

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

Comprehensive Annual Financial Report

For the year ended June 30, 2009

**KENOWA HILLS PUBLIC SCHOOLS**  
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For the year ended June 30, 2009

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## **FINANCIAL SECTION**

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

**INDEPENDENT AUDITOR'S REPORT**

November 2, 2009

The Board of Education  
Kenowa Hills Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Kenowa Hills Public Schools (the "District") as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of Kenowa Hills Public Schools as of June 30, 2009, and the respective changes in financial position and budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2009 on our consideration of Kenowa Hills Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

*Hungerford, Aldrin, Nichols & Benten, P.C.*

Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Kenowa Hills Public Schools (“the District”), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the District’s financial statements, which immediately follow this section.

### **Overview of the Financial Statements**

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

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

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

### **District-Wide Statements**

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

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

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



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

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

**Condensed District-Wide Financial Information**

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

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Current assets	\$ 10,286,538	\$ 11,008,157
Capital assets, net book value	27,067,291	27,744,140
<b>Total Assets</b>	<b>37,353,829</b>	<b>38,752,297</b>
<b>Liabilities</b>		
Current liabilities	6,118,893	5,879,467
Long-term liabilities	27,940,942	29,894,180
<b>Total Liabilities</b>	<b>34,059,835</b>	<b>35,773,647</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	(2,097,088)	(3,267,555)
Restricted	1,912,003	1,180,058
Unrestricted	3,479,079	5,066,147
<b>Total Net Assets</b>	<b>\$ 3,293,994</b>	<b>\$ 2,978,650</b>

**Management's Discussion and Analysis**  
**June 30, 2009**



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

	<u>2009</u>	<u>2008</u>
<b>Program Revenues</b>		
Charges for services	\$ 1,465,451	\$ 1,386,341
Operating grants	7,044,659	5,451,066
<b>General Revenues</b>		
Property taxes	13,965,882	15,363,012
State school aid, unrestricted	15,748,647	15,399,232
Interest earnings	115,355	348,335
Other	394,432	284,950
<b>Total Revenues</b>	<u>38,734,426</u>	<u>38,232,936</u>
<b>Expenses</b>		
Instruction	21,017,332	19,821,188
Supporting services	13,171,775	12,780,290
Community services	773,384	704,052
Food service	1,512,451	1,466,777
Athletics	487,028	471,846
Interest expense	1,457,112	1,535,409
<b>Total Expenses</b>	<u>38,419,082</u>	<u>36,779,562</u>
Increase in net assets	315,344	1,453,374
<b>Net Assets - Beginning of Year</b>	<u>2,978,650</u>	<u>1,525,276</u>
<b>Net Assets - End of Year</b>	<u><u>\$ 3,293,994</u></u>	<u><u>\$ 2,978,650</u></u>

**Financial Analysis of the District as a Whole**

The District's financial position is influenced by many factors. Growth during the year in taxes and operating grants were again the largest contributors to revenue increases. Expenditure growth outpaced revenue growth in percentage terms this fiscal year.

The Districts's total revenues increased 1.3 percent to \$38.7 million. Property taxes and unrestricted state aid accounted for most of the District's revenue, contributing 77 cents of every dollar raised. Another 18 percent came from state and federal aid for specific programs and the remainder from fees charged for services, interest earnings and miscellaneous sources.

**Management's Discussion and Analysis  
June 30, 2009**

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The total cost of all programs and services increased 4.5 percent to \$38.4 million. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (65 percent). The District's administrative and business activities accounted for 9 percent of total costs. Operation and maintenance expenses accounted for \$3.5 million or 9 percent.

Total revenues surpassed expenses, increasing net assets by \$315,344 from last year.

Although total revenues exceeded expenses (all funds combined), a cautionary note must be made. Total revenues increased by 1.31%, while expenses during the fiscal year increased more than 4.46%. Some of the key attributes of the District's current financial picture in terms of revenues are as follows:

- The only fund to show an increase in revenues over expenses was the Debt Service Fund (\$714,785).
- Changes in the tax laws relating to evaluations on some commercial and industrial properties, as well as the overall decline in the housing market resulted in a decrease in taxable values for the first time since our District raised property tax rates in 1996 when a bond issue was last approved. Tax collections fell by more than \$1.35 million.
- A lower fund balance coupled with bank interest rates that declined dramatically resulted in a 66.7% decrease in interest revenues.
- State and Federal governments subsidized the loss of local revenues with grants and contributions (\$2.08 million more than fiscal year 2007-08), with \$1.3 million of that total coming in the last fiscal quarter in the form of a Federal Stimulus package.
- There was a modest increase in local user fees (\$29,025), which was offset by the declining revenues realized from other local governments for services and shared revenues (\$77,415).
- Most of the District's costs continued to be funded by District and State taxpayers (\$30.48 million), with \$13.95 million in property taxes, \$14.67 million unrestricted state aid based on the statewide education aid formula, and \$1.86 million in other sources, including investment earnings and revenues from athletic, food service and community education fees.
- The 4% decrease in local dollars was subsidized by a 3% increase in Federal dollars and 1% increase in State dollars.

### **Fund Financial Statements**

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

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's

programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds statements explains the relationship (or differences) between them.

- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship Funds and Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

### **Financial Analysis of the District's Funds**

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

#### **Major Funds**

##### General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of \$33,084,866, total expenditures of \$34,269,436, and total other financing uses of \$342,756. It ended the fiscal year with a fund balance of \$4,351,145, a decrease of \$1,527,326 from the fund balance of \$5,878,471 at June 30, 2008. It is this decrease that was the primary factor in limiting the growth of assets to \$315,344.

##### Debt Service Fund

The District maintains one Debt Service Fund. Total revenues were \$4,016,837 and total expenditures were \$3,302,052. The ending fund balance in the Debt Service Fund was \$2,120,599.

#### **Nonmajor Funds**

##### Special Revenue Funds

The District operates two Special Revenue Funds, for the food service and athletic programs. Total revenues were \$1,608,312 and other financing sources were \$340,444, with total expenditures of \$1,976,295. The ending fund balance of \$31,425 was attributable to the Food Service Fund.

##### Fiduciary Funds

The District has Scholarship Funds and a Student Activities Fund. The assets of these funds are being held for the benefit of the District's students. Balances on hand at June 30, 2009 totaled \$146,359.

### **General Fund Budgetary Highlights**

Over the course of the year, the District revised its initial annual operating budget three times, once in January (initially submitted in November), once in March, and in June just prior to fiscal year end. These budget revisions included:

- Changes made to account for the final student enrollment that determines how much foundation grant per pupil or State school aid will be received during the fiscal year.
- Programming changes implemented in curriculum that impacted the staffing and costs related to Title programs and At Risk funds.

- Revisions to account function codes that were not correct and final modifications to expenses anticipated for grant costs were introduced in early March and approved later that month.
- Final changes were presented in early June and approved later in June to modify accounts being charged for and in receipt of Federal stimulus funding and off-setting reductions in State revenues, increases in various appropriations to prevent budget overruns, and reductions for expenses anticipated that were not being utilized in the current budget year.
- Although the District's final General Fund budget in June anticipated a deficit of \$2,057,713 in revenues over expenses, the actual deficit ended up at a lesser amount of \$1,527,326, with the largest difference being in the area of Operations and Maintenance as projects anticipated before June 30, 2009 ended up being undertaken later in the summer.
- Total actual revenues were \$12,672 lower than expected. State and Federal funds came in just slightly less than \$5,000 each under June budget projections, which was offset by approximately \$18,000 more in intra-district funding and more summer recreation fees under local revenues.
- Total actual expenditures and transfers were \$543,059 less than the final budget projections for June. The major changes in those expenses related to projects for repair and replacement under Operations and Maintenance that were delayed until after July 1<sup>st</sup>, savings in insurance amounts accrued for the un-anticipated early retirements, a couple of early retirement amounts that were anticipated to be paid in June that were delayed per the employee's request until September, 2009 and nearly \$60,000 savings due to changes in the accounting and billing for special education costs from other districts.

### **Capital Asset and Debt Administration**

#### **Capital Assets**

By the end of 2008-09, the District had invested \$44.97 million in a broad range of capital assets, including land, school buildings, athletic facilities, vehicles, computer equipment and software, and administrative offices. (More detailed information about capital assets can be found in the Notes to Basic Financial Statements.) Total depreciation expense for the year was \$1.02 million.

Due to the tenuous budget situation at the Federal and State levels, the District's fiscal year 2009-10 capital budget limited the capital projects slated to \$79,735 in computer software and hardware upgrades. There is also approximately \$23,100 in projects that did not get completed in the 2008-09 school year for media equipment, ceiling projectors and video recorders, and two main water valves that were moved into the 2009-10 budget.

At June 30, 2009, the District's investment in capital assets (net of accumulated depreciation), including land, land improvements, buildings, vehicles, furniture and equipment, was \$27.1 million. This represents a decrease of approximately \$680,000 from the previous year-end.

Land	\$ 1,108,000
Land improvements	477,655
Buildings and additions	24,383,720
Furniture and equipment	236,688
Vehicles	<u>861,228</u>
<b>Net Capital Assets</b>	<u><u>\$ 27,067,291</u></u>

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### **Long-term Debt**

At year end, the District had \$29.96 million in general obligation bonds and other long-term debt outstanding – a net reduction of \$1.80 million from last year. The District continued to pay down its debt, retiring \$1.84 million of outstanding bonds and \$335,000 of employee retirement payments.

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

The District's underlying bond rating from Standard & Poor's on its general obligation unlimited tax debt is "A". The outstanding debt was qualified by the State, and thus also carries the State's program rating of "AA-".

### **Factors Bearing on the District's Future**

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

- Michigan's economy continues to be a major concern for future school funding. Layoffs and continued high unemployment rates have forced many families to move out-State for employment, resulting in lower student enrollments. The District's September count was down 110 students (3,411) from the September 2008 count of 3,521. As area businesses have closed or jobs have continued to be moved out-of-State or out of the U.S., State School Aid funding, which represents approximately 50% of the District's annual revenues, has been cut due to declining income and sales taxes.
- Already five months into the current budget year for 2009-10, the District's projected budget has been further compromised by a \$165 per student cut by the Legislature and another \$127 by the Governor's office as the two government branches were deadlocked in finding a compromise on closing the budget gaps as the State's fiscal year began on October 1<sup>st</sup>.
- Kenowa Hills' Board of Education recently took a major step toward savings for the District in the future. Consolidation of two elementary buildings, re-configuration of a third elementary to house all Pre-K programming, and re-configuration of grades within all buildings except the High School should save the District an estimated \$820,000 in the first year and \$905,000 or more in successive years. There would be some one-time start up and unemployment costs in that first year that would offset some of the total savings.
- Negotiated contract agreements are in place with teacher and support staff unions representing 350 employees, as well as the Transportation Association, through August, 2010.
- Prices of energy commodities such as diesel, gasoline and natural gas have been relatively stable over the past year. If this trend is sustained, it will continue to provide some relief from the rate of growth in overall operating costs going forward.

**Management's Discussion and Analysis  
June 30, 2009**


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- Cost increases exceeding the general rate of inflation continue to be expected for the District relative to health care and for pension contribution obligations in 2009-10 and beyond. These fixed wage and benefit costs:

<b>Fiscal Year</b>	<b>Total Wage &amp; Benefit (Fixed Costs)</b>	<b>Total Expenditures</b>	<b>Pct. Of Fixed to Total</b>
2007-08	\$25,179,277	\$32,272,097	78.02%
2008-09	\$26,841,625	\$34,284,263	78.29%
2009-10 (Budgeted)	\$27,392,696	\$34,538,697	79.31%

- The District's fund balance in its primary operating fund, the General Fund, decreased by \$1,527,326 during the 2008-09 fiscal year to \$4,351,145. This decrease was less than \$2,057,000 loss projected. This is the first year that the fund balance has declined since 2005, before the impact of Michigan's latest economic crisis. The current fund balance represents 12.5% of the 2009-10 General Fund operational budget. Though this Fund Balance is viewed as a positive level, it should be noted that it was still a 4.5% decline from last year's 17.0% Fund Balance level.
- Budget reductions totaling \$2.04 million were implemented at the start of the 2009-10 fiscal year to maintain or moderately reduce expenses and offset the anticipated decline in revenues. Budget reductions included staffing, re-organization of programming, transportation, technology, maintenance and operation cuts. Both management and the Board of Education are committed to the goals of maintaining the financial stability of the District and to maintaining a solid core of instructional programming and opportunities for all students.
- The financial strength of the District improved significantly during the three fiscal years of 2005-06 through 2007-08, with some budget reductions during each of those years. Those cost savings were due, in part, to negotiated contracts covering 2005-06 through 2009-10, when a modified step schedule was put into place. It was hoped that cost savings during those first three years would help the District weather the recession, which they did, though the economic downturn has lasted longer and has been more severe than originally predicted. During the last two years of those negotiated agreements (2008-09 and 2009-10), the salary step increases for teachers are moving up 1.5 times the normal rate. And though these higher salary steps have been a factor in this year's budget deficit, they are not the only factor in the deficit. As short term revenue solutions are running out at the State and Federal levels, those funds have been or are being reduced. Recognizing that fact, the Board and Administration have implemented the cuts noted above for the current fiscal year, have continued to work on joint efforts with other LEAs and the ISD, and recently set into place a longer term solution in consolidation of facilities.

### **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Thomas K. Martin, Superintendent, Kenowa Hills Public Schools, 2325 Four Mile Road, N.W., Grand Rapids, MI 49544. Contact by e-mail: [tmartin@khps.org](mailto:tmartin@khps.org).

## **BASIC FINANCIAL STATEMENTS**



**KENOWA HILLS PUBLIC SCHOOLS**  
**Statement of Net Assets**  
**June 30, 2009**

	Governmental Activities
<b>Assets</b>	
<b>Current Assets</b>	
Cash	\$ 1,050
Cash equivalents, deposits and investments (Note B)	6,062,311
Receivables:	
Taxes (Note C)	126,830
Accounts	17,378
Due from other governmental units (Note C)	3,971,741
Inventory	90,041
Prepaid expenses	17,187
<b>Total Current Assets</b>	<b>10,286,538</b>
<b>Noncurrent Assets</b>	
Capital assets (Note E)	44,970,219
Less accumulated depreciation	(17,902,928)
<b>Total Noncurrent Assets</b>	<b>27,067,291</b>
<b>Total Assets</b>	<b>37,353,829</b>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	574,005
Due to other governmental units	889,331
Accrued interest payable	234,354
Salaries payable	1,819,810
Deferred revenue	373,393
Current portion of long term obligations	2,228,000
<b>Total Current Liabilities</b>	<b>6,118,893</b>
<b>Noncurrent Liabilities (Note F)</b>	
General obligation bonds payable	28,955,000
Early retirement incentive	438,615
Accumulated sick leave	565,948
Unamortized bond premium	209,379
Current portion of long term obligations	(2,228,000)
<b>Total Noncurrent Liabilities</b>	<b>27,940,942</b>
<b>Total Liabilities</b>	<b>34,059,835</b>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	(2,097,088)
Restricted for:	
Debt service	1,912,003
Unrestricted	3,479,079
<b>Total Net Assets</b>	<b>\$ 3,293,994</b>

See accompanying notes to basic financial statements.

**KENOWA HILLS PUBLIC SCHOOLS**  
**Statement of Activities**  
**For the year ended June 30, 2009**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
<b>Governmental Activities</b>				
Instruction	\$ 21,017,332	\$ 43,698	\$ 5,727,583	\$(15,246,051)
Supporting services	13,171,775	82,601	600,049	(12,489,125)
Community services	773,384	436,509	12,806	(324,069)
Food service	1,512,451	735,025	704,221	(73,205)
Athletics	487,028	167,618	-	(319,410)
Interest expense	1,457,112	-	-	(1,457,112)
<b>Total Governmental Activities</b>	<b>\$ 38,419,082</b>	<b>\$ 1,465,451</b>	<b>\$ 7,044,659</b>	<b>(29,908,972)</b>
<b>General Revenues</b>				
Taxes:				
				9,989,334
				3,976,548
				15,748,647
				115,355
				394,432
				<u>30,224,316</u>
				315,344
				<u>2,978,650</u>
				<u>\$ 3,293,994</u>

See accompanying notes to basic financial statements.

**KENOWA HILLS PUBLIC SCHOOLS**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2009**

	General	2005 Debt Service	Nonmajor	Total
<b>Assets</b>				
Cash	\$ 400	\$ -	\$ 650	\$ 1,050
Cash equivalents, deposits and investments (Note B)	3,939,614	2,122,555	142	6,062,311
Receivables:				
Taxes (Note C)	101,072	25,758	-	126,830
Accounts	17,378	-	-	17,378
Due from other funds (Note D)	13,561	-	26,058	39,619
Due from other governmental units (Note C)	3,961,370	-	10,371	3,971,741
Inventory	70,415	-	19,626	90,041
Prepaid expenditures	17,187	-	-	17,187
<b>Total Assets</b>	<b>\$ 8,120,997</b>	<b>\$ 2,148,313</b>	<b>\$ 56,847</b>	<b>\$10,326,157</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 574,005	\$ -	\$ -	\$ 574,005
Due to other funds (Note D)	26,058	1,956	11,605	39,619
Due to other governmental units	889,331	-	-	889,331
Salaries payable	1,819,810	-	-	1,819,810
Deferred revenue	460,648	25,758	13,817	500,223
<b>Total Liabilities</b>	<b>3,769,852</b>	<b>27,714</b>	<b>25,422</b>	<b>3,822,988</b>
<b>Fund Balances</b>				
Reserved for:				
Debt service	-	2,120,599	-	2,120,599
Unreserved:				
Undesignated, reported in:				
General fund	4,351,145	-	-	4,351,145
Special revenue funds	-	-	31,425	31,425
<b>Total Fund Balances</b>	<b>4,351,145</b>	<b>2,120,599</b>	<b>31,425</b>	<b>6,503,169</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 8,120,997</b>	<b>\$ 2,148,313</b>	<b>\$ 56,847</b>	<b>\$10,326,157</b>

See accompanying notes to basic financial statements.

**KENOWA HILLS PUBLIC SCHOOLS**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Assets of Governmental Activities**  
**June 30, 2009**

<b>Total governmental fund balances</b>		\$ 6,503,169
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$44,970,219 and accumulated depreciation is \$17,902,928.		27,067,291
Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.		(209,379)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
General obligation bonds	\$(28,955,000)	
Early retirement incentive	(438,615)	
Accumulated sick leave	(565,948)	(29,959,563)
Accrued interest is not included as a liability in governmental funds.		(234,354)
Deferred revenue recognized as revenue in the full accrual statements:		
Property taxes		126,830
<b>Total net assets - governmental activities</b>		<b>\$ 3,293,994</b>

See accompanying notes to basic financial statements.

**KENOWA HILLS PUBLIC SCHOOLS**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2009**

	General	2005 Debt Service	Nonmajor	Total
<b>Revenues</b>				
Local sources	\$10,995,781	\$ 4,016,837	\$ 904,091	\$15,916,709
State sources	17,246,338	-	87,492	17,333,830
Federal sources	2,599,960	-	616,729	3,216,689
Interdistrict sources	2,242,787	-	-	2,242,787
<b>Total Revenues</b>	<b>33,084,866</b>	<b>4,016,837</b>	<b>1,608,312</b>	<b>38,710,015</b>
<b>Expenditures</b>				
Current:				
Instruction	20,207,042	-	-	20,207,042
Supporting services	13,291,403	-	-	13,291,403
Community services	765,249	-	-	765,249
Food service	-	-	1,497,910	1,497,910
Athletics	-	-	478,385	478,385
Debt service:				
Principal repayment	-	1,835,000	-	1,835,000
Interest and fiscal charges	-	1,467,052	-	1,467,052
Interdistrict	5,742	-	-	5,742
<b>Total Expenditures</b>	<b>34,269,436</b>	<b>3,302,052</b>	<b>1,976,295</b>	<b>39,547,783</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(1,184,570)</b>	<b>714,785</b>	<b>(367,983)</b>	<b>(837,768)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	340,444	340,444
Transfers out	(340,444)	-	-	(340,444)
Other	(2,312)	-	-	(2,312)
<b>Total Other Financing Sources (Uses)</b>	<b>(342,756)</b>	<b>-</b>	<b>340,444</b>	<b>(2,312)</b>
<b>Net Change In Fund Balances</b>	<b>(1,527,326)</b>	<b>714,785</b>	<b>(27,539)</b>	<b>(840,080)</b>
<b>Fund Balances, Beginning of Year</b>	<b>5,878,471</b>	<b>1,405,814</b>	<b>58,964</b>	<b>7,343,249</b>
<b>Fund Balances, End of Year</b>	<b>\$ 4,351,145</b>	<b>\$ 2,120,599</b>	<b>\$ 31,425</b>	<b>\$ 6,503,169</b>

See accompanying notes to basic financial statements.

**KENOWA HILLS PUBLIC SCHOOLS**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the year ended June 30, 2009**

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**Net change in fund balances - total governmental funds** \$ (840,080)

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

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

	\$	339,992	
Capital outlays			
Depreciation expense		(1,016,841)	(676,849)

As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead considered deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. 12,095

Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue. 12,316

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. 1,835,000

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities however, interest expense is recognized as the interest accrues regardless of when it is paid. 9,940

In the Statement of Net Assets, early retirement incentive and accumulated sick leave are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned (\$372,734) exceeded the amounts used/paid (\$335,656). (37,078)

**Total changes in net assets - governmental activities** \$ 315,344

See accompanying notes to basic financial statements.

**KENOWA HILLS PUBLIC SCHOOLS**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2009**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<b>Revenues</b>				
Local sources	\$10,727,603	\$10,982,692	\$10,995,781	\$ 13,089
State sources	18,178,924	17,287,439	17,246,338	(41,101)
Federal sources	1,154,186	2,598,013	2,599,960	1,947
Interdistrict sources	2,890,136	2,229,394	2,242,787	13,393
<b>Total Revenues</b>	<u>32,950,849</u>	<u>33,097,538</u>	<u>33,084,866</u>	<u>(12,672)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	16,193,837	15,907,600	15,696,370	211,230
Added needs	4,263,437	4,559,145	4,510,672	48,473
Supporting services:				
Pupil services	2,233,181	2,203,526	2,202,826	700
Instructional staff services	1,102,433	1,122,499	1,109,608	12,891
General administrative services	708,370	715,166	708,145	7,021
School administrative services	2,112,917	2,200,104	2,161,473	38,631
Business services	668,380	705,376	696,111	9,265
Operation and maintenance services	3,612,766	3,535,996	3,334,788	201,208
Pupil transportation services	2,423,908	2,498,624	2,477,195	21,429
Central services	576,226	601,410	601,257	153
Community services	724,352	768,805	765,249	3,556
Interdistrict	-	5,742	5,742	-
<b>Total Expenditures</b>	<u>34,619,807</u>	<u>34,823,993</u>	<u>34,269,436</u>	<u>554,557</u>
<b>Excess (Deficiency) Of Revenues Over Expenditures</b>	<u>(1,668,958)</u>	<u>(1,726,455)</u>	<u>(1,184,570)</u>	<u>541,885</u>
<b>Other Financing Sources (Uses)</b>				
Other	-	(2,176)	(2,312)	(136)
Transfers out	(356,633)	(329,082)	(340,444)	(11,362)
<b>Total Other Financing Sources (Uses)</b>	<u>(356,633)</u>	<u>(331,258)</u>	<u>(342,756)</u>	<u>(11,498)</u>
<b>Net Change In Fund Balances</b>	<u>(2,025,591)</u>	<u>(2,057,713)</u>	<u>(1,527,326)</u>	<u>530,387</u>
<b>Fund Balances, Beginning of Year</b>	<u>5,878,471</u>	<u>5,878,471</u>	<u>5,878,471</u>	<u>-</u>
<b>Fund Balances, End of Year</b>	<u>\$ 3,852,880</u>	<u>\$ 3,820,758</u>	<u>\$ 4,351,145</u>	<u>\$ 530,387</u>

See accompanying notes to basic financial statements.

**KENOWA HILLS PUBLIC SCHOOLS**  
**Fiduciary Funds**  
**Statement of Fiduciary Net Assets**  
**June 30, 2009**

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<b>Assets</b>	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
Cash equivalents, deposits and investments (Note B)	<u>\$ 33,234</u>	<u>\$ 113,125</u>
<b>Liabilities</b>		
Due to student groups	<u>-</u>	<u>\$ 113,125</u>
<b>Net Assets</b>		
Held in trust for: Individuals and organizations	<u>\$ 33,234</u>	

See accompanying notes to basic financial statements.



**KENOWA HILLS PUBLIC SCHOOLS**  
**Fiduciary Funds**  
**Statement of Changes in Fiduciary Net Assets**  
**For the year ended June 30, 2009**

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	Private Purpose Trust Fund
<b>Additions</b>	
Interest earnings	\$ 825
Donations	435
<b>Total Additions</b>	1,260
<b>Deductions</b>	
Endowment activities - scholarships	3,800
<b>Change In Net Assets</b>	(2,540)
<b>Net Assets, Beginning of Year</b>	35,774
<b>Net Assets, End of Year</b>	\$ 33,234

See accompanying notes to basic financial statements.

## **NOTES TO BASIC FINANCIAL STATEMENTS**

**KENOWA HILLS PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

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## **Note A – Summary of Significant Accounting Policies**

Kenowa Hills Public Schools was organized under the School Code of the State of Michigan and services a population of approximately 3,521 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

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

The District’s significant accounting policies are described below.

### **1. Reporting Entity**

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

### **2. District-wide and Fund Financial Statements**

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

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

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

**KENOWA HILLS PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

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

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

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

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

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

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

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

#### **Governmental Funds**

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

**KENOWA HILLS PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

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

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

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

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

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

#### **Fiduciary Funds**

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

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

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

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

#### **4. Budgets and Budgetary Accounting**

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Kenowa Hills Public Schools has also adopted budgets for its Special Revenue Funds. A school district's Budget Appropriations Act (the "budget") must be adopted before the beginning of each fiscal year. No

**KENOWA HILLS PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

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violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the function level. All appropriations lapse at the end of the fiscal year.

Kenowa Hills Public Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

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

## **5. Encumbrances**

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

## **6. Investments**

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

## **7. Inventory**

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

**KENOWA HILLS PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

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**8. Capital Assets**

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

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

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

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

**9. Long-term Obligations**

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

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

**10. Early Retirement Incentive/Accumulated Sick Leave**

Early retirement incentive and accumulated sick leave at June 30, 2009 have been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2009, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for early retirement incentive and accumulated sick leave amounted to \$438,615 and \$565,948, respectively.

**11. Fund Equity**

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

**KENOWA HILLS PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

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**12. Interfund Activity**

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

**13. Estimates**

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

**Note B – Cash Equivalents, Deposits and Investments**

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

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

Balances at June 30, 2009 related to cash equivalents, deposits and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Assets:	
Governmental activities	\$ 6,062,311



**KENOWA HILLS PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

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Fiduciary Funds:	
Trust and Agency Funds	<u>146,359</u>
	<u>\$ 6,208,670</u>

**Cash Equivalents and Deposits**

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

1. Chemical Bank

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

June 30, 2009 balances are detailed as follows:

Cash equivalents	\$ 6,179,460
Deposits	<u>29,210</u>
	<u>\$ 6,208,670</u>

*Custodial Credit Risk Related to Deposits*

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$6,208,670 and the bank balance was \$7,347,244. Of the bank balance, \$2,372,555 was covered by federal depository insurance and \$4,974,689 was uninsured.

**Investments**

As of June 30, 2009, the District had no surplus funds that were classified as investments under GASB Statement No. 40. The District's policies to minimize investment risk are as follows:

*Custodial Credit Risk Related to Investments*

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

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The District's investment policy does not specifically address credit risk, but minimizes its credit risk by limiting investments to the types allowed by the State.

*Interest Rate Risk*

The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market accounts, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**KENOWA HILLS PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

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*Concentration of Credit Risk*

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

*Foreign Currency Risk*

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

**Note C – State School Aid/Property Taxes**

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2008 ad valorem State Education Taxes generated within the Kenowa Hills Public School District, and paid to the State of Michigan, totaled \$6,425,015.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2008 and September, 2008. The 2008-09 "Foundation Allowance" for Kenowa Hills Public Schools was \$7,622 for 3,500 "Full Time Equivalent" students, generating \$16,546,762 in state aid payments to the District, of which \$1,899,040 was paid to the District in July and August, 2009 and included in "Due From Other Governmental Units" of the General Fund and Food Service Special Revenue Fund of the District.

Property taxes for the District are levied July 1 (the tax lien date) by the City of Walker and the Charter Townships of Alpine, Plainfield and Tallmadge and the Township of Wright, and are due 75 days after the levy date. The taxes are then collected by each governmental unit and remitted to the District. The Counties of Kent and Ottawa, through their Delinquent Tax Revolving Fund, advance all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

<u>Year</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
2008	\$ 17,011	\$ 11,373	\$ 28,384
2007	61,228	10,759	71,987
2006	22,833	3,626	26,459
	\$ 101,072	\$ 25,758	\$ 126,830

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

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

**KENOWA HILLS PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

As Kenowa Hills Public Schools' electors had previously (May 8, 2007) approved an operating millage extension, the 18 mill non-homestead property tax was levied in the District for 2008.

The District levied 3.36 mills in 2008 for debt service purposes.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases are limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A and Public Act 36, taxable property is now divided into two categories: PRE and NPRE.

A principal residence exemption property (PRE) is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage" nor any additional voted millage for the retirement of debt.

Non-principal residence exemption property (NPRE) is subject to all District levies. However, since Public Act 36, establishing the MBT, was signed into law, Public Acts 37-40 of 2007 now exempt Industrial Personal Property from the 6 mill State Education Tax and up to 18 mills of local school district operating millage (includes property under IFT); and exempt Commercial Personal Property from up to 12 mills of local school district operating millage (exceptions may apply).

**Note D – Interfund Receivables/Payables and Transfers**

Amounts due from/to other funds representing interfund receivables and payables from other expenditures not yet reimbursed at June 30, 2009, are detailed as follows:

	<b>Due From</b>	<b>Due To</b>
<b>Major Funds</b>		
General Fund:		
Special Revenue Fund:		
Food Service Fund	\$ 11,605	\$ 26,058
Debt Service Fund:		
2005 Debt Service Fund	1,956	—
	13,561	26,058
Debt Service Fund:		
2005 Debt Service Fund:		
General Fund	—	1,956
	—	1,956
Total Major Funds	13,561	28,014
<b>Nonmajor Fund</b>		
Special Revenue Fund:		
Food Service Fund:		
General Fund	26,058	11,605
	26,058	11,605
Total All Funds	\$ 39,619	\$ 39,619

**KENOWA HILLS PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

Transfers between funds during the year ended June 30, 2009 were as follows:

	<b>Transfers In</b>	<b>Transfers Out</b>
<b>General Fund</b>		
Special Revenue Funds:		
Food Service Fund	\$ —	\$ 30,060
Athletics Fund	—	310,384
Total General Fund	—	340,444
<b>Special Revenue Funds</b>		
Food Service Fund:		
General Fund	30,060	—
Athletics Fund:		
General Fund	310,384	—
Total Special Revenue Funds	340,444	—
 Total All Funds	\$ 340,444	\$ 340,444

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

**Note E – Capital Assets**

Capital asset activity for the year ended June 30, 2009 was as follows:

	<b>Balances July 1, 2008</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balances June 30, 2009</b>
Capital assets not depreciated:				
Land	\$ 1,108,000	\$ —	\$ —	\$ 1,108,000
Capital assets being depreciated:				
Land improvements	1,186,227	—	—	1,186,227
Buildings and additions	38,426,954	14,792	—	38,441,746
Furniture and equipment	1,696,703	23,776	—	1,720,479
Vehicles	2,338,353	301,424	126,010	2,513,767
 Totals at historical cost	44,756,237	\$ 339,992	\$ 126,010	44,970,219
Less accumulated depreciation for:				
Land improvements	667,749	\$ 40,823	\$ —	708,572
Buildings and additions	13,304,650	753,376	—	14,058,026
Furniture and equipment	1,450,206	33,585	—	1,483,791
Vehicles	1,589,492	189,057	126,010	1,652,539
 Total accumulated depreciation	17,012,097	\$1,016,841	\$ 126,010	17,902,928
 <b>Net Capital Assets</b>	\$ 27,744,140			\$ 27,067,291

**KENOWA HILLS PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	\$ 782,968
Supporting services	203,368
Community services	8,135
Food service	13,727
Athletics	8,643
	<u>\$ 1,016,841</u>

**Note F – Long-term Debt**

Amounts available and to be provided for outstanding long-term debt at June 30, 2009 are summarized as follows:

	<b>Bond Issues</b>	<b>Early Retirement Incentive</b>	<b>Accumulated Sick Leave</b>	<b>Total</b>
<b>Amount Available For Retirement of Long-term Debt</b>				
Debt Service Fund	\$ 2,120,599	\$ —	\$ —	\$ 2,120,599
<b>Amounts To Be Provided For Retirement of Long-term Debt</b>				
General Fund	—	438,615	565,948	1,004,563
Debt Service Fund	26,834,401	—	—	26,834,401
				<u>26,834,401</u>
<b>Total Amounts Available and To Be Provided</b>	<u>\$ 28,955,000</u>	<u>\$ 438,615</u>	<u>\$ 565,948</u>	<u>\$ 29,959,563</u>

Changes in long-term debt for the year ended June 30, 2009 are summarized as follows:

	<b>Debt Outstanding July 1, 2008</b>	<b>Debt Added</b>	<b>Debt Retired</b>	<b>Debt Outstanding June 30, 2009</b>
General obligation bonds:				
March 17, 2005 Refunding	\$ 30,790,000	\$ —	\$ 1,835,000	\$ 28,955,000
Early retirement incentive	419,804	257,116	238,305	438,615
Accumulated sick leave	547,681	115,618	97,351	565,948
				<u>565,948</u>
	<u>\$ 31,757,485</u>	<u>\$ 372,734</u>	<u>\$ 2,170,656</u>	<u>\$ 29,959,563</u>

**KENOWA HILLS PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

Long-term bonds and other obligations outstanding at June 30, 2009 are comprised of the following:

	<b>Final Maturity Dates</b>	<b>Interest Rates</b>	<b>Outstanding Balance</b>	<b>Amount Due Within One Year</b>
<b>General Obligation Bonds</b>				
\$34,490M Refunding Bonds March 17, 2005:				
Annual maturities of \$1,190M to \$2,370M	May 1, 2026	4.00 – 5.00	\$28,955,000	\$ 1,895,000
<b>Other Obligations</b>				
Early retirement incentive			438,615	235,000
Accumulated sick leave			565,948	98,000
			<u>\$29,959,563</u>	<u>\$ 2,228,000</u>

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

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2010	\$ 1,895,000	\$ 1,406,125	\$ 3,301,125
2011	1,970,000	1,330,325	3,300,325
2012	2,050,000	1,251,525	3,301,525
2013	2,150,000	1,149,025	3,299,025
2014	2,255,000	1,041,525	3,296,525
2015	2,370,000	928,775	3,298,775
2016	1,190,000	810,275	2,000,275
2017	1,250,000	753,750	2,003,750
2018	1,310,000	691,250	2,001,250
2019	1,375,000	625,750	2,000,750
2020	1,445,000	557,000	2,002,000
2021	1,520,000	484,750	2,004,750
2022	1,590,000	408,750	1,998,750
2023	1,670,000	329,250	1,999,250
2024	1,750,000	245,750	1,995,750
2025	1,760,000	158,250	1,918,250
2026	1,405,000	70,250	1,475,250
	<u>\$ 28,955,000</u>	<u>\$ 12,242,325</u>	<u>\$ 41,197,325</u>

**KENOWA HILLS PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

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## **Note G – Retirement Plan**

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll for employees covered by MPSERS for the year ended June 30, 2009 was \$18,983,075. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan-Fixed (MIP-Fixed). Effective January 1, 1990, all new employees are automatically enrolled in the MIP-Graded Plan. Participants in the MIP-Fixed or MIP-Graded Plans receive benefits in addition to those available under the Basic Plan. The contribution rate for MIP-Fixed participants is 3.9% of salary. The contribution rate for MIP-Graded participants is a graduated rate based on total wages: calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. All MIP members may retire at any age with 30 years of service; at age 60 with 10 years of service; or at age 60 with 5 years of service (with stipulations). Benefits are based on a final average compensation period of 5 years for Basic Plan participants and 3 years for Member Investment Plan participants.

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPSERS plan. The contribution rate was 10.17% for the fiscal year ended September 30, 2008 and 9.99% for the fiscal year beginning October 1, 2009. The District's contributions to the plan for the fiscal years ended June 30, 2009, 2008 and 2007 were \$3,144,262, \$3,039,414, and \$2,969,549, respectively.

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

The MPSERS uses the aggregate actuarial cost method, and does not make separate measurements of assets and actuarial accrued liability for individual school districts. The actuarial accrued liability at September 30, 2007 (the latest reporting date available expressed as \$ in millions) for retirement benefits for the MPSERS as a whole, determined through an actuarial valuation performed as of that date, was \$51,107. Net assets available for retirement benefits on that date were \$45,335 leaving an unfunded actuarial accrued liability of \$5,772. The total unfunded actuarial accrued liability decreased by \$370 from September 30, 2006 to September 30, 2007. At September 30, 2007 the funded ratio of actuarial accrued liability was 88.7%; covered payroll totaled \$9,851, and unfunded actuarial accrued liability was 58.6% of covered payroll.

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits were 6.55% of covered payroll for the years ended September 30, 2007 through 2009. At September 30, 2007, the actuarial accrued liability for post-employment insurance benefits for the

**KENOWA HILLS PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

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MPSERS as a whole (expressed as \$ in millions) was \$25,733. The MPSERS net assets available for these benefits were \$776 leaving an unfunded actuarial accrued liability of \$24,957. At September 30, 2007 the funded ratio of actuarial liability was 2.5%; covered payroll totaled \$9,851, and unfunded actuarial liability was 253.3% of covered payroll.

Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2008 Annual Report of the MPSERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

**Note H – Risk Management and Benefits**

The District is a member of the SET-SEG Incorporated Insurance Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2009, there were no material pending claims against the District. The District paid \$93,927 in premiums to the Fund for the year ended June 30, 2009.

The District is also a member of the SET-SEG Incorporated Workers' Compensation Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2009, there were no material pending claims against the District. The District paid \$88,244 in premiums to the Fund for the year ended June 30, 2009.

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

**Note I – Stewardship, Compliance and Accountability**

The following District funds had actual expenditures and other financing uses exceed final budgeted amounts for the year ended June 30, 2009:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>General Fund</b>			
Other Financing Uses:			
Other	\$ 2,176	\$ 2,312	\$ 136
Transfers Out	329,082	340,444	11,362
<b>Special Revenue Fund</b>			
Food Service Fund	1,396,777	1,497,910	101,133



## **SUPPLEMENTAL INFORMATION**

## **GENERAL FUND**

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

**KENOWA HILLS PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Balance Sheet**  
**June 30, 2009 and 2008**

	2009	2008
<b>Assets</b>		
Cash	\$ 400	\$ 400
Cash equivalents, deposits and investments	3,939,614	5,228,453
Receivables:		
Taxes	101,072	96,197
Accounts	17,378	1,705
Due from other funds	13,561	10,045
Due from other governmental units	3,961,370	4,063,824
Inventory	70,415	77,167
Prepaid expenditures	17,187	33,905
	<b>\$ 8,120,997</b>	<b>\$ 9,511,696</b>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	\$ 574,005	\$ 523,182
Due to other funds	26,058	-
Due to other governmental units	889,331	804,814
Salaries payable	1,819,810	1,675,244
Deferred revenue	460,648	629,985
	<b>3,769,852</b>	<b>3,633,225</b>
 <b>Fund Balances</b>		
Unreserved:		
Undesignated	4,351,145	5,878,471
	<b>\$ 8,120,997</b>	<b>\$ 9,511,696</b>

**KENOWA HILLS PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Revenues**  
**For the years ended June 30, 2009 and 2008**

	2009	2008
Local sources:		
Property taxes:		
Current property taxes	\$ 9,916,086	\$ 11,265,758
Delinquent property taxes	10,794	38,714
Other property taxes	30,603	101,796
Interest on delinquent taxes	26,976	34,174
	<u>9,984,459</u>	<u>11,440,442</u>
Interest earnings:		
Interest on deposits and investments	66,398	284,224
Other local revenue:		
Adult/community education fees	363,170	287,740
Driver education fees	890	38,755
Preschool/childcare fees	73,339	72,439
Transportation fees	38,196	31,315
Copy center fees	50,941	54,178
Class fees	45,088	42,008
Rental of school facilities	61,379	49,816
Donations	14,303	3,697
Telephone commission reimbursements	44,405	-
Beverage consortium commissions	66,592	68,385
Sale of school property	7,498	50
Insurance refunds	66,961	57,229
Refunds of prior years expenditures	68,662	9,739
Miscellaneous	43,500	29,541
	<u>944,924</u>	<u>744,892</u>
Total local sources	10,995,781	12,469,558
State sources:		
State school aid	16,633,483	16,042,530
Special education - transportation	535,047	714,124
Special education - itinerants	65,002	139,680
Other	12,806	15,116
	<u>17,246,338</u>	<u>16,911,450</u>
Total state sources	17,246,338	16,911,450
Federal sources:		
ARRA Stabilization funds	1,301,530	-
Title I	365,869	281,703
Title I - migrant	66,090	62,556
Title IIA	122,898	90,192
Title IID	3,234	2,395
Title III	29,618	29,277
Title V	-	726
Drug free schools	10,798	7,255
I.D.E.A. program	690,167	690,624
Medicaid - school based	6,256	7,047
Learn and serve grant	3,500	5,000
	<u>2,599,960</u>	<u>1,176,775</u>
Total federal sources	2,599,960	1,176,775

(Continued)

**KENOWA HILLS PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Revenues**  
**For the years ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Interdistrict sources:		
Special education - county	\$ 2,013,819	\$ 1,855,525
Special education - local school districts	24,095	48,581
Special education - itinerants	11,665	23,830
Durant settlement reimbursements	-	11,606
Itinerant staff reimbursements	18,169	-
Medicaid fee for service	175,039	188,955
Total interdistrict sources	<u>2,242,787</u>	<u>2,128,497</u>
<b>Total Revenues</b>	<u><u>\$ 33,084,866</u></u>	<u><u>\$ 32,686,280</u></u>

**KENOWA HILLS PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2009 and 2008**

	2009	2008
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries	\$ 5,104,953	\$ 4,834,858
Employee benefits	2,422,813	2,266,647
Purchased services	109,284	133,830
Supplies	143,712	187,268
Capital outlay	112,265	58,304
Miscellaneous	5,960	4,087
	<u>7,898,987</u>	<u>7,484,994</u>
Middle school:		
Salaries	1,517,404	1,452,312
Employee benefits	719,472	706,581
Purchased services	12,840	21,136
Supplies	65,106	88,087
Capital outlay	56,616	155,984
Miscellaneous	3,397	3,247
	<u>2,374,835</u>	<u>2,427,347</u>
High school:		
Salaries	3,200,889	2,987,739
Employee benefits	1,500,345	1,404,893
Purchased services	152,772	90,581
Supplies	246,043	229,864
Capital outlay	135,452	109,194
Miscellaneous	16,714	13,669
Payments to other districts	44,989	-
	<u>5,297,204</u>	<u>4,835,940</u>
Preschool:		
Salaries	67,782	55,094
Employee benefits	24,399	19,449
Purchased services	755	1,241
Supplies	1,138	872
Miscellaneous	766	524
Payments to other districts	1,000	-
	<u>95,840</u>	<u>77,180</u>
Summer school:		
Salaries	23,706	22,950
Employee benefits	5,798	5,092
	<u>29,504</u>	<u>28,042</u>
Total basic programs	<u>15,696,370</u>	<u>14,853,503</u>
Added needs:		
Special education:		
Salaries	1,715,743	1,578,378
Employee benefits	823,743	743,702
Purchased services	28,662	44,026
Supplies	11,784	14,458
Capital outlay	294	1,961
Miscellaneous	3,070	1,344
Payments to other districts	498,013	573,452
	<u>3,081,309</u>	<u>2,957,321</u>

(Continued)

**KENOWA HILLS PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2009 and 2008**

	2009	2008
Compensatory education:		
Salaries	\$ 874,564	\$ 703,141
Employee benefits	370,110	302,432
Purchased services	22,584	12,299
Supplies	21,486	30,726
Miscellaneous	2,423	512
	<u>1,291,167</u>	<u>1,049,110</u>
Career and technology education:		
Salaries	79,729	101,576
Employee benefits	37,648	47,847
Purchased services	1,025	972
Supplies	19,794	23,945
	<u>138,196</u>	<u>174,340</u>
Total added needs	4,510,672	4,180,771
Adult education:		
Adult basic education:		
Employee benefits	-	257
Total instruction	<u>20,207,042</u>	<u>19,034,531</u>
Pupil services:		
Attendance services:		
Salaries	42,451	41,416
Employee benefits	23,159	23,433
	<u>65,610</u>	<u>64,849</u>
Guidance services:		
Salaries	499,350	451,792
Employee benefits	237,324	211,559
Purchased services	465	969
Miscellaneous	280	455
	<u>737,419</u>	<u>664,775</u>
Health services:		
Employee benefits	319	316
Purchased services	35,741	38,273
Supplies	477	461
Payments to other districts	77,061	71,978
	<u>113,598</u>	<u>111,028</u>
Psychological services:		
Purchased services	653	975
Supplies	1,690	958
Miscellaneous	175,744	169,281
	<u>178,087</u>	<u>171,214</u>
Speech pathology services:		
Purchased services	1,163	652
Supplies	2,029	1,677
Payments to other districts	323,502	325,334
	<u>326,694</u>	<u>327,663</u>

(Continued)

**KENOWA HILLS PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2009 and 2008**

	2009	2008
Social worker services:		
Employee benefits	\$ 541	\$ 757
Purchased services	922	1,192
Supplies	1,784	1,751
Miscellaneous	-	200
Payments to other districts	545,073	538,214
	<u>548,320</u>	<u>542,114</u>
Teacher consultant services:		
Salaries	84,839	22,307
Employee benefits	36,738	10,386
Purchased services	1,575	1,451
Supplies	216	357
Payments to other districts	109,730	206,262
	<u>233,098</u>	<u>240,763</u>
Other pupil services:		
Salaries	-	9,657
Employee benefits	-	2,380
Purchased services	-	7,767
Supplies	-	6,164
Miscellaneous	-	3,452
	<u>-</u>	<u>29,420</u>
Total pupil services	2,202,826	2,151,826
Instructional staff services:		
Salaries	30,988	51,816
Employee benefits	7,569	12,990
Purchased services	246,701	201,091
Supplies	11,880	5,921
Miscellaneous	1,360	2,151
	<u>298,498</u>	<u>273,969</u>
Educational media services:		
Salaries	321,488	316,298
Employee benefits	136,411	134,331
Supplies	47,929	45,951
Capital outlay	-	1,284
Miscellaneous	31,657	29,710
	<u>537,485</u>	<u>527,574</u>
Supervision and direction of instruction:		
Salaries	146,342	166,176
Employee benefits	69,367	68,870
Purchased services	2,544	4,353
Supplies	2,319	2,131
Miscellaneous	-	100
	<u>220,572</u>	<u>241,630</u>
Academic student assessment:		
Purchased services	46,458	-
Supplies	6,595	-
	<u>53,053</u>	<u>-</u>
Total instructional staff services	1,109,608	1,043,173

(Continued)



**KENOWA HILLS PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2009 and 2008**

	2009	2008
General administrative services:		
Board of education:		
Salaries	\$ 4,995	\$ 3,990
Employee benefits	382	305
Purchased services	90,867	73,526
Miscellaneous	9,378	8,596
	<u>105,622</u>	<u>86,417</u>
Executive administration:		
Salaries	394,516	409,684
Employee benefits	180,835	179,787
Purchased services	12,677	25,037
Supplies	10,623	9,374
Capital outlay	1,289	10,240
Miscellaneous	2,583	12,976
	<u>602,523</u>	<u>647,098</u>
Total general administrative services	708,145	733,515
School administrative services:		
Office of the principal:		
Salaries	1,433,044	1,316,933
Employee benefits	626,437	582,243
Purchased services	31,342	34,727
Supplies	5,916	5,291
Capital outlay	44,302	2,471
Miscellaneous	20,432	18,152
	<u>2,161,473</u>	<u>1,959,817</u>
Total school administrative services	2,161,473	1,959,817
Business services:		
Fiscal services:		
Salaries	266,478	263,735
Employee benefits	120,617	107,552
Purchased services	19,707	17,308
Supplies	3,892	4,755
Miscellaneous	28,725	298
	<u>439,419</u>	<u>393,648</u>
Internal services:		
Salaries	77,645	75,610
Employee benefits	49,743	48,088
Purchased services	19,030	22,055
Supplies	23,985	28,711
	<u>170,403</u>	<u>174,464</u>
Other business services:		
Purchased services	6,300	6,798
Supplies	-	(7,909)
Miscellaneous	79,989	114,738
	<u>86,289</u>	<u>113,627</u>
Total business services	696,111	681,739

(Continued)

**KENOWA HILLS PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2009 and 2008**

	2009	2008
Operation and maintenance services:		
Operation and maintenance:		
Salaries	\$ 837,096	\$ 833,374
Employee benefits	469,993	490,913
Purchased services	1,107,830	867,551
Supplies	760,503	796,018
Capital outlay	27,026	24,223
Miscellaneous	4,086	4,169
	<u>3,206,534</u>	<u>3,016,248</u>
Security services:		
Salaries	67,722	66,058
Employee benefits	60,532	39,838
	<u>128,254</u>	<u>105,896</u>
Total operation and maintenance services	3,334,788	3,122,144
Pupil transportation services:		
Pupil transportation:		
Salaries	752,631	716,186
Employee benefits	290,856	286,578
Purchased services	33,996	36,170
Supplies	265,840	322,533
Capital outlay	314,419	4,004
Miscellaneous	2,117	1,915
Payments to other districts	817,336	897,124
	<u>2,477,195</u>	<u>2,264,510</u>
Total pupil transportation services	2,477,195	2,264,510
Central services:		
Communications services:		
Purchased services	65,475	64,533
Staff/personnel services:		
Purchased services	18,984	39,380
Supplies	734	1,732
	<u>19,718</u>	<u>41,112</u>
Technology services:		
Salaries	268,365	256,646
Employee benefits	139,021	133,985
Purchased services	43,995	34,205
Supplies	32,121	22,944
Capital outlay	31,962	23,289
Miscellaneous	600	-
	<u>516,064</u>	<u>471,069</u>
Total central services	601,257	576,714
Total supporting services	<u>13,291,403</u>	<u>12,533,438</u>

(Continued)

**KENOWA HILLS PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2009 and 2008**

	2009	2008
Community services:		
Community recreation:		
Salaries	\$ 161,868	\$ 165,039
Employee benefits	76,414	70,252
Purchased services	17,294	12,631
Supplies	16,288	13,043
Miscellaneous	6,321	7,162
	<u>278,185</u>	<u>268,127</u>
Performing Arts Center:		
Salaries	50,863	49,467
Employee benefits	24,988	24,166
Purchased services	10,569	9,242
Supplies	2,774	3,798
Capital outlay	6,364	5,989
	<u>95,558</u>	<u>92,662</u>
Custody and care of children:		
Salaries	282,395	236,529
Employee benefits	78,208	64,891
Purchased services	6,672	3,578
Supplies	19,751	20,260
Capital outlay	1,159	4,730
Miscellaneous	162	2,577
	<u>388,347</u>	<u>332,565</u>
Non-public school pupils:		
Purchased services	1,609	2,372
Supplies	1,550	-
	<u>3,159</u>	<u>2,372</u>
Total community services	765,249	695,726
Interdistrict:		
Other	5,742	8,404
	<u>5,742</u>	<u>8,404</u>
<b>Total Expenditures</b>	<u><u>\$ 34,269,436</u></u>	<u><u>\$ 32,272,099</u></u>

**NONMAJOR GOVERNMENTAL FUNDS**

**KENOWA HILLS PUBLIC SCHOOLS**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2009**

Assets	Special Revenue		Total
	Food Service	Athletics	
Cash	\$ 650	\$ -	\$ 650
Cash equivalents, deposits and investments	142	-	142
Due from other funds	26,058	-	26,058
Due from other governmental units	10,371	-	10,371
Inventory	19,626	-	19,626
<b>Total Assets</b>	<b>\$ 56,847</b>	<b>\$ -</b>	<b>\$ 56,847</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Due to other funds	\$ 11,605	\$ -	\$ 11,605
Deferred revenue	13,817	-	13,817
<b>Total Liabilities</b>	<b>25,422</b>	<b>-</b>	<b>25,422</b>
<b>Fund Balances</b>			
Unreserved:			
Undesignated	31,425	-	31,425
<b>Total Liabilities and Fund Balances</b>	<b>\$ 56,847</b>	<b>\$ -</b>	<b>\$ 56,847</b>

**KENOWA HILLS PUBLIC SCHOOLS**  
**Combining Schedule of Revenues, Expenditures and Changes in**  
**Fund Balances - Nonmajor Governmental Funds**  
**For the year ended June 30, 2009**

	Special Revenue		Total
	Food Service	Athletics	
<b>Revenues</b>			
Local sources:			
Interest earnings	\$ 1,065	\$ 383	\$ 1,448
Sales and admissions	735,025	167,618	902,643
Total local sources	736,090	168,001	904,091
State sources	87,492	-	87,492
Federal sources	616,729	-	616,729
<b>Total Revenues</b>	<b>1,440,311</b>	<b>168,001</b>	<b>1,608,312</b>
<b>Expenditures</b>			
Current:			
Food service	1,497,910	-	1,497,910
Athletics	-	478,385	478,385
<b>Total Expenditures</b>	<b>1,497,910</b>	<b>478,385</b>	<b>1,976,295</b>
<b>Excess (Deficiency) of Revenues         Over Expenditures</b>	<b>(57,599)</b>	<b>(310,384)</b>	<b>(367,983)</b>
<b>Other Financing Sources</b>			
Transfers in	30,060	310,384	340,444
<b>Net Change In Fund Balances</b>	<b>(27,539)</b>	<b>-</b>	<b>(27,539)</b>
<b>Fund Balances, Beginning of Year</b>	<b>58,964</b>	<b>-</b>	<b>58,964</b>
<b>Fund Balances, End of Year</b>	<b>\$ 31,425</b>	<b>\$ -</b>	<b>\$ 31,425</b>

**KENOWA HILLS PUBLIC SCHOOLS**  
**Food Service Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2009**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues</b>			
Local sources:			
Interest earnings	\$ 1,150	\$ 1,065	\$ (85)
Sales and admissions	<u>765,600</u>	<u>735,025</u>	<u>(30,575)</u>
Total local sources	766,750	736,090	(30,660)
State sources	82,000	87,492	5,492
Federal sources	<u>547,000</u>	<u>616,729</u>	<u>69,729</u>
<b>Total Revenues</b>	<u>1,395,750</u>	<u>1,440,311</u>	<u>44,561</u>
<b>Expenditures</b>			
Current:			
Food service	<u>1,396,777</u>	<u>1,497,910</u>	<u>(101,133)</u>
<b>Excess (Deficiency) of Revenues         Over Expenditures</b>	<u>(1,027)</u>	<u>(57,599)</u>	<u>(56,572)</u>
<b>Other Financing Sources</b>			
Transfers in	<u>9,150</u>	<u>30,060</u>	<u>20,910</u>
<b>Net Change In Fund Balances</b>	8,123	(27,539)	(35,662)
<b>Fund Balances, Beginning of Year</b>	<u>58,964</u>	<u>58,964</u>	<u>-</u>
<b>Fund Balances, End of Year</b>	<u><u>\$ 67,087</u></u>	<u><u>\$ 31,425</u></u>	<u><u>\$ (35,662)</u></u>

**KENOWA HILLS PUBLIC SCHOOLS**  
**Athletics Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2009**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues</b>			
Local sources:			
Interest earnings	\$ 385	\$ 383	\$ (2)
Sales and admissions	<u>166,404</u>	<u>167,618</u>	<u>1,214</u>
Total local sources	<u>166,789</u>	<u>168,001</u>	<u>1,212</u>
<b>Expenditures</b>			
Current:			
Athletics	<u>486,720</u>	<u>478,385</u>	<u>8,335</u>
<b>Excess (Deficiency) of Revenues         Over Expenditures</b>	<u>(319,931)</u>	<u>(310,384)</u>	<u>9,547</u>
<b>Other Financing Sources</b>			
Transfers in	<u>319,931</u>	<u>310,384</u>	<u>(9,547)</u>
<b>Net Change In Fund Balances</b>	-	-	-
<b>Fund Balances, Beginning of Year</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances, End of Year</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>



## **SPECIAL REVENUE FUNDS**

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

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

**KENOWA HILLS PUBLIC SCHOOLS**  
**Food Service Special Revenue Fund**  
**Comparative Balance Sheet**  
**June 30, 2009 and 2008**

	2009	2008
<b>Assets</b>		
Cash	\$ 650	\$ 650
Cash equivalents, deposits and investments	142	51,389
Due from other funds	26,058	-
Due from other governmental units	10,371	10,370
Inventory	19,626	19,745
<b>Total Assets</b>	<b>\$ 56,847</b>	<b>\$ 82,154</b>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Due to other funds	\$ 11,605	\$ 10,045
Deferred revenue	13,817	13,145
<b>Total Liabilities</b>	<b>25,422</b>	<b>23,190</b>
<b>Fund Balances</b>		
Unreserved:		
Undesignated	31,425	58,964
<b>Total Liabilities and Fund Balances</b>	<b>\$ 56,847</b>	<b>\$ 82,154</b>

**KENOWA HILLS PUBLIC SCHOOLS**  
**Food Service Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2009 and 2008**

	2009	2008
<b>Revenues</b>		
Local sources:		
Sales and admissions:		
Children's lunches	\$ 406,609	\$ 424,214
Adult lunches and banquets	33,874	24,453
Milk	3,931	4,334
Ala carte	215,390	233,571
Other	75,221	65,613
	735,025	752,185
Interest earnings:		
Interest on deposits and investments	1,065	4,450
Total local sources	736,090	756,635
State sources	87,492	86,799
Federal sources	616,729	546,777
	1,440,311	1,390,211
<b>Expenditures</b>		
Current:		
Food service:		
Salaries	510,088	497,852
Employee benefits	223,694	208,412
Purchased services	30,875	31,076
Supplies	720,147	698,282
New equipment and furniture	7,521	14,766
Miscellaneous	5,585	3,142
	1,497,910	1,453,530
<b>Total Expenditures</b>	1,497,910	1,453,530
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(57,599)	(63,319)
<b>Other Financing Sources</b>		
Transfers in	30,060	8,740
	(27,539)	(54,579)
<b>Net Change In Fund Balances</b>	(27,539)	(54,579)
<b>Fund Balances, Beginning of Year</b>	58,964	113,543
<b>Fund Balances, End of Year</b>	\$ 31,425	\$ 58,964

**KENOWA HILLS PUBLIC SCHOOLS**  
**Athletics Special Revenue Fund**  
**Comparative Balance Sheet**  
**June 30, 2009 and 2008**

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	<u>2009</u>	<u>2008</u>
<b>Assets</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Fund Balances</b>		
Unreserved:		
Undesignated	<u>-</u>	<u>-</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ -</u>	<u>\$ -</u>

**KENOWA HILLS PUBLIC SCHOOLS**  
**Athletics Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>Revenues</b>		
Local sources:		
Sales and admissions:		
Admissions	\$ 73,553	\$ 82,678
Participation fees	44,820	45,255
Tournament revenue	48,341	33,349
Miscellaneous	904	617
	<u>167,618</u>	<u>161,899</u>
Interest earnings:		
Interest on deposits and investments	383	431
	<u>168,001</u>	<u>162,330</u>
<b>Expenditures</b>		
Current:		
Athletics:		
Salaries	261,230	260,502
Employee benefits	67,913	68,851
Purchased services	62,492	59,535
Supplies	57,120	47,136
New furniture and equipment	8,565	10,783
Miscellaneous	21,065	16,192
	<u>478,385</u>	<u>462,999</u>
<b>Total Expenditures</b>	<u>478,385</u>	<u>462,999</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(310,384)</u>	<u>(300,669)</u>
<b>Other Financing Sources</b>		
Transfers in	<u>310,384</u>	<u>300,669</u>
<b>Net Change In Fund Balances</b>	-	-
<b>Fund Balances, Beginning of Year</b>	-	-
<b>Fund Balances, End of Year</b>	<u>\$ -</u>	<u>\$ -</u>

## **DEBT SERVICE FUND**

*2005 Debt Service Fund*—to accumulate property tax revenues and interest earnings for repayment of the bond issues of the District used to finance new building construction projects.

**KENOWA HILLS PUBLIC SCHOOLS**  
**2005 Debt Service Fund**  
**Comparative Balance Sheet**  
**June 30, 2009 and 2008**

	2009	2008
<b>Assets</b>		
Cash equivalents, deposits and investments	\$ 2,122,555	\$ 1,405,814
Taxes receivable	25,758	18,538
<b>Total Assets</b>	<b>\$ 2,148,313</b>	<b>\$ 1,424,352</b>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Due to other funds	\$ 1,956	\$ -
Deferred revenue	25,758	18,538
<b>Total Liabilities</b>	27,714	18,538
<b>Fund Balances</b>		
Reserved for debt service	2,120,599	1,405,814
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,148,313</b>	<b>\$ 1,424,352</b>

**KENOWA HILLS PUBLIC SCHOOLS**  
**2005 Debt Service Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2009 and 2008**

	2009	2008
<b>Revenues</b>		
Local sources:		
Property taxes:		
Current property taxes	\$ 3,786,123	\$ 3,684,926
Industrial facilities taxes	166,505	159,272
Delinquent property taxes	3,013	11,831
Other taxes	8,987	10,705
In lieu of taxes	495	3,855
Interest on delinquent taxes	4,205	23,781
	<u>3,969,328</u>	<u>3,894,370</u>
Interest earnings:		
Interest on deposits and investments	47,509	59,230
	<u>47,509</u>	<u>59,230</u>
<b>Total Revenues</b>	<u>4,016,837</u>	<u>3,953,600</u>
<b>Expenditures</b>		
Debt service:		
Principal repayment	1,835,000	1,670,000
Interest and fiscal charges:		
Interest expense	1,464,287	1,530,144
Paying agent fees	225	224
Tax refunds	2,540	16,174
	<u>1,467,052</u>	<u>1,546,542</u>
<b>Total Expenditures</b>	<u>3,302,052</u>	<u>3,216,542</u>
<b>Net Change in Fund Balances</b>	714,785	737,058
<b>Fund Balances, Beginning of Year</b>	<u>1,405,814</u>	<u>668,756</u>
<b>Fund Balances, End of Year</b>	<u><u>\$ 2,120,599</u></u>	<u><u>\$ 1,405,814</u></u>



## **AGENCY FUND**

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

**KENOWA HILLS PUBLIC SCHOOLS**  
**Student Activities Agency Fund**  
**Statement of Changes in Assets and Liabilities**  
**For the year ended June 30, 2009**

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	<u>Balances July 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2009</u>
<b>Assets</b>				
Cash equivalents, deposits and investments	<u>\$ 132,926</u>	<u>\$ 424,756</u>	<u>\$ 444,557</u>	<u>\$ 113,125</u>
<b>Liabilities</b>				
Due to student groups	<u>\$ 132,926</u>	<u>\$ 424,756</u>	<u>\$ 444,557</u>	<u>\$ 113,125</u>

## **OTHER INFORMATION**

**KENOWA HILLS PUBLIC SCHOOLS**  
**Summary of 2008 Taxes Levied and Collected**  
**For the year ended June 30, 2009**

	Kent County		
	Cities of		
	Grand Rapids	Walker	Alpine
<b>Taxable Valuations</b>			
Operating	\$ 242,721	\$469,507,556	\$112,453,096
Debt Service	1,279,635	839,951,444	200,279,796
<b>Rates (Mills)</b>			
General Fund			
2005 Debt Service Fund			
<b>Taxes Levied 2008 Rolls</b>			
General Fund	\$ 4,369	\$ 7,688,725	\$ 1,894,517
2005 Debt Service Fund	4,299	2,822,207	672,934
	<u>8,668</u>	<u>10,510,932</u>	<u>2,567,451</u>
<b>Taxes Uncollected 2008 Rolls</b>			
General Fund	-	10,800	4,429
2005 Debt Service Fund	-	8,467	2,030
	<u>-</u>	<u>19,267</u>	<u>6,459</u>
<b>Taxes Collected 2008 Rolls</b>			
General Fund	4,369	7,677,925	1,890,088
2005 Debt Service Fund	4,299	2,813,740	670,904
	<u>8,668</u>	<u>10,491,665</u>	<u>2,560,992</u>
<b>Delinquent Taxes Collected</b>			
General Fund	-	9,404	1,089
2005 Debt Service Fund	-	2,754	203
	<u>-</u>	<u>12,158</u>	<u>1,292</u>
<b>Total Taxes Collected</b>			
General Fund	4,369	7,687,329	1,891,177
2005 Debt Service Fund	4,299	2,816,494	671,107
	<u>\$ 8,668</u>	<u>\$ 10,503,823</u>	<u>\$ 2,562,284</u>
<b>Taxes Uncollected – June 30, 2009</b>			
General Fund:			
2008	\$ -	\$ 10,800	\$ 4,429
2007	-	57,679	1,986
2006	-	21,797	942
	<u>-</u>	<u>90,276</u>	<u>7,357</u>
2005 Debt Service Fund:			
2008	-	8,467	2,030
2007	-	10,096	371
2006	-	3,433	176
	<u>-</u>	<u>21,996</u>	<u>2,577</u>
<b>Total Taxes Uncollected</b>	<u>\$ -</u>	<u>\$ 112,272</u>	<u>\$ 9,934</u>

Ottawa County			
Townships of			
Plainfield	Tallmadge	Wright	Total
\$ 204,267	\$ 8,860,684	\$11,498,696	\$ 602,767,020
1,457,502	55,968,609	31,271,605	1,130,208,591
			18.0000
			3.3600
			<u>21.3600</u>
\$ 3,754	\$ 154,265	\$ 187,436	\$ 9,933,066
4,897	188,051	105,070	3,797,458
<u>8,651</u>	<u>342,316</u>	<u>292,506</u>	<u>13,730,524</u>
-	916	866	17,011
-	521	355	11,373
-	<u>1,437</u>	<u>1,221</u>	<u>28,384</u>
3,754	153,349	186,570	9,916,055
4,897	187,530	104,715	3,786,085
<u>8,651</u>	<u>340,879</u>	<u>291,285</u>	<u>13,702,140</u>
-	300	-	10,793
-	56	-	3,013
-	<u>356</u>	-	<u>13,806</u>
3,754	153,649	186,570	9,926,848
4,897	187,586	104,715	3,789,098
<u>\$ 8,651</u>	<u>\$ 341,235</u>	<u>\$ 291,285</u>	<u>\$ 13,715,946</u>
\$ -	\$ 916	\$ 866	\$ 17,011
-	544	1,019	61,228
-	3	91	22,833
-	<u>1,463</u>	<u>1,976</u>	<u>101,072</u>
-	521	355	11,373
-	102	190	10,759
-	-	17	3,626
-	<u>623</u>	<u>562</u>	<u>25,758</u>
<u>\$ -</u>	<u>\$ 2,086</u>	<u>\$ 2,538</u>	<u>\$ 126,830</u>

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

Additional Reports Required by  
OMB Circular A-133

For the year ended June 30, 2009

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### **KENOWA HILLS PUBLIC SCHOOLS**

For the year ended June 30, 2009

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

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CPAs AND CONSULTANTS

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

November 2, 2009

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kenowa Hills Public Schools, as of and for the year ended June 30, 2009, which collectively comprise Kenowa Hills Public Schools' basic financial statements and have issued our report thereon dated November 2, 2009. 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 Kenowa Hills Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kenowa Hills Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kenowa Hills Public 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 an entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of an entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.



The Board of Education  
Kenowa Hills Public Schools  
November 2, 2009

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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 Kenowa Hills Public 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 the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Hungerford, Aldwin, Nichols & Hartman, P.C.*

Certified Public Accountants

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

November 2, 2009

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

**Compliance**

We have audited the compliance of Kenowa Hills Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Kenowa Hills Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Kenowa Hills Public Schools' management. Our responsibility is to express an opinion on Kenowa Hills Public 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 Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kenowa Hills Public 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 of Kenowa Hills Public Schools' compliance with those requirements.

In our opinion, Kenowa Hills Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

The Board of Education  
Kenowa Hills Public Schools  
November 2, 2009

### *Internal Control Over Compliance*

The management of Kenowa Hills Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Kenowa Hills Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kenowa Hills Public 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 a 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 the 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 Kenowa Hills Public Schools, as of and for the year ended June 30, 2009, and have issued our report thereon dated November 2, 2009. Our audit was performed for the purpose of forming our opinion on the financial statements that collectively comprise Kenowa Hills Public 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, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Hungerford, Aldinger, Nichols & Carter, P.C.*

Certified Public Accountants

## ***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

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### **KENOWA HILLS PUBLIC SCHOOLS**

For the year ended June 30, 2009

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
<b>U. S. Department of Education</b>		
Passed through Michigan Department of Education (MDE):		
Title I:	84.010	
081530 0708		\$ 284,643
091530 0809		366,073
Total Title I		650,716
Title IC – Migrant:	84.011	
081890 0708		62,556
091890 0809		66,090
Total Title I – Migrant		128,646
Title IIA:	84.367	
080520 0708		119,348
090520 0809		132,347
Total Title IIA		251,695
Title IID:	84.318	
0842900 0708		2,492
0942900 0809		3,233
Total Title IID		5,725
Title V Part A:	84.298	
080250 0708		726
Total Title V Part A		726
American Recovery & Reinvestment Act (ARRA):	84.394	
0809 Education Stabilization		1,301,530

*See Notes to Schedule of Expenditures of Federal Awards*

<b>Accrued (Deferred) Revenue At July 1, 2008</b>	<b>(Memo Only) Prior Year Expenditures</b>	<b>Current Year Expenditures</b>	<b>Current Year Receipts (Cash Basis)</b>	<b>Accrued (Deferred) Revenue At June 30, 2009</b>
\$ 281,703 -	\$ 281,703 -	\$ - 365,869	\$ 281,703 286,541	\$ - 79,328
281,703	281,703	365,869	568,244	79,328
61,879 -	61,879 -	- 66,090	61,879 66,090	- -
61,879	61,879	66,090	127,969	-
90,192 -	90,192 -	- 122,898	90,192 78,542	- 44,356
90,192	90,192	122,898	168,734	44,356
2,395 -	2,395 -	- 3,233	2,395 3,233	- -
2,395	2,395	3,233	5,628	-
726	726	-	726	-
726	726	-	726	-
-	-	1,301,530	-	1,301,530

***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)***

**KENOWA HILLS PUBLIC SCHOOLS**

For the year ended June 30, 2009

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
Title III Limited English:	84.365	
080580 0708		\$ 29,277
Passed through to sub-recipient – Rockford Public Schools		-
090580 0809		<u>29,618</u>
		<u>58,895</u>
Total Passed Through MDE		<u>2,397,933</u>
Passed through Kent Intermediate School District (KISD):		
Safe and Drug Free Schools and Communities Act:	84.186	
082860 0708 Program		7,764
092860 0809 Program		<u>6,775</u>
Total Safe and Drug Free Schools and Communities Act		<u>14,539</u>
Special Education Cluster:		
I.D.E.A. Flow Through:	84.027	
Flow Through – 070450 0708		642,353
Flow Through – 080450 0708		657,475
Flow Through – 090450 0809		<u>659,354</u>
Total I.D.E.A. – Flow Through		<u>1,959,182</u>
I.D.E.A. – Preschool:	84.173	
Preschool – 070460 0708		21,199
Preschool – 080460 0708		21,535
Preschool – 090460 0809		<u>30,312</u>
Total I.D.E.A. – Preschool		<u>73,046</u>
I.D.E.A. – Transition:	84.027	
090490 – TS		<u>501</u>
Total Special Education Cluster		<u>2,032,729</u>
Total Passed Through KISD		<u>2,047,268</u>
<b>Total U.S. Department of Education</b>		<u>4,445,201</u>

*See Notes to Schedule of Expenditures of Federal Awards*

<b>Accrued (Deferred) Revenue At July 1, 2008</b>	<b>(Memo Only) Prior Year Expenditures</b>	<b>Current Year Expenditures</b>	<b>Current Year Receipts (Cash Basis)</b>	<b>Accrued (Deferred) Revenue At June 30, 2009</b>
\$ 20,873	\$ 20,873	\$ -	\$ 20,873	\$ -
8,404	8,404	-	8,404	-
-	-	29,618	17,816	11,802
29,277	29,277	29,618	47,093	11,802
466,172	466,172	1,889,238	918,394	1,437,016
160	3,124	4,640	4,800	-
-	-	6,158	5,859	299
160	3,124	10,798	10,659	299
6,148	11,233	-	6,148	-
220,503	657,475	-	220,503	-
-	-	659,354	384,515	274,839
226,651	668,708	659,354	611,166	274,839
208	381	-	208	-
8,106	21,535	-	8,106	-
-	-	30,312	17,422	12,890
8,314	21,916	30,312	25,736	12,890
-	-	501	501	-
234,965	690,624	690,167	637,403	287,729
235,125	693,748	700,965	648,062	288,028
701,297	1,159,920	2,590,203	1,566,456	1,725,044

***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)***

**KENOWA HILLS PUBLIC SCHOOLS**

For the year ended June 30, 2009

<b>Federal Grantor Pass Through Grantor Program Title Grant Number</b>	<b>Federal CFDA Number</b>	<b>Approved Grant Award Amount</b>
<b>Corporation for National and Community Service</b>		
Passed through Kent Intermediate School District (KISD):		
Learn and Serve America School and Community Based Programs:		
0708 Program	94.004	\$ 5,000
0809 Program		<u>3,500</u>
<b>Total Corporation for National and Community Service</b>		<u>8,500</u>
<b>U.S. Department of Health and Human Services</b>		
Passed through Kent Intermediate School District (KISD):		
School Based Medicaid:		
0708 Program	93.778	7,047
0809 Program		<u>6,256</u>
<b>Total U.S. Department of Health and Human Services</b>		<u>13,303</u>
<b>U.S. Department of Agriculture</b>		
Passed through Michigan Department of Education (MDE):		
Nutrition Cluster:		
Non-Cash Assistance (U.S.D.A. Commodities):		
Lunch Program	10.555	<u>74,104</u>
Cash Assistance:		
Lunch Program	10.555	442,407
Breakfast Program	10.553	<u>100,218</u>
Total Cash Assistance		<u>542,625</u>
Total Nutrition Cluster		<u>616,729</u>
<b>Total U.S. Department of Agriculture</b>		<u>616,729</u>
<b>Total Federal Financial Assistance</b>		<u><u>\$ 5,083,733</u></u>

*See Notes to Schedule of Expenditures of Federal Awards*



<b>Accrued (Deferred) Revenue At July 1, 2008</b>	<b>(Memo Only) Prior Year Expenditures</b>	<b>Current Year Expenditures</b>	<b>Current Year Receipts (Cash Basis)</b>	<b>Accrued (Deferred) Revenue At June 30, 2009</b>
\$ 5,000	\$ 5,000	\$ -	\$ 5,000	\$ -
-	-	3,500	3,500	-
5,000	5,000	3,500	8,500	-
7,047	7,047	-	7,047	-
-	-	6,256	-	6,256
7,047	7,047	6,256	7,047	6,256
-	-	74,104	74,104	-
-	-	442,407	442,407	-
-	-	100,218	100,218	-
-	-	542,625	542,625	-
-	-	616,729	616,729	-
-	-	616,729	616,729	-
\$ 713,344	\$ 1,171,967	\$ 3,216,688	\$ 2,195,232	\$ 1,731,300

# **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

## **KENOWA HILLS PUBLIC SCHOOLS**

For the year ended June 30, 2009

### **Note A – Significant Accounting Policies**

This Schedule of Expenditures of Federal Awards (SEFA) was prepared using accounting policies consistent with those used in preparing the Basic Financial Statements.

### **Note B – Grant Section Auditors Report**

The amounts reported on the Grant Section Auditors Report (R7120 and CMS) reconcile with the SEFA.

### **Note C – Non-Cash Assistance**

The amounts reported on the Recipient Entitlement Sheet, or PAL Report, agree with the SEFA for USDA donated food commodities.

### **Note D – Federal Income Reconciliation**

	<b>Grant Expenditures Per Schedule of Federal Financial Assistance</b>	<b>Federal Revenue Per Financial Statements</b>	<b>Difference</b>
Title IA	\$ 365,869	\$ 365,869	\$ -
Title IC	66,090	66,090	-
Title IIA	122,898	122,898	-
Title IID	3,233	3,233	-
Title III	29,618	29,618	-
American Recovery & Reinvestment Act	1,301,530	1,301,530	-
Safe and Drug Free Schools and Communities Act	10,798	10,798	-
Special Education Cluster	690,167	690,167	-
Learn and Serve	3,500	3,500	-
School Based Medicaid	6,256	6,256	-
Nutrition Cluster	616,729	616,729	-
	<b>\$ 3,216,688</b>	<b>\$ 3,216,688</b>	<b>\$ -</b>

# ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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## **KENOWA HILLS PUBLIC SCHOOLS**

For the year ended June 30, 2009

### **Section I – Summary of Auditor’s Results**

---

#### ***Financial Statements***

Type of auditors’ 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 audited:

	84.394	American Recovery & Reinvestment Act (ARRA)
	<hr/>	
	Nutrition Cluster:	
	10.555	Non-Cash Lunch
	10.555	Lunch
	10.553	Breakfast
	<hr/>	

***SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)***

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**KENOWA HILLS PUBLIC SCHOOLS**

For the year ended June 30, 2009

**Section I – Summary of Auditor’s Results (Continued)**

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***Federal Awards (Continued)***

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as a low-risk auditee?

           Yes   X   No

**Section II – Financial Statements Audit Findings**

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There were no findings that are required to be reported under *Government Auditing Standards*.

**Section III – Major Federal Award Programs Findings and Questioned Costs**

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There were no findings or questioned costs.

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

November 2, 2009

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Kenowa Hills Public Schools for the year ended June 30, 2009, and have issued our report thereon dated November 2, 2009. Statement on Auditing Standards (SAS) No. 114 "*The Auditor's Communication with Those Charged with Governance*" requires that we provide you with the following information related to our audit.

**The Auditor's Responsibility Under U.S. Generally Accepted Accounting Principles**

As stated in our Engagement Letter dated June 1, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you, or management, of your responsibilities.

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

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

**Auditor's Independence**

Our independence policies and procedures are designed to provide reasonable assurance that our firm and its personnel comply with applicable, independence standards. Our policies address financial interest, business and family relationships, and non-audit services that may be thought to bear on independence. In addition, our policies restrict certain non-audit services that may be provided by our firm staff and require our audit clients to accept certain responsibilities in connection with the provision of permitted non-audit services. We are not aware of any circumstances or relationships that would impair our independence.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in the Engagement Letter dated June 1, 2009.

### **Significant Accounting Findings**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Kenowa Hills Public Schools are described in the footnotes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

### **Significant Difficulties Encountered During the Audit**

We encountered no significant difficulties in performing and completing our audit.

### **Disagreements with Management**

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

### **Management's Consultations with Other Accountants**

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

### **Management Representations**

We have requested certain representations from management that are included in the Management's Representation Letter dated November 2, 2009.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements. There were no adjustments proposed during the audit not accepted and recorded by District management.

#### General Fund

1. \$26,058 to properly allocate State Aid received for the Food Service Fund that should not be included as revenue in the General Fund.

#### Food Service Fund

1. \$71,104 to record the receipt and related expenditures of USDA commodities used in 2008-09.
2. \$21,610 to adjust transfers from the General Fund to the correct total for 2008-09.

#### **Internal Control Matters**

Auditing standards require that auditors communicate in writing, to management and those charged with governance, all significant deficiencies and material weaknesses identified during the audit that affect the design or operation of an entity's internal controls.

We did not identify any deficiencies in internal control during the course of our audit that we consider to be material weaknesses.

#### **Other Significant, Relevant Audit Findings or Issues**

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

#### **Other Comments**

The District General Fund balance decreased by \$1,527,326 to \$4,351,145 at June 30, 2009. This balance represents approximately 12.40 percent of the District's 2009-10 expenditure budget (down from 17.0percent at June 30, 2008). Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for Kenowa Hills Public Schools. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

#### **Closing**

This communication is intended solely for the information and use of the Kenowa Hills Public Schools Board of Education and management and is not intended to be, and should not be, used by anyone other than these specified parties. We have furnished a copy of this letter to the Michigan Departments of Education and Treasury as an enclosure with the audited financial statements as required by the State of Michigan.

*Hungerford, Aldine, Nichols & Carter, P.C.*

Certified Public Accountants