>324,058</u>
TOTAL ASSETS	913,644
LIABILITIES	
Current liabilities	
Accounts payable	22,111
Compensated absences	<u>48,710</u>
Total current liabilities	70,821
Noncurrent liabilities	
Compensated absences	<u>791,080</u>
TOTAL LIABILITIES	<u>861,901</u>
NET ASSETS	
Unrestricted	<u><u>\$ 51,743</u></u>

See accompanying notes to financial statements.

Tri County Area Schools

Proprietary Funds - Internal Service Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS

Year Ended June 30, 2007

	<u>Governmental Activities</u>
OPERATING REVENUES	
Charges for services	\$ 248,684
OPERATING EXPENSES	
Fringe benefits	<u>216,399</u>
OPERATING INCOME	32,285
NONOPERATING REVENUES	
Interest revenue	<u>19,458</u>
CHANGE IN NET ASSETS	51,743
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u><u>\$ 51,743</u></u>

See accompanying notes to financial statements.

Tri County Area Schools
 Proprietary Funds - Internal Service Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2007

	<u>Governmental Activities</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 248,684
Cash paid for employees and retiree benefits	<u>(174,856)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	73,828
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned	<u>19,458</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	93,286
Cash and cash equivalents, beginning of year	<u>496,300</u>
Cash and cash equivalents, end of year	<u><u>\$ 589,586</u></u>
Reconciliation of operating income to net cash used by operating activities	
Operating income	\$ 32,285
Adjustments to reconcile operating income to cash used by operating activities	
Increase in accounts payable	22,111
Decrease in due from other funds	115,344
(Decrease) in compensated absences	<u>(95,912)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 73,828</u></u>

See accompanying notes to financial statements.

Tri County Area Schools

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	<u>Agency Fund</u>
ASSETS	
Cash	<u>\$ 159,142</u>
LIABILITIES	
Due to student groups	<u>\$ 159,142</u>

See accompanying notes to financial statements.

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Reporting Entity

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

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

The fund financial statements present the District's individual major fund and aggregated nonmajor funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column.

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

The major fund of the District is:

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

3. Basis of Accounting

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Budgets and Budgetary Accounting - continued

- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- g. The budget, as presented, has been amended in a legally permissible manner. Four (4) supplemental appropriations were made during the year with the last approved June 25, 2007.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of checking and savings accounts.

6. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

7. Inventories

Inventories are stated at cost on a first in/first out basis. The General Fund inventory consists of office and transportation supplies. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2007 to be paid in July and August 2007. Of the total amount of \$3,044,963 due from other governmental units, \$2,696,118 consists of State Aid and the remaining \$348,845 from other governmental grants.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Capital Assets

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

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

Buildings and improvements	20 - 50 years
Buses and other vehicles	8 years
Furniture and equipment	5 - 20 years

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

10. Compensated Absences

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

11. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements in two components: the portion of accrued interest payable that is due within one year is reported as a current liability, the remaining amount that is not due within one year has been reported as a noncurrent liability. The interest payable on the Durant Resolution Bonds that were due May 15, 2003 through May 15, 2005 and May 15, 2007 and a portion of May 15, 2008 is shown as a noncurrent liability due to the State of Michigan deferring payments during this time period until May 15, 2013. Normal payments on the Durant bonds will resume in 2009.

12. Long-term Obligations

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

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

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

The District levies taxes of \$18.00 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$2.9738 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

14. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on the average of pupil membership counts taken in September 2006 and February 2006. The average calculation was weighted 75% for the September 2006 count and 25% for the February 2006 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payment made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

15. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers are netted as part of the reconciliation to the district-wide financial statements.

16. Federal Programs

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

17. Comparative Data

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

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH AND CASH EQUIVALENTS

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

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

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

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

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, the carrying amount of the District's deposits was \$5,963,315 and the bank balance was \$6,197,026, of which \$542,902 was covered by federal depository insurance. The balance of \$5,654,124 was uninsured and uncollateralized.

Interest rate risk

The District has adopted a policy that indicates how the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Concentration of credit risk

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

Custodial credit risk

The District has adopted a policy that indicates how the District will minimize custodial credit risk. Custodial credit risk is the risk of loss due to the failure of the security issuer broker or backer. The Board policy limits investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with the Board approved policy.

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

	<u>Governmental Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and cash equivalents	<u>\$ 5,804,173</u>	<u>\$ 159,142</u>	<u>\$ 5,963,315</u>

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

NOTE C: CAPITAL ASSETS

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

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Capital assets not being depreciated				
Land	\$ 756,211	\$ -	\$ -	\$ 756,211
Capital assets being depreciated				
Buildings and improvements	19,534,924	333,602	-	19,868,526
Buses and other vehicles	1,449,822	117,100	-	1,566,922
Furniture and equipment	<u>1,215,168</u>	<u>10,048</u>	<u>(5,300)</u>	<u>1,219,916</u>
Subtotal	22,199,914	460,750	(5,300)	22,655,364
Less accumulated depreciation for:				
Buildings and improvements	(6,514,642)	(411,934)	-	(6,926,576)
Buses and other vehicles	(1,074,026)	(99,850)	-	(1,173,876)
Furniture and equipment	<u>(723,415)</u>	<u>(69,638)</u>	<u>5,300</u>	<u>(787,753)</u>
Subtotal	<u>(8,312,083)</u>	<u>(581,422)</u>	<u>5,300</u>	<u>(8,888,205)</u>
Net capital assets being depreciated	<u>13,887,831</u>	<u>(120,672)</u>	<u>-0-</u>	<u>13,767,159</u>
Capital assets, net	<u>\$14,644,042</u>	<u>\$ (120,672)</u>	<u>\$ -0-</u>	<u>\$14,523,370</u>

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE C: CAPITAL ASSETS - CONTINUED

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2007 are as follows:

Due to internal service funds from:	
General fund	\$ 306,365
Nonmajor governmental funds	<u>17,693</u>
	<u>\$ 324,058</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE E: INTERFUND TRANSFERS

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

Transfers to nonmajor governmental funds from:	
General fund	<u>\$ 272,140</u>

NOTE F: LONG-TERM DEBT

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

	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2007</u>	Amounts Due Within <u>One Year</u>
Bonded Debt	\$10,696,334	\$ -	\$ 750,000	\$ 9,946,334	\$ 770,000
Compensated Absences	794,194	133,967	112,296	815,865	-
Post-Employment Compensated Absences	<u>167,919</u>	<u>-</u>	<u>110,898</u>	<u>57,021</u>	<u>48,710</u>
	11,658,447	133,967	973,194	10,819,220	818,710
Less: deferred amounts on refunding	<u>196,876</u>	<u>-</u>	<u>14,062</u>	<u>182,814</u>	<u>-</u>
	<u>\$11,461,571</u>	<u>\$ 133,967</u>	<u>\$ 959,132</u>	<u>\$10,636,406</u>	<u>\$ 818,710</u>

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F: LONG-TERM DEBT - CONTINUED

Advanced Refunding - Prior

On April 19, 2005 the District defeased a portion of the 1999 School Building and Site General Obligation Bonds, which are due and payable May 1, 2010 through May 1, 2020. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest payments. The District issued 2005 Refunding Bonds in the amount of \$2,770,000 to fund escrow amounts, pay the cost of issuance of the refunding bonds, and to pay a portion of the remaining balances of the 1999 School Building and Site General Obligation Bonds. Accordingly, the trust account assets and liabilities for the defeased bond are not included in the District's financial statements. At June 30, 2007, bonds due and payable May 1, 2010 through May 1, 2020 for 1999 School Building and Site General Obligation Bonds in the amount of \$2,650,000 are considered defeased.

On March 18, 2003 the District defeased the portion of the 1993 School Building and Site Bonds which are due and payable May 1, 2003 through May 1, 2020. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2003 Refunding Bonds in the amount of \$9,140,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2007, bonds due and payable May 1, 2008 through May 1, 2020 for the 1995 School Building and Site Bonds in the amount of \$6,810,000 are considered defeased.

General Obligation Bonds - The District has issued bonds to finance the acquisition, new construction, and remodeling of existing school facilities. The following summarizes significant details of the bonds payable outstanding at June 30, 2007:

\$3,680,000 School Building and Site General Obligation Bonds dated June 17, 1999, due in annual installments ranging from \$170,000 to \$190,000 through May 1, 2009 with interest ranging from 4.65 to 4.70 percent, payable semi-annually.	\$ 360,000
\$9,140,000 Refunding Bonds dated March 18, 2003, due in annual installments ranging from \$325,000 to \$585,000 through May 1, 2020 with interest ranging from 3.00 to 4.15 percent, payable semi-annually.	6,745,000
\$2,770,000 Refunding Bonds dated April 19, 2005, due in annual installments ranging from \$15,000 to \$265,000 through May 1, 2020 with interest ranging from 3.10 to 4.15 percent, payable semi-annually.	<u>2,750,000</u>
	9,855,000

Resolution Bonds

\$154,683 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments from \$7,842 to \$37,384 with interest of 4.7615353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan. The annual debt payment has been suspended for two (2) years. The next payment will be paid May 15, 2009.	<u>91,334</u>
	<u>\$ 9,946,334</u>

Compensated Absences - These amounts consist of severance pay amounts, unused vacation, and amounts agreed to be paid as post-employment compensated absences per various agreements. Severance pay is the largest component of compensated absences and is detailed below. The other components are based on other agreements and are detailed there.

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F: LONG-TERM DEBT - CONTINUED

Severance Pay - In recognition of services to the District, a severance payment is made to eligible teachers and administrators with at least fifteen (15) years of service, and to eligible support staff with at least 5 years of continuous service according to their respective employment contracts as follows:

Teachers and Administrators hired before 1987

Eligible teachers and administrators will be paid one-half of the unused days at a daily rate of pay as of the day of retirement with no limit.

Teachers and Administrators hired after 1987

Eligible teachers and administrators will be paid up to a maximum of 30 years at a rate of \$100 per year of service.

Support staff

Eligible employees will be paid one-half of unused hours up to a maximum of one hundred and twenty days of accumulated sick leave at the hourly rate of pay upon retirement.

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

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

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Compensated absences	\$ 780,390	\$ 30,465	\$ 810,855
Payroll taxes	<u>59,700</u>	<u>2,331</u>	<u>62,031</u>
	<u>\$ 840,090</u>	<u>\$ 32,796</u>	<u>\$ 872,886</u>

The entire liability, except for \$33,096 related to vacation payable, is recorded as a liability in the Internal Service Fund.

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F: LONG-TERM DEBT - CONTINUED

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

<u>Year Ending June 30,</u>	<u>Durant Resolution Bonds</u>		<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ -	\$ -	\$ 770,000	\$ 368,555
2009	8,609	2,254	780,000	342,634
2010	9,018	1,844	805,000	314,536
2011	9,448	1,415	805,000	198,516
2012	9,897	965	790,000	260,496
2013-2017	54,362	18,619	3,845,000	868,823
2018-2020	-	-	<u>2,060,000</u>	<u>163,572</u>
	<u>\$ 91,334</u>	<u>\$ 25,097</u>	<u>\$ 9,855,000</u>	<u>\$ 2,517,132</u>

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation. The State of Michigan has suspended payments on these bonds until May 15, 2009. It appears this suspension will have no financial impact on Tri County Area Schools in the future.

NOTE G: EMPLOYEE RETIREMENT SYSTEM

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

The payroll for employees covered by the MPERS for the year ended June 30, 2007 was \$10,716,841 of which \$8,638,298 was for members who have elected the MIP option; the District's total payroll was \$10,816,003.

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

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

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

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

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

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>	<u>Total Contributions</u>
2007	\$ 337,347	\$ 1,867,941	\$ 2,205,288
2006	319,221	1,638,091	1,957,312
2005	325,497	1,526,321	1,851,818

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

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>
2007	4.0 %	17.4 %
2006	4.0	16.0
2005	4.0	14.5

NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS

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

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS - CONTINUED

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

General Fund	
Reserved for inventory	\$ 93,836
Nonmajor governmental funds	
Food service	
Reserved for inventory	9,897
1999 Debt	
Reserved for debt service	61,978
2003 Debt Refunding	
Reserved for debt service	292,386
2005 Bond Refunding	
Reserved for debt service	<u>80,911</u>
	<u>435,275</u>
	<u>\$ 539,008</u>

NOTE I: RESTRICTED NET ASSETS

Restrictions of net assets shown in the district-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2007:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for	
Debt service	<u>\$ 358,039</u>

NOTE J: FLEXIBLE BENEFITS PLAN

In December 2002 the District approved by Board action to implement a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The Plan, available to all eligible employees, who meet the eligibility requirements as set by the plan, permits them to reduce their salary and put these amounts into a flexible benefits account up to certain limits. The plan allows the employee to reduce their salary and apply it to required premium payments, medical expense reimbursement benefits, or dependent care benefits. A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

The Plan is administered by BASIC..

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE K: RISK MANAGEMENT

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

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

NOTE L: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past under funding of special education. Tri County Area Schools, a nonplaintiff District, was awarded \$309,366 in the settlement. The funds are being paid as follows:

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

NOTE M: SHORT-TERM NOTES

On August 18, 2006, the District issued a short-term State School Aid Anticipation Note in the amount of \$1,500,000 for the purpose of funding operating expenditures until the 2007 State Aid payments resumed. This short-term note, which had a net outstanding balance of \$1,552,595 (principal and accrued interest expense payable) at June 30, 2007, is reported in the General Fund under the caption short-term notes payable. The outstanding balance was paid on August 15, 2007.

REQUIRED SUPPLEMENTARY INFORMATION

Tri County Area Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 2,170,220	\$ 2,304,000	\$ 2,325,724	\$ 21,724
State sources	16,115,660	15,850,740	15,871,183	20,443
Federal sources	367,020	355,330	398,359	43,029
OTHER FINANCING SOURCES				
County special education allocation	213,000	203,830	209,334	5,504
Other transactions	139,300	127,790	120,200	(7,590)
TOTAL REVENUES AND OTHER FINANCING SOURCES	19,005,200	18,841,690	18,924,800	83,110
EXPENDITURES				
Current				
Instruction				
Basic needs	9,718,920	9,787,580	9,774,882	12,698
Added needs	1,940,630	1,947,980	1,931,128	16,852
Total instruction	11,659,550	11,735,560	11,706,010	29,550
Supporting services				
Pupil	947,680	901,740	898,009	3,731
Instructional staff	484,240	365,080	347,660	17,420
General administration	301,020	319,050	308,535	10,515
School administration	1,199,100	1,193,480	1,157,465	36,015
Business services	519,410	539,840	520,903	18,937
Pupil transportation	1,204,160	1,176,790	1,155,416	21,374
Operations and maintenance	1,823,060	1,814,600	1,746,231	68,369
Support services technology	117,510	124,000	122,091	1,909
Total supporting services	6,596,180	6,434,580	6,256,310	178,270
Community services	47,270	23,230	21,925	1,305
Building improvements services	55,000	213,510	210,178	3,332

Tri County Area Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING USES				
Transfers to other funds	\$ 260,150	\$ 272,140	\$ 272,140	\$ -0-
Payments to other districts	3,500	-	-	-0-
Other transactions	43,000	123,000	109,289	13,711
TOTAL EXPENDITURES AND OTHER FINANCING USES	18,664,650	18,802,020	18,575,852	226,168
NET CHANGE IN FUND BALANCE	340,550	39,670	348,948	309,278
Fund balance, beginning of year	3,749,296	3,749,296	3,749,296	-0-
Fund balance, end of year	\$ 4,089,846	\$ 3,788,966	\$ 4,098,244	\$ 309,278

Tri County Area Schools

General Fund

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
LOCAL SOURCES				
Property taxes	\$ 1,922,970	\$ 1,943,430	\$ 1,947,774	\$ 4,344
Tuition	120,050	115,150	116,679	1,529
Transportation fees	19,300	23,560	23,577	17
Interest	80,000	179,490	180,725	1,235
Rentals	1,000	4,760	4,764	4
Charges for services	24,900	26,400	26,463	63
Contributions from private sources	1,000	1,500	2,450	950
Other local revenue	1,000	9,710	23,292	13,582
TOTAL LOCAL SOURCES	2,170,220	2,304,000	2,325,724	21,724
STATE SOURCES				
State aid unrestricted	15,126,590	14,787,750	14,804,589	16,839
State aid restricted	988,870	1,061,120	1,061,104	(16)
State aid restricted through local district	200	1,870	5,490	3,620
TOTAL STATE SOURCES	16,115,660	15,850,740	15,871,183	20,443
FEDERAL SOURCES				
Federal received through the State	361,480	351,210	393,127	41,917
Federal received through other districts	5,540	4,120	5,232	1,112
TOTAL FEDERAL SOURCES	367,020	355,330	398,359	43,029
OTHER FINANCING SOURCES				
County special education allocation	213,000	203,830	209,334	5,504
Other transactions	139,300	127,790	120,200	(7,590)
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 19,005,200	\$18,841,690	\$18,924,800	\$ 83,110

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL

Year Ended June 30, 2007

INSTRUCTION	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Basic needs				
Elementary				
Salaries	\$ 2,974,120	\$ 3,054,750	\$ 3,053,961	\$ 789
Benefits	1,591,420	1,485,500	1,485,062	438
Purchased services	56,120	63,490	63,065	425
Supplies, materials, and other	236,590	145,370	141,525	3,845
Capital outlay	760	28,290	26,840	1,450
Total elementary	4,859,010	4,777,400	4,770,453	6,947
Middle school				
Salaries	1,388,570	1,386,090	1,385,891	199
Benefits	799,590	739,780	737,705	2,075
Purchased services	44,000	66,690	66,668	22
Supplies, materials, and other	51,680	78,350	77,464	886
Capital outlay	-	37,010	36,495	515
Total middle school	2,283,840	2,307,920	2,304,223	3,697
High school				
Salaries	1,414,770	1,531,660	1,531,621	39
Benefits	772,070	755,140	755,094	46
Purchased services	56,400	81,550	81,521	29
Supplies, materials, and other	151,940	130,900	130,164	736
Capital outlay	10,000	41,340	41,321	19
Total high school	2,405,180	2,540,590	2,539,721	869
Pre-school instruction				
Salaries	98,230	87,310	87,273	37
Benefits	69,750	65,210	65,015	195
Supplies, materials, and other	2,610	3,750	3,107	643
Capital outlay	300	300	25	275
Total pre-school instruction	170,890	156,570	155,420	1,150
Summer school				
Salaries	-	4,050	4,045	5
Benefits	-	1,050	1,020	30
Total summer school	-0-	5,100	5,065	35
Total basic needs	9,718,920	9,787,580	9,774,882	12,698

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
INSTRUCTION - CONTINUED				
Added needs				
Special education				
Salaries	\$ 860,110	\$ 932,030	\$ 931,848	\$ 182
Benefits	434,150	458,580	458,113	467
Purchased services	23,650	30,030	29,771	259
Supplies, materials, and other	10,150	15,970	15,035	935
Total special education	1,328,060	1,436,610	1,434,767	1,843
Compensatory education				
Salaries	397,710	337,150	337,058	92
Benefits	211,190	157,570	143,207	14,363
Purchased services	1,800	10,290	10,285	5
Supplies, materials, and other	1,870	6,250	5,701	549
Capital outlay	-	110	110	-0-
Total compensatory education	612,570	511,370	496,361	15,009
Total added needs	1,940,630	1,947,980	1,931,128	16,852
TOTAL INSTRUCTION	11,659,550	11,735,560	11,706,010	29,550
SUPPORTING SERVICES				
Pupil services				
Guidance services				
Salaries	181,540	176,100	174,650	1,450
Benefits	96,080	81,270	80,626	644
Total guidance services	277,620	257,370	255,276	2,094
Health services				
Salaries	21,130	23,090	23,084	6
Benefits	5,420	5,890	5,851	39
Supplies, materials, and other	500	770	695	75
Total health services	27,050	29,750	29,630	120
Social services				
Salaries	162,430	166,820	166,741	79
Benefits	90,050	82,310	82,116	194
Purchased services	470	310	286	24
Supplies, materials, and other	790	760	733	27
Total social services	253,740	250,200	249,876	324

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
SUPPORTING SERVICES - CONTINUED				
Pupil services - continued				
Psychologist services				
Salaries	\$ 65,000	\$ 64,110	\$ 64,095	\$ 15
Benefits	32,970	28,190	28,088	102
Purchased services	1,000	800	764	36
Supplies, materials, and other	300	370	361	9
Total psychologist service	99,270	93,470	93,308	162
Speech pathology				
Salaries	133,080	111,960	111,917	43
Benefits	70,720	55,540	55,414	126
Purchased services	500	33,740	33,692	48
Supplies, materials, and other	1,230	1,230	571	659
Total speech pathology	205,530	202,470	201,594	876
Special education consultant				
Salaries	5,290	5,420	5,414	6
Benefits	2,990	2,750	2,731	19
Total special education consultant	8,280	8,170	8,145	25
Monitors				
Salaries	52,300	43,520	43,499	21
Benefits	23,890	16,790	16,681	109
Total monitors	76,190	60,310	60,180	130
Total pupil services	947,680	901,740	898,009	3,731
Instructional staff				
Improvement of instruction				
Salaries	104,480	7,190	2,514	4,676
Benefits	-	1,380	633	747
Purchased services	5,450	40,510	33,280	7,230
Supplies, materials, and other	-	2,430	1,696	734
Total improvement of instruction	109,930	51,510	38,123	13,387

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
SUPPORTING SERVICES - CONTINUED				
Instructional staff - continued				
Library				
Salaries	\$ 115,840	\$ 118,750	\$ 118,730	\$ 20
Benefits	52,730	48,380	48,310	70
Supplies, materials, and other	39,640	12,770	10,662	2,108
Capital outlay	35,030	2,000	1,934	66
Total library	243,240	181,900	179,636	2,264
Supervision and direction of instructional staff				
Salaries	89,820	89,820	91,240	(1,420)
Benefits	16,640	37,240	37,510	(270)
Purchased services	23,760	3,760	482	3,278
Supplies, materials, and other	850	850	669	181
Total supervision and direction of instructional staff	131,070	131,670	129,901	1,769
Total instructional staff	484,240	365,080	347,660	17,420
General administration				
Board of education				
Salaries	4,000	4,000	3,560	440
Purchased services	67,000	73,040	68,694	4,346
Supplies, materials, and other	9,750	13,100	11,570	1,530
Capital outlay	3,000	-	-	-0-
Total board of education	83,750	90,140	83,824	6,316
Executive administration				
Salaries	113,340	150,190	148,946	1,244
Benefits	42,980	72,660	72,146	514
Purchased services	56,600	2,200	1,597	603
Supplies, materials, and other	4,350	3,860	2,022	1,838
Total executive administration	217,270	228,910	224,711	4,199
Total general administration	301,020	319,050	308,535	10,515

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
SUPPORTING SERVICES - CONTINUED				
School administration				
Salaries	\$ 798,620	\$ 800,430	\$ 784,724	\$ 15,706
Benefits	377,440	376,000	361,342	14,658
Purchased services	15,550	12,650	9,625	3,025
Supplies, materials, and other	7,490	4,400	1,774	2,626
Total school administration	1,199,100	1,193,480	1,157,465	36,015
Business services				
Fiscal services				
Salaries	167,850	168,450	167,751	699
Benefits	90,710	86,280	85,604	676
Purchased services	4,600	7,350	6,464	886
Supplies, materials, and other	6,650	5,550	3,546	2,004
Capital outlay	15,000	-	-	-0-
Total fiscal services	284,810	267,630	263,365	4,265
Other fiscal services				
Purchased services	75,300	67,810	67,792	18
Other	159,300	204,400	189,746	14,654
Total other fiscal services	234,600	272,210	257,538	14,672
Total business services	519,410	539,840	520,903	18,937
Pupil transportation				
Salaries	489,530	484,630	482,188	2,442
Benefits	310,500	314,600	310,268	4,332
Purchased services	18,720	18,810	17,650	1,160
Supplies, materials, and other	249,410	241,250	228,210	13,040
Capital outlay	136,000	117,500	117,100	400
Total pupil transportation	1,204,160	1,176,790	1,155,416	21,374
Operations and maintenance				
Salaries	598,430	622,960	618,401	4,559
Benefits	431,810	430,440	427,847	2,593
Purchased services	53,700	48,950	41,481	7,469
Supplies, materials, and other	721,620	693,680	641,502	52,178
Capital outlay	17,500	18,570	17,000	1,570
Total operations and maintenance	1,823,060	1,814,600	1,746,231	68,369

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
SUPPORTING SERVICES - CONTINUED				
Support services technology				
Salaries	\$ 57,810	\$ 58,490	\$ 57,060	\$ 1,430
Benefits	15,760	34,050	33,677	373
Purchased services	41,530	27,480	27,464	16
Supplies, materials, and other	640	-	-	-0-
Capital outlay	1,770	3,980	3,890	90
Total support services technology	117,510	124,000	122,091	1,909
TOTAL SUPPORTING SERVICES	6,596,180	6,434,580	6,256,310	178,270
COMMUNITY SERVICES				
Child care				
Salaries	37,000	15,670	15,662	8
Benefits	4,400	3,980	3,957	23
Supplies, materials, and other	1,200	1,240	1,232	8
Total child care	42,600	20,890	20,851	39
Other community services				
Salaries	2,000	140	135	5
Benefits	530	60	41	19
Purchased services	940	940	898	42
Supplies, materials, and other	1,200	1,200	-	1,200
Total other community services	4,670	2,340	1,074	1,266
TOTAL COMMUNITY SERVICES	47,270	23,230	21,925	1,305
BUILDING IMPROVEMENT SERVICES				
Capital outlay	55,000	213,510	210,178	3,332
OTHER FINANCING USES				
Transfers to other funds	260,150	272,140	272,140	-0-
Payments to other districts	3,500	-	-	-0-
Other	43,000	123,000	109,289	13,711
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 18,664,650	\$ 18,802,020	\$ 18,575,852	\$ 226,168

OTHER SUPPLEMENTARY INFORMATION

Tri County Area Schools

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2007

	Special Revenue		Debt
	Food Service	Athletics	1999 Debt
ASSETS			
Cash and cash equivalents	\$ 121,104	\$ 7,505	\$ 62,023
Accounts receivable	222	-	-
Taxes receivable	-	-	44
Due from other governmental units	5,362	-	-
Inventory	9,897	-	-
TOTAL ASSETS	\$ 136,585	\$ 7,505	\$ 62,067
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 53	\$ -	\$ -
Due to other funds	17,521	172	-
Deferred revenue	7,225	-	89
TOTAL LIABILITIES	24,799	172	89
FUND BALANCES			
Reserved for			
Inventory	9,897	-	-
Debt service	-	-	61,978
Unreserved			
Undesignated, reported in:			
Special revenue funds	101,889	7,333	-
Capital project funds	-	-	-
TOTAL FUND BALANCES	111,786	7,333	61,978
TOTAL LIABILITIES AND FUND BALANCES	\$ 136,585	\$ 7,505	\$ 62,067

Service		Capital Projects	Total Nonmajor Governmental Funds
2003 Bond Refunding	2005 Bond Refunding	Capital Projects	
\$ 292,394	\$ 80,879	\$ 239,663	\$ 803,568
-	-	-	222
209	32	-	285
-	-	-	5,362
-	-	-	9,897
<u>\$ 292,603</u>	<u>\$ 80,911</u>	<u>\$ 239,663</u>	<u>\$ 819,334</u>
\$ -	\$ -	\$ 4,000	\$ 4,053
-	-	-	17,693
217	-	-	7,531
217	-0-	4,000	29,277
-	-	-	9,897
292,386	80,911	-	435,275
-	-	-	109,222
-	-	235,663	235,663
292,386	80,911	235,663	790,057
<u>\$ 292,603</u>	<u>\$ 80,911</u>	<u>\$ 239,663</u>	<u>\$ 819,334</u>

Tri County Area Schools

Nonmajor Governmental Funds

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

Year Ended June 30, 2007

	Special Revenue		Debt
	Food Service	Athletics	1999 Debt
REVENUES			
Local sources	\$ 308,251	\$ 85,889	\$ 176,247
State sources	39,638	-	-
Federal sources	351,231	-	-
OTHER FINANCING SOURCES			
Transfers from other funds	-	262,140	-
TOTAL REVENUES AND OTHER FINANCING SOURCES	699,120	348,029	176,247
EXPENDITURES			
Current			
Food service activities	667,038	-	-
Athletic activities	-	361,608	-
Capital outlay	758	-	-
Debt service			
Principal retirement	-	-	140,000
Interest, fiscal and other charges	-	-	23,923
TOTAL EXPENDITURES	667,796	361,608	163,923
NET CHANGE IN FUND BALANCE	31,324	(13,579)	12,324
Fund balances, beginning of year	80,462	20,912	49,654
Fund balances, end of year	\$ 111,786	\$ 7,333	\$ 61,978

Service		Capital Projects	Total Nonmajor Governmental Funds
2003 Bond Refunding	2005 Bond Refunding	Capital Projects	
\$ 833,970	\$ 129,538	\$ 16,399	\$ 1,550,294
-	-	-	39,638
-	-	-	351,231
-	-	10,000	272,140
833,970	129,538	26,399	2,213,303
-	-	-	667,038
-	-	-	361,608
-	-	50,974	51,732
600,000	10,000	-	750,000
263,266	108,785	-	395,974
863,266	118,785	50,974	2,226,352
(29,296)	10,753	(24,575)	(13,049)
321,682	70,158	260,238	803,106
<u>\$ 292,386</u>	<u>\$ 80,911</u>	<u>\$ 235,663</u>	<u>\$ 790,057</u>

Tri County Area Schools
Proprietary Funds - Internal Service Funds
COMBINING STATEMENT OF NET ASSETS
June 30, 2007

	<u>Retirement Payout Fund</u>	<u>Health Insurance Services Fund</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 515,732	\$ 73,854	\$ 589,586
Due from other funds	<u>324,058</u>	<u>-</u>	<u>324,058</u>
TOTAL ASSETS	839,790	73,854	913,644
LIABILITIES			
Current liabilities			
Accounts payable	-	22,111	22,111
Compensated absences	<u>48,710</u>	<u>-</u>	<u>48,710</u>
Total current liabilities	48,710	22,111	70,821
Noncurrent liabilities			
Compensated absences	<u>791,080</u>	<u>-</u>	<u>791,080</u>
TOTAL LIABILITIES	839,790	22,111	861,901
NET ASSETS			
Unrestricted	<u>\$ -0-</u>	<u>\$ 51,743</u>	<u>\$ 51,743</u>

Tri County Area Schools

Proprietary Funds - Internal Service Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS

Year Ended June 30, 2007

	Retirement Payout Fund	Health Insurance Services Fund	Total
	<u> </u>	<u> </u>	<u> </u>
OPERATING REVENUES			
Charges for services	\$ -	\$ 248,684	\$ 248,684
OPERATING EXPENSES			
Fringe benefits	<u>19,432</u>	<u>196,967</u>	<u>216,399</u>
OPERATING INCOME (LOSS)	(19,432)	51,717	32,285
NONOPERATING REVENUES			
Interest revenue	<u>19,432</u>	<u>26</u>	<u>19,458</u>
CHANGE IN NET ASSETS	-0-	51,743	51,743
Net assets, beginning of year	<u>-</u>	<u>-</u>	<u>-0-</u>
Net assets, end of year	<u>\$ -0-</u>	<u>\$ 51,743</u>	<u>\$ 51,743</u>

Tri County Area Schools

Proprietary Funds - Internal Service Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2007

	Retirement Payout Fund	Health Insurance Services Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ -	\$ 248,684	\$ 248,684
Cash paid for employee and retiree benefits	-	(174,856)	(174,856)
CASH PROVIDED BY OPERATING ACTIVITIES	-0-	73,828	73,828
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	19,432	26	19,458
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,432	73,854	93,286
Cash and cash equivalents, beginning of year	496,300	-	496,300
Cash and cash equivalents, end of year	<u>\$ 515,732</u>	<u>\$ 73,854</u>	<u>\$ 589,586</u>
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ (19,432)	\$ 51,717	\$ 32,285
Adjustments to reconcile operating income (loss) to cash provided by operating activities			
Increase in accounts payable	-	22,111	22,111
Decrease in due from other funds	115,344	-	115,344
(Decrease) in compensated absences	(95,912)	-	(95,912)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ -0-</u>	<u>\$ 73,828</u>	<u>\$ 73,828</u>

Principals

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

To the Board of Education
Tri County Area Schools
Sand Lake, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri County Area Schools as of and for the year ended June 30, 2007, which collectively comprise Tri County Area Schools' basic financial statements and have issued our report thereon dated September 21, 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 Tri County Area Schools' 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 Tri County Area Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Tri County Area Schools' internal control over financial reporting.

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Education of Tri County Area Schools, others within the District, and the Federal award agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Handwritten signature in black ink that reads "Abraham & Gaffney, P.C." in a cursive style.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 21, 2007

Tri County Area Schools

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

June 30, 2007

Tri County Area Schools

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

Board of Education
Tri County Area Schools
Sand Lake, Michigan

Compliance

We have audited the compliance of Tri County Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to the major Federal program for the year ended June 30, 2007. Tri County Area Schools' major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major Federal programs are the responsibility of Tri County Area Schools' management. Our responsibility is to express an opinion on Tri County Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about Tri County Area Schools' 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 Tri County Area Schools' compliance with those requirements.

In our opinion, Tri County Area Schools complied, in all material respects, with the requirements referred to above that are applicable to the major Federal programs for the year ending June 30, 2007.

Internal Control Over Compliance

The management of Tri County Area Schools 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 Tri County Area Schools' internal control over compliance with requirements that could have a direct and material effect on the major Federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Tri County Area Schools' internal control over compliance.

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri County Area Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated September 21, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Tri County Area Schools' basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and administration of Tri County Area Schools, the pass-through entities, and the Federal awarding agencies and is not intended to be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 21, 2007

Tri County Area Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2007

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education			
E.S.E.A. Title I			
2005-06 Regular - Part A	84.010	0615300506	\$ 314,836
2005-06 Carryover - Part A		0615300607	2,815
2006-07 Regular - Part A		0715300607	<u>281,573</u>
			599,224
Title V	84.298		
2006-07		0602500607	958
Technology Literacy Challenge Grants	84.318		
2005-06 Ed Tech - Formula Grant		0642900506	5,873
2006-07 Ed Tech - Formula Grant		0642900607	1,570
2006-07 Ed Tech - Formula Grant		0742900607	<u>2,890</u>
			10,333
Improving Teacher Quality	84.367		
2005-06		0605200506	120,330
2006-07		0605200607	20,032
2006-07		0505200405	<u>118,311</u>
			258,673
Passed Through State Department of Education and Kent ISD			
Drug-Free Program	84.186		
2006-07		0628600607	<u>5,232</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			874,420
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education			
School Breakfast Program	10.553	(e)(f)	
2005-06		061970	70,387
2006-07		071970	<u>64,788</u>
			135,175

<u>(Memo Only)</u> <u>Prior Years'</u> <u>Expenditures</u>	<u>Restated</u> <u>Balance</u> <u>July 1, 2006</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>	<u>Cash</u> <u>Receipts</u> <u>In-Kind</u> <u>Payments</u>	<u>Expenditures</u>	<u>Balance</u> <u>June 30, 2007</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>
\$ 279,035	\$ 53,922	\$ 86,909	\$ 32,987	\$ -0-
-	-	-	2,815	2,815
-	-	-	259,987	259,987
<u>279,035</u>	<u>53,922</u>	<u>86,909</u>	<u>295,789</u>	<u>262,802</u>
-	-	-	958	958
5,873	1,630	1,630	-	-0-
-	-	-	1,570	1,570
-	-	-	2,828	2,828
<u>5,873</u>	<u>1,630</u>	<u>1,630</u>	<u>4,398</u>	<u>4,398</u>
93,716	31,423	38,005	6,582	-0-
-	-	-	20,032	20,032
<u>118,311</u>	<u>-</u>	<u>-</u>	<u>59,368</u>	<u>59,368</u>
<u>212,027</u>	<u>31,423</u>	<u>38,005</u>	<u>85,982</u>	<u>79,400</u>
-	-	5,232	5,232	-0-
<u>496,935</u>	<u>86,975</u>	<u>131,776</u>	<u>392,359</u>	<u>347,558</u>
64,473	-	5,914	5,914	-0-
-	-	64,788	65,160	372
<u>64,473</u>	<u>-0-</u>	<u>70,702</u>	<u>71,074</u>	<u>372</u>

Tri County Area Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2007

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF AGRICULTURE - CONTINUED			
Passed Through State Department of Education - continued			
National School Lunch Program	10.555	(e)(f)	
2005-06		061950, 061960	\$ 237,079
2006-07		071950, 071960	<u>224,004</u>
			461,083
Food Donation (c)	10.550		
Entitlement commodities		59080	29,292
Bonus commodities		59080	<u>278</u>
			<u>29,570</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>625,828</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 1,500,248</u></u>

(Memo Only) Prior Years' Expenditures	Restated Balance July 1, 2006 Accrued or (Deferred) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2007 Accrued or (Deferred) Revenue
\$ 210,496	\$ -	\$ 26,583	\$ 26,583	\$ -0-
-	-	223,089	224,004	915
210,496	-0-	249,672	250,587	915
-	-	29,292	29,292 ^(a)	-0-
-	-	278	278 ^(a)	-0-
-0-	-0-	29,570	29,570	-0-
274,969	-0-	349,944	351,231	1,287
<u>\$ 771,904</u>	<u>\$ 86,975</u>	<u>\$ 481,720</u>	<u>\$ 743,590 ^(b)</u>	<u>\$ 348,845</u>
		(d)	(g)	

Tri County Area Schools

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2007

NOTE A: BASIS OF PRESENTATION

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

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

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

- (a) The current year expenditures for the Food Donation Program are determined based on the 2002/03 guidance provided in the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports except as noted below. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the payment amounts reflected in the Grants Section Auditors Report and the Grant Auditor Report combined, less the receipt adjustments for grants that overlapped from 05/06 to 06/07 as follows:

<u>Grant #</u>	<u>Cumulative Payments Per MDE Report</u>	<u>Less: Prior Year Receipts</u>	<u>Cash Receipts Per Current SEFA</u>
84.010	\$ 312,021	\$(225,112)	\$ 86,909
84.318	6,029	(4,399)	1,630
84.367	100,298	(62,293)	38,005

- (e) Denotes program tested as "major program".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.
- (g) Reconciliation between total revenues from Federal sources per financial statements and Federal expenditures per the schedule is as follows:

Federal Revenue per Financial Statements	\$ 749,590
Less: Federal Revenue not subject to Single Audit	<u>(6,000)</u>
Federal Expenditures per schedule	<u>\$ 743,590</u>

Principals

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



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

Board of Education
Tri County Area Schools
Sand Lake, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri County Area Schools, Michigan as of and for the year ended June 30, 2007, and have issued our report thereon dated September 21, 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 Tri County Area Schools' 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 Tri County Area Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Tri County Area Schools' internal control over financial reporting.

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Education of Tri County Area Schools, others within the District, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 21, 2007

Tri County Area Schools

SCHEDULE OF FINDINGS

For the Year Ended June 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	Nutrition Cluster

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

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Tri County Area Schools
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2007

There were no findings disclosed for the past two years.