

**Eaton Intermediate School District
Charlotte, Michigan**

FINANCIAL STATEMENTS

June 30, 2006

Eaton Intermediate School District

Charlotte, Michigan

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June 30, 2006

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Eaton Intermediate School District

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Eaton Intermediate School District
Charlotte, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eaton Intermediate School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Eaton Intermediate School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Eaton Intermediate School District as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2006 on our consideration of Eaton Intermediate School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the 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 required supplementary information. However, we did not audit the information and express no opinion on it.

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 9, 2006



EATON INTERMEDIATE SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

As management of Eaton Intermediate School District, we offer readers of the Eaton Intermediate School District's financial statements this narrative overview and analysis of the financial activities of Eaton Intermediate School District for the fiscal year ended June 30, 2006. All amounts are expressed in actual dollars.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the District's revenues and expenditures by program for the General Fund, Special Education Fund, Vocational Education Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.

Financial Highlights

Our financial statements provide these insights into the result of this year's operations.

The overall condition of all funds and governmental activities have been strong in the past, but have been somewhat affected by the downturn in the state economy during the past two years. However, all goals related to financial activities have been met and with controlled spending and State support, the resources for next year will be available.

The assets of Eaton Intermediate School District exceeded its liabilities at the close of the most recent fiscal year by \$4,433,037. Of this amount, \$2,625,369 (unrestricted net assets) may be used to meet the District's ongoing obligations to taxpayers, students, and creditors.

The District's total net assets increased by \$717,531, primarily due to an increase in State Categorical revenue (a portion of the net increase is due to one-time revenue).

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,280,978, an increase of \$774,501. Of the total fund balance, \$2,316,921 is available for spending at the District's discretion (unreserved, undesignated fund balance).

As of June 30, 2006, the aggregated fund balance for the District's main operating funds (General Fund, Special Education Fund and Vocational Education Fund) was \$2,733,738.

USING THE ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Eaton Intermediate School District's financial statements.

The Eaton Intermediate School District's financial statements are comprised of three components:

- 1) government-wide financial statements
- 2) fund financial statements, and
- 3) notes to the financial statements.

This report also contains required and other supplementary information in addition to the financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Eaton Intermediate School District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Eaton Intermediate School District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Eaton Intermediate School District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Both of the government-wide financial statements distinguish functions of the Eaton Intermediate School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Eaton Intermediate School District include instruction, support services, community services, and transfers to local districts.

The government-wide financial statements can be found on pages 1-2 of this report. The reconciliations to the fund level financial statements are presented on pages 5 and 8.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Eaton Intermediate School District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Eaton Intermediate School District can be divided in two categories: governmental funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Eaton Intermediate School District maintains three individual major governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Special Education Fund, Vocational Fund which are all considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The Eaton Intermediate School District adopts annual appropriated budgets for its governmental funds. A budgetary comparison schedule has been provided for the General Fund, Special Education Fund and Vocational Fund to demonstrate compliance with their budgets. The basic governmental fund financial statements can be found on pages 3-4 and 6-7 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Eaton Intermediate School District's own programs. Fiduciary fund information is reported on pages 9-10.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 11-24 of this report.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary information for the District’s major funds. Required supplementary information can be found on pages 25-29 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information and are considered other supplementary information. Combining and individual fund statements can be found on pages 30-33 of this report.

Our auditor has provided assurance in his independent auditor’s report, located immediately preceding this Management Discussion and Analysis, that the Financial Statements are fairly stated. The auditor provides varying degrees of assurance regarding the Required Supplementary Information and the Other Supplementary Information described earlier. A user of this report should read the Independent Auditor’s Report carefully to ascertain the level of assurance being provided for each of the other parts in the Financial Section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District’s net assets were \$4,433,037 at June 30, 2006. Of this amount, \$2,625,369 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District’s ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District’s governmental activities.

<u>TABLE 1 - NET ASSETS</u>		
Governmental Activities (June 30, 2006)		
	<u>2005/06</u>	<u>2004/05</u>
Current Assets	\$6,131,899	\$5,844,290
Capital Assets	3,989,028	4,145,720
Total Assets	10,120,927	9,990,010
Current Liabilities	3,292,852	3,610,751
Noncurrent Liabilities	2,395,038	2,663,753
Total Liabilities	5,687,890	6,274,504
Invested in Capital Assets - Net of Debt	1,807,668	1,808,696
Unrestricted	2,625,369	1,906,810
<u>Total Net Assets</u>	\$4,433,037	\$3,715,506

The \$2,625,369 in unrestricted net assets of governmental activities represents the accumulated results of all past years’ operations. It means that if we liquidated all our assets to cash and paid off all of our bills today, including all of our non-capital liabilities (compensated absences for example), there would be \$2,625,369 remaining.

Eaton ISD Management's Discussion and Analysis

Eaton ISD continues to provide Special Ed transportation services to its constituent districts, a service started in 2004/05. The cost for this service in 2005/06 was approximately \$2,800,000, an increase of approximately 35% from 2004/05 primarily due to an increase in student ridership and fuel costs. These additional costs are offset with revenue coming from both State Categorical and local district funds. The district continues to provide the majority of itinerant services to constituent districts.

At the end of the current fiscal year, the Eaton Intermediate School District is able to report positive balances in all categories of net assets, both for the District as a whole, as well as for its separate governmental activities. The same situation was true for the prior fiscal year.

The results of this year's operations for the District as a whole are reported in the Statement of Activities on Page 2. Table 2 takes the information from that Statement and slightly rearranges them so you can see our total revenues for the year.

Net governmental activities increased the District's net assets by \$717,531. Key elements are as follows:

TABLE 2 - CHANGES IN NET ASSETS		
Governmental Activities		
Year Ended June 30, 2006		
	<u>2005/06</u>	<u>2004/05</u>
<u>Revenues:</u>		
Charges for Services	\$ 2,800,877	\$ 5,140,277
Operative Grants and Contributions	7,811,129	8,425,025
Capital Grants	95,527	56,119
<u>General Revenues:</u>		
Property Taxes	8,966,863	8,476,599
Grants and State Aid	6,135,207	2,948,622
Other	312,577	263,875
Total Revenues	26,122,180	25,310,517
<u>Functions/Program Expenses:</u>		
Instruction	5,453,860	6,188,237
Supporting Services	15,425,453	14,556,844
Community Services	1,654,662	1,744,453
Transfers for Local Districts and Other	2,586,434	2,815,410
Interest in Long-Term Obligations	100,860	107,465
Depreciation	183,380	203,854
Total Functions/Program Expenses	25,404,649	25,616,263
	717,531	(305,746)
Prior Period Adjustment	-	(26,199)
INCREASE (DECREASE) IN NET ASSETS	\$ 717,531	\$(331,945)

Governmental Activities

As reported in the Statement of Activities on page 2, the cost of all of our governmental activities this year was \$25,404,649. However, the amount that our taxpayers ultimately financed for these activities through District taxes and other revenues was only \$14,697,116. \$2,800,877 was paid by those who benefited directly from the programs. \$7,811,129 was paid by governments and organizations who subsidized certain programs with grants and contributions and lastly by capital grants of \$95,527.

In the Table 3, we have presented the cost of each of the District’s largest functions and depreciation, as well as each function’s net cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the taxpayers of the District by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

TABLE 3 - SERVICE COSTS

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2005/06</u>	<u>2004/05</u>	<u>2005/06</u>	<u>2004/05</u>
Instruction	\$ 5,453,860	\$ 6,188,237	\$ 3,435,839	\$ 3,522,293
Support Services	15,425,453	14,556,844	9,026,944	5,989,956
Community Services	1,654,662	1,744,453	(106,324)	(17,658)
Transfers to Local Districts and other	2,586,434	2,815,410	2,056,417	2,188,933
Interest on Long-Term Obligations	100,860	107,465	100,860	107,465
Depreciation - Unallocated	183,380	203,854	183,380	203,854
Total Governmental Activities	25,404,649	\$25,616,263	14,697,116	\$11,994,842

**MAJOR GOVERNMENTAL FUNDS
BUDGETING AND OPERATING HIGHLIGHTS**

The District’s budgets are prepared according to Michigan law. The most significant budgeted funds are the General Fund, Special Education Fund, and the Vocational Education Fund.

During the fiscal year ended June 30, 2006, the District amended the budget of these major governmental funds two times.

Budget Analysis By Fund

General Fund - Fund Level Data

The General Fund modified accrual basis actual revenue was \$3,637,880. That amount is more than original budget estimates of \$3,489,265 and less than final amended budget of \$3,677,356.

Eaton ISD Management's Discussion and Analysis

The variance between the original budget and final budget primarily resulted from the following:

- 1) Increase in estimated property tax revenue, local grant funds, and LEA reimbursement.
- 2) Increases in State categorical funding not included in the adopted budget planning and the addition of new grants not included in the adopted budget.
- 3) Increases in substitute teacher costs (reimbursed by each constituent district).

The actual expenditures and other financing uses of the General Fund were \$3,537,442 which is more than the original budget estimates of \$3,472,881 and less than the final budget of \$3,676,196. The variance between the final budget and the original budget resulted from the following:

- 1) Grant expenses not included in the original budget plan were subsequently approved and included in the final budget amount.
- 2) Expansion of substitute teacher services and technology purchases (reimbursed by each constituent district.)

General Fund had total revenues of \$3,637,880 and total expenditures of \$3,537,442 with an excess of \$100,438. The excess amount from annual operations makes the final fund balance amount in the General Fund \$936,503.

Special Education Fund - Fund Level Data

The Special Education Fund actual revenue was \$17,662,242. That amount is above the original budget estimate of \$16,946,007 and below the final amended budget estimate of \$17,676,690. Variances between the original budget and final budget as follows:

- 1) Property taxes were greater than estimated.
- 2) The District also received a one-time special ed transportation payment not included in the original budget.
- 3) The District budgeted an amount of anticipated Federal revenues greater than what was actually realized.

The actual expenditures and other financing uses of the Special Education Fund were \$17,243,770 is above the original budget of \$16,865,844 and less than the final amended budget of \$17,502,232. Because expenses match revenue amount, the variance between the original budget and amended budget resulted from a reduction in grant expenses corresponding to the reduction in Federal grant funding. The district also had increases in special ed transportation expenses due to ridership and fuel increases greater the amount originally included in the adopted budget plan.

Special Education Fund had total revenues of \$17,662,242 and total expenditures of \$17,243,770 with an ending fund balance of \$1,234,542.

Vocational Education Fund - Fund Level Data

The Vocational Education Fund actual revenue was \$4,802,852. That amount is above the original budget estimate of \$4,796,198 and more than the final amended budget of \$4,753,945. Variances between the actual revenues, the original budget and final budget resulted as follows:

- 1) Increases in property taxes not included in the original budget
- 2) Sale of spec house pending at year end.
- 3) Increases in Federal support for Work First programs

The actual expenditures and other financing uses of the Vocational Education Fund were \$4,549,106, which is below the original budget of \$4,744,966 and slightly below the final amended budget of \$4,698,123. The variance between the original budget and the amended budget resulted as follows:

- 1) Spec house expenses deferred to match eventual sale.
- 2) Some grant expenses anticipated to be spent by fiscal year-end that had to be deferred until next fiscal year. Expenditures will be incurred in the next fiscal year.
- 3) Reduction in staffing costs.

Vocational Education Fund had total revenues of \$4,802,852 and total expenditures of \$4,549,106 leaving an excess of \$253,746 and an ending fund balance of \$562,693.

TOTAL ISD REVENUES - FUND LEVEL

The total revenues and other financing sources for all funds of the District on the modified accrual basis were \$26,372,804.

Program specific revenues in the form of charges for services, sales and grants, and contributions accounted for 41% of the total revenues and other financing sources for all funds.

GOVERNMENTAL FUND EXPENDITURES

In reviewing the following chart, you will see that Special Education comprises 67% of all expenditures within the governmental funds of the District. Total governmental fund expenditures and other financing uses amounted to \$25,598,303. Governmental funds had a net increase of \$774,501 in fund balance. The ending fund balance for all governmental funds was \$3,280,978 which represents approximately 13% of 2005/06 expenditures. This fund balance will be used to fund future operations, capital improvements, and for maintenance of adequate cash flow to reduce the amount of borrowing.

TABLE 4 - GOVERNMENTAL FUND EXPENDITURES

	<u>June 30, 2006</u>	<u>% of Total</u>	<u>June 30, 2005</u>	<u>% of Total</u>
General Fund	\$ 3,537,442	14%	\$ 3,928,477	15%
Special Education Fund	17,243,770	67%	16,465,349	64%
Vocational Education Fund	4,549,106	18%	5,213,947	20%
Nonmajor Governmental Funds	267,985	1%	213,306	1%
Total	25,598,303	100%	\$25,821,079	100%

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006, the District had \$6,139,116 invested in land and buildings, furniture and equipment, and vehicles. The accumulated depreciation amount is \$2,150,088. We currently have a net book value of \$3,989,028. Total additions of capital assets for the year were \$26,688. The majority of changes were computer and equipment purchases.

TABLE 5 - CAPITAL ASSETS AT YEAR END

Governmental Activities (Net of Depreciation)		
	<u>2005/06</u>	<u>2004/05</u>
Land	\$ 23,500	\$ 23,500
Building and Improvements	3,624,143	3,713,730
Furniture and Equipment	322,527	384,725
Vehicles	18,858	23,765
TOTAL	\$3,989,028	\$4,145,720

Long-Term Debt

At June 30, 2006, the District had \$1,850,000 in outstanding bonds for the 1999 additions and improvements to the Packard Highway facility. There is also \$331,360 of Durant Resolution Bonds. The annual payment for the Durant bonds is made by the State of Michigan. According to the legislation enacted, if the State fails to appropriate the money to fund the bond payments, the District is under no obligation for the payment.

TABLE 6 - OUTSTANDING DEBT AT YEAR END

Governmental Activities		
	<u>2005/06</u>	<u>2004/05</u>
General Obligation Bonds	\$2,181,360	\$2,313,524

The District also has vacation and sick leave entitlements as long-term liabilities accumulated at June 30, 2006 in the amount of \$594,890 collectively.

State statutes limit the amount of general obligation debt that a District may issue. The current debt limitation for the Eaton Intermediate School District is significantly greater than the outstanding debt of the District.

Additional information on the District's long-term debt can be found in Note D on pages 18-20 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy in the State of Michigan remains sluggish. General Fund Sec. 81 categorical funding remains below previous year's funding levels, impacting General, Special Ed and Vocational funds. Federal support for Special Education is not expected to increase while the need for special education services continues to increase.

On a positive note, bargaining agreements covering the District's two collective bargaining groups include modest salary increases due to expire in 2008. These agreements resulted in insurance co-payments based on a fixed percentage, as well as other cost savings to the District. The District has also eliminated administrative positions which are reflected in the 2006/07 budgets.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Eaton Intermediate School District's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

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BASIC FINANCIAL STATEMENTS

Eaton Intermediate School District

STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 3,219,512
Accounts receivable	8,485
Taxes receivable	17,131
Due from other governmental units	2,446,932
Prepays	26,813
Inventories	<u>413,026</u>
TOTAL CURRENT ASSETS	6,131,899
Noncurrent assets	
Capital assets not being depreciated	23,500
Capital assets, net of accumulated depreciation	<u>3,965,528</u>
TOTAL NONCURRENT ASSETS	<u>3,989,028</u>
TOTAL ASSETS	10,120,927
LIABILITIES	
Current liabilities	
Accounts payable	719,735
Accrued payroll	732,679
Accrued interest payable	60,719
Other accrued liabilities	656,485
Due to other governmental units	531,869
Deferred revenue	210,153
Accrued compensated absences	146,410
Current portion of long-term debt	<u>234,802</u>
TOTAL CURRENT LIABILITIES	3,292,852
Noncurrent liabilities	
Accrued compensated absences	448,480
Noncurrent portion of long-term debt	<u>1,946,558</u>
TOTAL NONCURRENT LIABILITIES	<u>2,395,038</u>
TOTAL LIABILITIES	5,687,890
NET ASSETS	
Invested in capital assets, net of related debt	1,807,668
Unrestricted	<u>2,625,369</u>
TOTAL NET ASSETS	<u>\$ 4,433,037</u>

See accompanying notes to financial statements.

Eaton Intermediate School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Programs/Functions	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Capital Grants	Governmental Activities
Instruction	\$ 5,453,860	\$ 1,793,703	\$ 128,791	\$ 95,527	\$ (3,435,839)
Supporting services	15,425,453	989,093	5,409,416	-	(9,026,944)
Community services	1,654,662	18,081	1,742,905	-	106,324
Payments to other districts and other	2,586,434	-	530,017	-	(2,056,417)
Interest on long-term debt	100,860	-	-	-	(100,860)
Unallocated depreciation	183,380	-	-	-	(183,380)
TOTAL EXPENSES	<u>\$ 25,404,649</u>	<u>\$ 2,800,877</u>	<u>\$ 7,811,129</u>	<u>\$ 95,527</u>	(14,697,116)
General revenues					
Property taxes					8,966,863
State school aid - unrestricted					6,135,207
Investment earnings					212,989
Miscellaneous					<u>99,588</u>
Total general revenues					<u>15,414,647</u>
Change in net assets					717,531
Net assets, beginning of year					<u>3,715,506</u>
Net assets, end of year					<u>\$ 4,433,037</u>

See accompanying notes to financial statements.

Eaton Intermediate School District

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2006

	General	Special Education	Vocational Education
ASSETS			
Cash and cash equivalents	\$ 845,793	\$ 1,818,382	\$ 6,822
Accounts receivable	1,282	-	6,023
Taxes receivable	815	12,239	4,077
Due from other governmental units	449,343	1,628,399	369,190
Due from other funds	20,000	-	-
Prepays	26,775	38	-
Inventories	28,026	-	385,000
TOTAL ASSETS	<u>\$ 1,372,034</u>	<u>\$ 3,459,058</u>	<u>\$ 771,112</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 76,511	\$ 583,548	\$ 57,221
Accrued payroll	61,882	592,142	78,655
Other accrued liabilities	95,607	511,886	48,992
Due to other governmental units	15	530,230	1,624
Due to other funds	-	-	20,000
Deferred revenue	201,516	6,710	1,927
TOTAL LIABILITIES	435,531	2,224,516	208,419
FUND BALANCES			
Reserved for			
Inventories	28,026	-	385,000
Prepays	26,775	38	-
Debt service	-	-	-
Unreserved			
Designated for capital expenditures	-	-	-
Undesignated, reported in			
General fund	881,702	-	-
Special revenue funds	-	1,234,504	177,693
TOTAL FUND BALANCES	<u>936,503</u>	<u>1,234,542</u>	<u>562,693</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,372,034</u>	<u>\$ 3,459,058</u>	<u>\$ 771,112</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 548,515	\$ 3,219,512
1,180	8,485
-	17,131
-	2,446,932
-	20,000
-	26,813
-	413,026
<u>\$ 549,695</u>	<u>\$ 6,151,899</u>
\$ 2,455	\$ 719,735
-	732,679
-	656,485
-	531,869
-	20,000
-	210,153
2,455	2,870,921
-	413,026
-	26,813
8,985	8,985
515,233	515,233
-	881,702
23,022	1,435,219
<u>547,240</u>	<u>3,280,978</u>
<u>\$ 549,695</u>	<u>\$ 6,151,899</u>

Eaton Intermediate School District

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

June 30, 2006

Total fund balance - governmental funds \$ 3,280,978

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

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

The cost of capital assets is	\$ 6,139,116	
Accumulated depreciation is	<u>(2,150,088)</u>	
		3,989,028

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

Bonds and loans payable	(2,181,360)	
Accrued interest payable	(60,719)	
Accumulated compensated absences	<u>(594,890)</u>	
		<u>(2,836,969)</u>

Net assets of governmental activities \$ 4,433,037

See accompanying notes to financial statements.

Eaton Intermediate School District

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

Year Ended June 30, 2006

	<u>General</u>	<u>Special Education</u>	<u>Vocational Education</u>
REVENUES			
Local sources	\$ 810,616	\$ 6,601,584	\$ 2,198,106
State sources	815,161	5,322,327	390,121
Federal sources	926,756	4,582,159	1,812,025
OTHER FINANCING SOURCES			
Transfers from other funds	-	56,119	-
Other transactions	1,085,347	1,100,053	402,600
TOTAL REVENUES AND OTHER FINANCING SOURCES	3,637,880	17,662,242	4,802,852
EXPENDITURES			
Current			
Instruction	1,124,211	2,794,899	1,526,684
Supporting services	2,170,424	11,946,003	1,278,823
Community service	34,896	68,281	1,549,039
Debt service	-	-	-
Capital outlay	-	-	-
OTHER FINANCING USES			
Transfers to other funds	87,450	163,174	-
Payments to other districts and other	120,461	2,271,413	194,560
TOTAL EXPENDITURES AND OTHER FINANCING USES	3,537,442	17,243,770	4,549,106
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	100,438	418,472	253,746
Fund balances, beginning of year	836,065	816,070	308,947
Fund balances, end of year	<u>\$ 936,503</u>	<u>\$ 1,234,542</u>	<u>\$ 562,693</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Totals Governmental Funds
\$ 35,917	\$ 9,646,223
39,408	6,567,017
-	7,320,940
194,505	250,624
-	2,588,000
<hr/>	<hr/>
269,830	26,372,804
-	5,445,794
8,701	15,403,951
-	1,652,216
233,913	233,913
25,371	25,371
-	250,624
-	2,586,434
<hr/>	<hr/>
267,985	25,598,303
<hr/>	<hr/>
1,845	774,501
545,395	2,506,477
<hr/>	<hr/>
<u>\$ 547,240</u>	<u>\$ 3,280,978</u>

Eaton Intermediate School District

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

Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ 774,501

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

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

Capital outlay	\$ 26,688	
Depreciation expense	<u>(183,380)</u>	
Excess of depreciation expense over capital outlay		(156,692)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement		132,164
---------------------------	--	---------

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

Decrease in accrued interest payable	889	
(Increase) in accrued compensated absences	<u>(33,331)</u>	
		<u>(32,442)</u>

Change in net assets of governmental activities \$ 717,531

See accompanying notes to financial statements.

Eaton Intermediate School District

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Agency Fund	Private Purpose Trust Fund
ASSETS		
Cash and cash equivalents	\$ 26	\$ 1,749
LIABILITIES		
Due to student groups	\$ 26	-
NET ASSETS		
Held in trust for private purposes		\$ 1,749

See accompanying notes to financial statements.

Eaton Intermediate School District

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2006

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Contributions	
Private donations	\$ 5,455
DEDUCTIONS	
Community services	<u>5,343</u>
CHANGE IN NET ASSETS	112
Net assets - beginning of year	<u>1,637</u>
Net assets - end of year	<u><u>\$ 1,749</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Reporting Entity

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

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the primary government are included. Interfund activity has been eliminated in the preparation of the district-wide financial statements.

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

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

FUND FINANCIAL STATEMENTS

The District uses funds to record its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District utilizes governmental and fiduciary funds.

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

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

The major funds of the District are:

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

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

- b. Special Education Fund - The Special Education Fund is used to account for money or other resources provided from all sources including local extra voted millage for the operation of special education programs and/or the distribution of funds to other local education agencies for operating special education programs.
- c. Vocational Education Fund - The Vocational Education Fund is used to account for money or other sources provided from all sources including local extra voted millage for the operation of vocational technical education programs. The Vocational Education fund also is used to account for Federal and State revenues received to operate job-training programs.

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Budgets and Budgetary Accounting - continued

- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- g. The budget, as presented, has been amended in a legally permissible manner. Two (2) supplementary appropriations were made during the year with the last one approved June 21, 2006.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of checking accounts, pooled investment funds, and imprest cash. Cash equivalents are recorded at market value.

6. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant and local programs and State Aid payments. The State of Michigan's funding stream resulted in two (2) payments related to the fiscal year ended June 30, 2006 being paid in July and August 2006. The total amount of \$2,446,932 due from other governmental units consists of \$844,392 and \$1,602,540 related to State Aid and grant and local programs, respectively.

7. Prepays

Prepays, which are expected to benefit future periods, are included as assets in both the District-wide and Fund financial statements. Reported prepaid expenditures are equally offset in the governmental fund balance sheet by a fund balance reserve which indicates they do not constitute "available spendable resources" even though they are a component of net current assets.

8. Inventories

Inventories are stated at cost on a first in/first out basis. Inventories consist of a house constructed by students and expendable supplies held for consumption or use in the various educational programs conducted by the District (i.e., Vocational Education). Reported inventories are equally offset by a fund balance reserve in the fund financial statements, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Computer equipment, classroom and office modules, electronic equipment over \$1,000, and all other purchases with an initial individual cost of \$5,000 and an estimated useful life of more than one year are recorded as Capital assets. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. Purchased assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

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

Buildings and additions	20 - 45 years
Equipment and furniture	5 - 20 years
Vehicles	8 years

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

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested sick and vacation pay amounts and non-vested sick and vacation pay amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes in the district-wide financial statements. The total is allocated between short and long-term based on management's determination of the amount that will be paid in the short-term and the remaining was recorded as long-term.

Vested vacation amounts scheduled to be paid from expendable available resources are recorded along with the related payroll taxes as a liability in the applicable governmental funds.

11. Deferred Revenues

The unexpended balance of various federal and/or state categorical and local grants is carried forward as deferred revenue until the period in which eligible expenditures are incurred.

12. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements. The entire amount is shown as a current liability because it is due within the next year.

13. Long-Term Obligations

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. Long-Term Obligations - continued

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

14. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the collecting entity. The District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected. The District is permitted by the Constitution of the State of Michigan of 1963 to levy taxes up to \$50 per \$1,000 of assessed valuation for general governmental services other than the payment of Special Education, Vocational Education, and Debt Service Fund expenditures. For the year ended June 30, 2006, the District levied the following mills per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund	.1849
Special Education Fund	2.7788
Vocational Education Fund	.9259

15. Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers. Transfers are netted as part of the preparation of the District-wide financial statements.

16. Comparative Data

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

17. Federal Programs

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

NOTE B: CASH AND CASH EQUIVALENTS

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

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

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

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

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each.

Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, the carrying amount of the District's deposits was \$123,654 and the bank balance was \$170,966 of which \$102,850 was covered by Federal depository insurance. The balance of \$68,116 was uninsured and uncollateralized. The District had \$750 imprest cash on hand.

Investments

As of June 30, 2006, the carrying amounts and market values for each type of investment as reported in the cash and cash equivalents caption in the financial statements are as follows:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment funds			
LaSalle Bank - Fimm Funds			
Government Portfolio	\$ 810,936	\$ 810,936	30 days
Lasalle Bank - AIS			
Repurchase Agreements	<u>2,285,947</u>	<u>2,285,947</u>	1 day
	<u>\$ 3,096,883</u>	<u>\$ 3,096,883</u>	

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, the District's investments in the Fimm Funds Government Portfolio and the AIS Repurchase Agreements were rated AAAM and A-1, respectively, by Standard and Poor's.

Interest rate risk

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

Concentration of credit risk

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

Custodial credit risk

The District has adopted a policy that indicates how the District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy and pre-qualifying the investment institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

As of June 30, 2006, the cash and cash equivalents referred to above have been reported in the cash and cash equivalents caption in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	<u>\$ 3,219,512</u>	<u>\$ 1,775</u>	<u>\$ 3,221,287</u>

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

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 23,500	\$ -	\$ -	\$ 23,500

Eaton Intermediate School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE C: CAPITAL ASSETS - CONTINUED

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
Governmental activities - continued				
Capital assets being depreciated				
Buildings and additions	\$ 5,106,051	\$ -	\$ -	\$ 5,106,051
Equipment and furniture	956,266	26,688	(23,647)	959,307
Vehicles	<u>50,258</u>	<u>-</u>	<u>-</u>	<u>50,258</u>
Subtotal	6,112,575	26,688	(23,647)	6,115,616
Less accumulated depreciation for:				
Buildings and additions	(1,392,321)	(89,587)	-	(1,481,908)
Equipment and furniture	(571,541)	(88,186)	22,947	(636,780)
Vehicles	<u>(26,493)</u>	<u>(4,907)</u>	<u>-</u>	<u>(31,400)</u>
Subtotal	<u>(1,990,355)</u>	<u>(182,680)</u>	<u>22,947</u>	<u>(2,150,088)</u>
Net capital assets being depreciated	<u>4,122,220</u>	<u>(155,992)</u>	<u>(700)</u>	<u>3,965,528</u>
Capital assets, net	<u>\$ 4,145,720</u>	<u>\$(155,992)</u>	<u>\$(700)</u>	<u>\$ 3,989,028</u>

The current year depreciation expense of \$182,680 has been adjusted by \$700 for the disposal of capital assets during the year, in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses may be handled as an adjustment to the current period's depreciation expense.

Depreciation expense of \$183,380 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2006.

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
1998 Durant Resolution Bonds	\$ 358,524	\$ -	\$ 27,164	\$ 331,360	\$ 129,802
1999 School Building and Site Bonds	1,955,000	-	105,000	1,850,000	105,000
Accumulated compensated absences	<u>561,559</u>	<u>33,331</u>	<u>-</u>	<u>594,890</u>	<u>146,410</u>
	<u>\$ 2,875,083</u>	<u>\$ 33,331</u>	<u>\$ 132,164</u>	<u>\$ 2,776,250</u>	<u>\$ 381,212</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds

\$2,465,000 School Building and Site General Obligation Bonds dated March 1, 1999, due in annual installments ranging from \$105,000 to \$185,000 through May 1, 2019, with interest ranging from 4.20 to 4.85 percent, payable semi-annually.

\$ 1,850,000

Eaton Intermediate School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE D: LONG-TERM DEBT - CONTINUED

Resolution Bonds

\$561,188 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments from \$29,812 to \$129,803, with interest of 4.761353 percent, payable annually. The annual debt service payments related to these bonds are paid through an annual appropriation from the State of Michigan.

\$ 331,360

\$ 2,181,360

Accumulated Compensated Absences

In accordance with District personnel policies and/or contracts negotiated with various employee groups of the District, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts.

The dollar amount of these vested rights including related payroll taxes, amounted to \$92,114 and \$191,606 for vacation and sick, respectively, at June 30, 2006. These amounts have been accrued entirely in the district-wide financial statements as long-term liabilities.

A summary of the calculated amounts of accrued sick pay and related payroll taxes as of June 30, 2006, which has been recorded in the district-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Sick pay	\$ 177,990	\$ 289,057	\$ 467,047
Payroll taxes	<u>13,616</u>	<u>22,113</u>	<u>35,729</u>
	<u>\$ 191,606</u>	<u>\$ 311,170</u>	<u>\$ 502,776</u>

A summary of the calculated amounts of accrued vacation pay and related payroll taxes as of June 30, 2006, which has been recorded in the district-wide financial statements, is as follows:

	<u>Total</u>
Vacation pay	\$ 85,568
Payroll taxes	<u>6,546</u>
	<u>\$ 92,114</u>

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE D: LONG-TERM DEBT - CONTINUED

The annual requirement to pay the debt principal and interest outstanding for the long-term debt is as follows:

Year Ending June 30,	<u>Durant Resolution Bonds</u>		<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	129,802	56,159	105,000	84,848
2008	29,812	9,597	110,000	80,438
2009	31,232	8,177	115,000	75,763
2010	32,717	6,690	125,000	70,818
2011	34,276	5,133	130,000	65,318
2012-2016	73,521	5,292	735,000	233,615
2017-2019	-	-	530,000	51,968
	<u>\$ 331,360</u>	<u>\$ 91,048</u>	<u>\$ 1,850,000</u>	<u>\$ 662,768</u>

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation.

NOTE E: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2005, the last year available, may be obtained by contacting the State of Michigan Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2006 was \$10,820,886 of which \$7,689,077 was for members who have elected the MIP option; the District's total payroll was \$11,475,212.

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

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

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

Eaton Intermediate School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE E: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

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

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated rate; 3% of the first \$5,000; 3.6% or \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2005 to September 30, 2005, the District was required by State statute to contribute 14.87% of covered compensation for all wages to the Plan. For the period of October 1, 2005 to June 30, 2006, the District is required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2006 and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>	<u>Total</u> <u>Contributions</u>
2006	\$ 295,559	\$ 1,703,433	\$ 1,998,992
2005	302,819	1,614,653	1,917,472
2004	272,646	1,323,204	1,595,850

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

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>
2006	4.0%	16.0%
2005	4.0	14.5
2004	4.0	13.0

NOTE F: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2006 are as follows:

Due to General Fund from:	
Vocational Education Fund	<u>\$ 20,000</u>

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

NOTE G: INTERFUND TRANSFERS

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

Transfers to nonmajor governmental funds from:	
General Fund	\$ 31,331
Special Education Fund	<u>163,174</u>
	194,505

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE G: INTERFUND TRANSFERS - CONTINUED

Transfers to Special Education Fund from:	
General Fund	\$ 56,119
	<u>\$ 250,624</u>

NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS

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

The following are the various fund balance reserves as of June 30, 2006:

General Fund	
Reserved for inventories	\$ 28,026
Reserved for prepaids	26,775
Special Education Fund	
Reserved for prepaids	38
Vocational Education Fund	
Reserved for inventories	385,000
Nonmajor governmental funds	
Reserved for debt service	<u>8,985</u>
	<u>\$ 448,824</u>

The following are the fund balance designations as of June 30, 2006:

Nonmajor governmental funds	
Designated for capital expenditures	<u>\$ 515,233</u>

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

As shown in the Budgetary Comparison Schedules, which are included in the financial statements as Required Supplementary Information, the District's budgeted expenditures in the governmental funds have been adopted and shown at the functional classification level.

During the year ended June 30, 2006, the District incurred expenditures in excess of the amounts appropriated as follows:

Eaton Intermediate School District
 NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Instruction			
Basic programs	\$ 1,124,096	\$ 1,124,118	\$ 22
Added needs	-	93	93
Other financing uses			
Payments to other districts	120,404	120,461	57
Special Education Fund			
Supporting services			
General administration	17,669	18,290	621
Business	369,727	374,340	4,613
Pupil transportation	2,356,936	2,403,535	46,599
Operation an maintenance	364,294	372,683	8,389
Other	2,400	2,622	222
Vocational Education Fund			
Supporting services			
General administration	3,629	3,762	133
Business	105,112	106,610	1,498
Other	1,800	2,227	427
Community services	1,548,330	1,549,039	709
Other financing uses			
Payments to other districts	194,522	194,560	38

NOTE J: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, fleet, liability, in-land marine, crime, data processing, valuable papers and records, outdoor sign, boiler, employee dishonesty, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. The District has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The District also participates in a pool, the SEG Self-Insured Workers' Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under public Act 317 of 1969, as amended. The District has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

NOTE K: FLEXIBLE BENEFITS PLAN

In September 1991, for all administrative employees and in March 1996 for all bargaining unit employees, the District implemented flexible benefit cafeteria plans established under Section 125 of the Internal Revenue Code. The plans are available to all employees who are either collective bargaining unit employees or administrative employees.

The bargaining unit employee's plan permits employees, who must pay a portion of the health insurance, to do so through a pretax compensation reduction. The plan also permits employees to reduce their compensation and apply it to medical or dependent care expenses. If the employee waives health insurance coverage from the District they may receive a cash benefit in lieu of such health insurance.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE K: FLEXIBLE BENEFITS PLAN - CONTINUED

The administrative employee's plan allows for an employer provided payment to the plan for each employee, which can be used for medical or dependent care expenses. The plan also permits employees to reduce their compensation and apply it to medical or dependent care expenses.

The plans are administered by Eaton Intermediate School District.

NOTE L: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past under funding of special education. Eaton Intermediate School District, a nonplaintiff District, was awarded \$1,122,375 in the settlement. The funds are being paid as follows:

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

REQUIRED SUPPLEMENTARY INFORMATION

Eaton Intermediate School District

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 691,164	\$ 810,403	\$ 810,616	\$ 213
State sources	788,335	841,684	815,161	(26,523)
Federal sources	956,259	942,290	926,756	(15,534)
OTHER FINANCING SOURCES				
Payments from other districts	1,053,507	1,082,979	1,085,347	2,368
TOTAL REVENUES AND OTHER FINANCING SOURCES	3,489,265	3,677,356	3,637,880	(39,476)
EXPENDITURES				
Current				
Instruction				
Basic programs	1,080,732	1,124,096	1,124,118	(22)
Added needs	-	-	93	(93)
Total instruction	1,080,732	1,124,096	1,124,211	(115)
Supporting services				
Pupil	215,476	199,249	184,874	14,375
Instructional staff	1,127,271	1,156,765	1,129,380	27,385
General administration	279,734	283,562	265,881	17,681
School administration	222,237	181,416	180,400	1,016
Business	72,700	72,956	65,404	7,552
Pupil transportation	1,036	-	-	-0-
Central	252,291	325,013	286,211	38,802
Operation and maintenance	75,049	60,583	58,274	2,309
Total supporting services	2,245,794	2,279,544	2,170,424	109,120
Community services	33,884	35,124	34,896	228
TOTAL EXPENDITURES	3,360,410	3,438,764	3,329,531	109,233
OTHER FINANCING USES				
Transfers to other funds	84,984	117,028	87,450	29,578
Payments to other districts and other	27,487	120,404	120,461	(57)
TOTAL EXPENDITURES AND OTHER FINANCING USES	3,472,881	3,676,196	3,537,442	138,754

Eaton Intermediate School District

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 16,384	\$ 1,160	\$ 100,438	\$ 99,278
Fund balance, beginning of year	<u>836,065</u>	<u>836,065</u>	<u>836,065</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 852,449</u>	<u>\$ 837,225</u>	<u>\$ 936,503</u>	<u>\$ 99,278</u>

Eaton Intermediate School District

Special Education Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 6,499,621	\$ 6,538,375	\$ 6,601,584	\$ 63,209
State sources	3,953,366	5,322,328	5,322,327	(1)
Federal sources	4,851,844	4,665,910	4,582,159	(83,751)
OTHER FINANCING SOURCES				
Transfers from other funds	56,119	56,119	56,119	-0-
Other transactions	1,585,057	1,093,958	1,100,053	6,095
TOTAL REVENUES AND OTHER FINANCING SOURCES	16,946,007	17,676,690	17,662,242	(14,448)
EXPENDITURES				
Current				
Instruction				
Added needs	2,872,849	2,828,522	2,794,899	33,623
Supporting services				
Pupil	6,832,669	6,452,010	6,383,542	68,468
Instructional staff	754,936	805,139	779,764	25,375
General administration	20,314	17,669	18,290	(621)
School administration	171,089	169,125	167,914	1,211
Business	347,844	369,727	374,340	(4,613)
Pupil transportation	2,050,833	2,356,936	2,403,535	(46,599)
Central	1,498,906	1,465,975	1,443,313	22,662
Operation and maintenance	367,049	364,294	372,683	(8,389)
Other	1,500	2,400	2,622	(222)
Total supporting services	12,045,140	12,003,275	11,946,003	57,272
Community services	38,924	70,034	68,281	1,753
Capital outlay	1,750	1,000	-	1,000
TOTAL EXPENDITURES	14,958,663	14,902,831	14,809,183	93,648

Eaton Intermediate School District

Special Education Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING USES				
Transfers to other funds	\$ 165,691	\$ 163,174	\$ 163,174	\$ -0-
Payments to other districts and other	1,741,490	2,436,227	2,271,413	164,814
 TOTAL EXPENDITURES AND OTHER FINANCING USES	 16,865,844	 17,502,232	 17,243,770	 258,462
 EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	 80,163	 174,458	 418,472	 244,014
Fund balance, beginning of year	816,070	816,070	816,070	-0-
Fund balance, end of year	\$ 896,233	\$ 990,528	\$ 1,234,542	\$ 244,014

Eaton Intermediate School District

Vocational Education Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 2,446,983	\$ 2,180,157	\$ 2,198,106	\$ 17,949
State sources	360,166	373,088	390,121	17,033
Federal sources	1,589,049	1,798,100	1,812,025	13,925
OTHER FINANCING SOURCES				
Other transactions	400,000	402,600	402,600	-0-
TOTAL REVENUES AND OTHER FINANCING SOURCES	4,796,198	4,753,945	4,802,852	48,907
EXPENDITURES				
Current				
Instruction				
Added needs	1,800,782	1,590,915	1,526,684	64,231
Supporting services				
Pupil	619,301	566,367	545,655	20,712
Instructional staff	234,258	235,011	208,840	26,171
General administration	4,380	3,629	3,762	(133)
School administration	344,208	319,542	287,113	32,429
Business	103,602	105,112	106,610	(1,498)
Pupil transportation	506	-	-	-0-
Central Services	65,601	64,787	59,335	5,452
Operation and maintenance	69,884	68,108	65,281	2,827
Other	1,800	1,800	2,227	(427)
Total supporting services	1,443,540	1,364,356	1,278,823	85,533
Community services	1,345,122	1,548,330	1,549,039	(709)
TOTAL EXPENDITURES	4,589,444	4,503,601	4,354,546	149,055
OTHER FINANCING USES				
Payments to other districts and other	155,522	194,522	194,560	(38)
TOTAL EXPENDITURES AND OTHER FINANCING USES	4,744,966	4,698,123	4,549,106	149,017
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	51,232	55,822	253,746	197,924
Fund balance, beginning of year	308,947	308,947	308,947	-0-
Fund balance, end of year	\$ 360,179	\$ 364,769	\$ 562,693	\$ 197,924

OTHER SUPPLEMENTARY INFORMATION

Eaton Intermediate School District

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2006

	<u>Special Revenue</u>		<u>Capital</u>
	SAPE Fund	Debt Service Fund	General Capital Projects
ASSETS			
Cash and cash equivalents	\$ 24,297	\$ 8,985	\$ 159,828
Accounts receivable	<u>1,180</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 25,477</u></u>	<u><u>\$ 8,985</u></u>	<u><u>\$ 159,828</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 2,455	\$ -	\$ -
FUND BALANCES			
Reserved for debt service	-	8,985	-
Unreserved			
Designated for capital expenditures	-	-	159,828
Undesignated, reported in special revenue funds	<u>23,022</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	<u><u>23,022</u></u>	<u><u>8,985</u></u>	<u><u>159,828</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 25,477</u></u>	<u><u>\$ 8,985</u></u>	<u><u>\$ 159,828</u></u>

Project Funds		
Special Education Capital Projects	Vocational Education Capital Projects	Total
\$ 327,010	\$ 28,395	\$ 548,515
-	-	1,180
<u>\$ 327,010</u>	<u>\$ 28,395</u>	<u>\$ 549,695</u>
\$ -	\$ -	\$ 2,455
-	-	8,985
327,010	28,395	515,233
-	-	23,022
<u>327,010</u>	<u>28,395</u>	<u>547,240</u>
<u>\$ 327,010</u>	<u>\$ 28,395</u>	<u>\$ 549,695</u>

Eaton Intermediate School District

Nonmajor Governmental Funds

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

Year Ended June 30, 2006

	<u>Special Revenue</u>		<u>Capital</u>
	<u>SAPE Fund</u>	<u>Debt Service Fund</u>	<u>General Capital Projects</u>
REVENUES			
Local sources	\$ 14,278	\$ 373	\$ 6,592
State sources	-	39,408	-
OTHER FINANCING SOURCES			
Transfers from other funds	-	194,505	-
TOTAL REVENUES AND OTHER FINANCING SOURCES	14,278	234,286	6,592
EXPENDITURES			
Current			
Supporting services			
Instructional staff	8,701	-	-
Debt service			
Principal retirement	-	132,164	-
Interest and fiscal charges	-	101,749	-
Capital outlay	-	-	-
TOTAL EXPENDITURES	8,701	233,913	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	5,577	373	6,592
Fund balances, beginning of year	17,445	8,612	153,236
Fund balances, end of year	<u>\$ 23,022</u>	<u>\$ 8,985</u>	<u>\$ 159,828</u>

Project Funds		
Special Education Capital Projects	Vocational Education Capital Projects	Total
\$ 13,286	\$ 1,388	\$ 35,917
-	-	39,408
-	-	194,505
13,286	1,388	269,830
-	-	8,701
-	-	132,164
-	-	101,749
25,371	-	25,371
25,371	-0-	267,985
(12,085)	1,388	1,845
339,095	27,007	545,395
<u>\$ 327,010</u>	<u>\$ 28,395</u>	<u>\$ 547,240</u>

Principals

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

To the Board of Education
Eaton Intermediate School District
Charlotte, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Eaton Intermediate School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 9, 2006. 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 Eaton Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eaton Intermediate School District's basic 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 basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Education of Eaton Intermediate School District, the 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.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 9, 2006