

CONCORD ACADEMY-BOYNE

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)
for the year ended June 30, 2007

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November 12, 2007

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Concord Academy-Boyne:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Concord Academy-Boyne (the Academy), as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Concord Academy-Boyne's 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 *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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Concord Academy-Boyne, as of June 30, 2007, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Directors
Concord Academy-Boyne

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2007, on our consideration of Concord Academy-Boyne'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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Smolinski & Christman, P.C.



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Concord Academy-Boyne's (the Academy) annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Financial Highlights

- The Academy's financial status improved with an increase in net assets of \$106,982, from \$860,849 to \$967,831.
- Revenues increased by 17.4 percent, from \$1,326,879 to \$1,557,651, while expenses increased by 12.4 percent, from \$1,290,020 to \$1,450,669.
- Blended enrollment used for state aid purposes was 197.56 in June, 2007 compared to 181.42 in June, 2006.
- The Academy re-financed its two separate debts (1998 and 2003 series participation notes) into one, on more favorable terms.

Overview of the Financial Statements

This annual report consists of three parts:

1. Management's discussion and analysis (this section).
2. Basic financial statements.
 - a. Academy-wide financial statements.
 - I. Statement of Net Assets.
 - ii. Statement of Activities.
 - b. Fund financial statements.
 - I. Governmental funds statements.
 - ii. Fiduciary funds statements.
3. Required supplementary information.

The two Academy-wide financial statements provide short-term and long-term information about the Academy's overall financial status.

The fund financial statements focus on individual parts of the Academy, reporting the Academy's operations in more detail than the Academy-wide statements.

The governmental funds statements tell how basic services like regular 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 Academy acts solely as an agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year.

Major Features of the Academy-Wide and Fund Financial Statements

The table below summarizes the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

	Academy-wide statements	Fund Financial	Statements
		Governmental funds	Fiduciary funds
Scope	Entire Academy (except fiduciary funds)	All activities of the Academy that are not fiduciary	Instances in which the Academy administers resources on behalf of someone else, such as student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the Academy's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Academy-wide statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy'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 Academy-wide statements report the Academy's net assets and how they have changed. Net assets - the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

Fund financial statements

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

Governmental activities - The Academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The Academy has two kinds of funds:

Governmental fund - Most of the Academy'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 Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Fiduciary funds - The Academy is the fiduciary for assets that belong to others, such as the student activities funds. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and used by those to whom the assets belong. We exclude these activities from the Academy-wide financial statements because the Academy cannot use these assets to finance its operations.

Financial analysis of the Academy as a whole

The Academy's combined net assets were larger on June 30, 2007 than they were the year before, increasing by \$106,982 to \$967,831. State aid revenue increased by 16.2 percent to \$1,449,780. This is due to an increase in the blended enrollment count. The total cost of instruction increased by 23.3 percent to \$817,251. This is due, in part, to a revised benefits package offered to the contracted teaching staff.

A summary of the Academy's net assets as of June 30 is as follows:

	<u>2007</u>	<u>2006</u>
Current assets	\$ 746,985	\$ 703,259
Capital assets, net	2,360,737	2,424,050
Other noncurrent assets	<u>606,349</u>	<u>377,623</u>
Total assets	<u>\$3,714,071</u>	<u>\$3,504,932</u>
Current liabilities	\$ 149,775	\$ 264,083
Noncurrent liabilities	<u>2,596,465</u>	<u>2,380,000</u>
Total liabilities	<u>\$2,746,240</u>	<u>\$2,644,083</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 346,583	\$ 321,673
Restricted for debt service	19,847	122,341
Restricted for capital improvements	177,420	-
Unrestricted and undesignated	<u>423,981</u>	<u>416,835</u>
Total net assets	<u>\$ 967,831</u>	<u>\$ 860,849</u>

A summary of the Academy's changes in net assets as of June 30 is as follows:

	<u>2007</u>	<u>2006</u>
Revenues:		
Program revenues, State and Federal categorical grants	\$ 47,183	\$ 42,234
General revenues:		
State aid - unrestricted	1,449,780	1,247,938
Interest	20,915	14,984
Rent	13,550	-
Miscellaneous	26,223	14,223
Other revenue, lawsuit settlement	<u>-</u>	<u>7,500</u>
Total revenues	1,557,651	1,326,879
Expenses:		
Instruction	817,251	662,589
Support services	409,465	357,488
Interest on long-term debt	136,053	182,350
Unallocated depreciation	80,576	80,269
Unallocated amortization	<u>7,324</u>	<u>7,324</u>
Total expenses	<u>1,450,669</u>	<u>1,290,020</u>
Change in net assets	<u>\$ 106,982</u>	<u>\$ 36,859</u>

Financial analysis of the Academy's funds

The Academy's stable financial position is the result of cost reduction measures. Despite a decline in enrollment and the additional debt service for building repairs, management and staff controlled operating expenses and maintained the financial health of the Academy. As the Academy completed the year, its governmental funds (general) reported a fund balance of \$997,520, an increase of \$580,685 over last year's ending fund balance of \$416,835. A large portion of this increase consists of \$448,074 that was transferred from the Debt Service Fund. Effective July 1, 2006 the General Fund accounts for all debt-related transactions. State aid foundation allowance included in revenue from state sources accounts for most of the Academy's general fund revenue (94 percent). A year-by-year comparison of the Academy's funds will demonstrate management's continued diligence in controlling cost to match revenues.

	<u>06/30/2006</u>	<u>06/30/2007</u>	<u>% Increase</u>
General Fund Balance	\$ 416,835	\$ 997,520	39.3%
General Fund Revenues	\$1,305,731	\$1,557,651	19.3%
General Fund Expenditures	\$1,014,616	\$1,731,229	70.6%
Cost of Instruction	\$ 662,589	\$ 817,251	23.3%
Support Services Expenses	\$ 352,027	\$ 421,267	19.7%

General fund budgetary highlights

Over the course of the year, the Academy revised the annual operating budget. These budget amendments fall into several categories:

- A revenue increase from local and federal sources.
- An increase in the state aid for grants received.
- Changes in assumptions (e.g. implementing health insurance coverage and changes in staff benefits) since the original budget was adopted.
- Offsetting increases and decreases in the interest expense account and transfers to and from the Debt Service Fund.

While the Academy's final budget for the General Fund anticipated expenditures would exceed revenues by \$47,500, the actual results for the year showed revenues over expenditures of \$580,685. Actual revenues were \$74,751 higher than budgeted. The actual total expenditures were \$495,829 over budget. These large variances are due to the transfer of the Debt Service Fund, where principal and interest payments were accounted, to the General Fund, effective July 1, 2006.

Capital asset and debt administration

By June 30, 2007, the Academy had invested \$2,360,737 in capital assets net of accumulated depreciation. These assets are land, construction in progress, land improvements, buildings and improvements, outdoor equipment, computers and other equipment, and library materials. Accumulated depreciation on these assets was \$599,759 as of June 30, 2007. Outstanding long-term debt incurred to invest in these assets was \$2,596,465 as of June 30, 2007. During the year, the Academy retired \$100,000 of debt. The Academy's fiscal year 2007 initial budget anticipates no spending for capital projects.

The Academy's capital assets at June 30 are as follows:

	<u>2007</u>	<u>2006</u>
Land	\$ 32,000	\$ 32,000
Construction in progress	6,000	-
Land improvements	20,000	20,000
Buildings and improvements	2,802,210	2,802,210
Outdoor equipment	20,418	20,418
Computers and other equipment	64,113	52,850
Library materials	<u>15,755</u>	<u>15,755</u>
Total capital assets	2,960,496	2,943,233
Less accumulated depreciation	<u>(599,759)</u>	<u>(519,183)</u>
Total capital assets, net	<u>\$2,360,737</u>	<u>\$2,424,050</u>

The Academy also issued bonds totaling \$2,800,000. The proceeds were used to retire existing certificates of participation through an advance refunding (\$2,595,000) and to provide funds for capital acquisitions (\$205,000). The bond refunding was done to take advantage of lower interest rates and to ease cash flows by extending the term of repayment for the debt.

Factors bearing on the Academy's future

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

- The 2007-2008 foundation allowance (state aid funding) from the State of Michigan was held flat at \$7,385 per student. The foundation allowance represents 94 percent of the total Academy general fund revenue. Due to the economic climate in the State of Michigan, further fluctuations in foundation allowance are possible.
- Requirements of the No Child Left Behind Act could make it difficult for a small school such as ours to employ highly-qualified teachers for every subject.
- Student enrollment, because of per pupil state aid, is the driving force for the majority of our revenue. The Academy has taken measures to increase enrollment. Meanwhile, our local competitors have all constructed new facilities to attract students. The Academy's goal is to increase enrollment until it reaches capacity (260 students).

Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's office at 00401 E. Dietz Road, Boyne City, Michigan 49712.

CONCORD ACADEMY - BOYNE
STATEMENT OF NET ASSETS
June 30, 2007

	Governmental Activities
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 291,525
Restricted investments	177,420
Receivables:	
State of Michigan	265,514
Federal government	5,300
Prepaid insurance	7,226
	746,985
Total current assets	746,985
NONCURRENT ASSETS:	
Restricted investments	396,119
Capital assets not being depreciated	38,000
Capital assets being depreciated, net	2,322,737
Unamortized debt issuance costs	210,230
	2,967,086
Total noncurrent assets	2,967,086
Total assets	\$ 3,714,071
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 28,268
Accrued interest	4,191
Accrued contracted services	109,351
Accrued expenditures	7,965
	149,775
Total current liabilities	149,775
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term debt	2,800,000
Deferred amount on refunding	(203,535)
	2,596,465
Total noncurrent liabilities	2,596,465
Total liabilities	2,746,240
NET ASSETS:	
Invested in capital assets, net of related debt	346,583
Restricted for debt service	19,847
Restricted for capital improvements	177,420
Unrestricted and undesignated	423,981
	967,831
Total net assets	967,831
Total liabilities and net assets	\$ 3,714,071

The accompanying notes are a part of the financial statements.

CONCORD ACADEMY - BOYNE
STATEMENT OF ACTIVITIES
for the year ended June 30, 2007

	<u>Expenses</u>	<u>Program Revenue</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
GOVERNMENTAL ACTIVITIES:				
Instruction, basic programs	\$ 817,251	\$ -	\$ 47,183	\$ (770,068)
Support services	409,465	-	-	(409,465)
Interest on long-term debt	136,053	-	-	(136,053)
Unallocated depreciation	80,576	-	-	(80,576)
Unallocated amortization	<u>7,324</u>	<u>-</u>	<u>-</u>	<u>(7,324)</u>
Total governmental activities	<u>\$1,450,669</u>	<u>\$ -</u>	<u>\$ 47,183</u>	(1,403,486)
GENERAL REVENUES:				
State of Michigan school aid unrestricted				1,449,780
Interest income				20,915
Rent				13,550
Miscellaneous				<u>26,223</u>
Total general revenues				<u>1,510,468</u>
CHANGE IN NET ASSETS				106,982
NET ASSETS, beginning of year				<u>860,849</u>
NET ASSETS, end of year				<u>\$ 967,831</u>

The accompanying notes are a part of the financial statements.

CONCORD ACADEMY - BOYNE
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2007

	Major Fund	Non-Major Fund	
	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 291,525	\$ -	\$ 291,525
Investments	573,539	-	573,539
Receivables:			
State of Michigan	265,514	-	265,514
Federal government	5,300	-	5,300
Prepaid insurance	7,226	-	7,226
	\$ 1,143,104	\$ -	\$ 1,143,104
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 28,268	\$ -	\$ 28,268
Accrued contracted services	109,351	-	109,351
Accrued expenditures	7,965	-	7,965
	145,584	-	145,584
FUND BALANCES:			
Restricted for debt service	396,119	-	396,119
Restricted for capital improvements	177,420	-	177,420
Unreserved and undesignated	423,981	-	423,981
	997,520	-	997,520
Total liabilities and fund balances	\$ 1,143,104	\$ -	\$ 1,143,104

The accompanying notes are a part of the financial statements.

CONCORD ACADEMY - BOYNE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2007

Total governmental fund balances	\$	997,520
Amounts reported for governmental activities in the statement of net assets are different because:		
Net capital assets used in governmental activities are not financial resources and are not reported in the funds		2,360,737
Unamortized debt issuance costs are not financial resources and are not reported in the funds		210,230
Deferred amounts on refunding bonds are not financial resources and are not reported in the funds		203,535
Long-term debt is not due and payable in the current period and is not reported in the funds		(2,800,000)
Accrued interest is not recorded as a liability in governmental funds, it is recorded when paid		(4,191)
Net assets of governmental activities	\$	967,831

The accompanying notes are a part of the financial statements.

CONCORD ACADEMY - BOYNE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
for the year ended June 30, 2007

	Major Fund	Non-Major Fund	Total Governmental Funds
	General Fund	Debt Service Fund	
REVENUES:			
Local sources	\$ 60,688	\$ -	\$ 60,688
State sources	1,462,675	-	1,462,675
Federal sources	34,288	-	34,288
Total revenues	1,557,651	-	1,557,651
EXPENDITURES:			
Instruction, basic programs	817,251	-	817,251
Support services:			
General administration	70,132	-	70,132
School administration	179,881	-	179,881
Business services	77,116	-	77,116
Operation and maintenance of plant	94,138	-	94,138
Total support services	421,267	-	421,267
Debt service:			
Principal retirement	100,000	-	100,000
Interest	177,019	-	177,019
Escrow agent fees	5,462	-	5,462
Total debt service	282,481	-	282,481
Debt issuance costs	210,230	-	210,230
Total expenditures	1,731,229	-	1,731,229
EXCESS OF EXPENDITURES OVER REVENUES	(173,578)	-	(173,578)
OTHER FINANCING SOURCES (USES):			
Proceeds of refunding bonds	2,595,000	-	2,595,000
Proceeds of new bonds	205,000	-	205,000
Payment to refunded bond escrow agent	(2,493,811)	-	(2,493,811)
Operating transfers in	448,074	-	448,074
Operating transfers out	-	(448,074)	(448,074)
Total other financing sources (uses)	754,263	(448,074)	306,189
NET CHANGE IN FUND BALANCES	580,685	(448,074)	132,611
FUND BALANCE, beginning of year	416,835	448,074	864,909
FUND BALANCE, end of year	\$ 997,520	\$ -	\$ 997,520

The accompanying notes are a part of the financial statements.

CONCORD ACADEMY - BOYNE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
for the year ended June 30, 2007

Net changes in fund balances total governmental funds \$ 132,611

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

Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(80,576)
Capital outlay	17,263

Governmental funds report debt issuance costs as expenditures. In the statement of activities, these costs are allocated over the life of the long-term debt as amortization:

Amortization expense	(7,324)
Debt issuance costs	210,230

Accrued interest on participation notes payable is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of year	45,158
Accrued interest payable, end of year	(4,191)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)

100,000

Proceeds of refunding and new long-term debt is an other financing source in the governmental funds, but not in the statement of activities (where it is an increase of liabilities)

Proceeds of refunding bonds	(2,595,000)
Proceeds of new bonds	(205,000)

Payment to refunded bond escrow agent is an other financing use in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)

2,493,811

Change in net assets of governmental activities	\$ 106,982
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The accompanying notes are a part of the financial statements.

CONCORD ACADEMY - BOYNE
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2007

		<u>Agency Fund Student Activities</u>
	ASSETS	
Cash		\$ 25,432
		<u><u>25,432</u></u>
	LIABILITIES	
Due to student groups		\$ 25,432
		<u><u>25,432</u></u>

The accompanying notes are a part of the financial statements.

CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Reporting Entity

Public School Academies were formed pursuant to the Michigan School Code of 1976 as amended by Act Number 416 of the Public Acts of 1994; Act Number 416 became effective March 30, 1995. The Academy filed Articles of Incorporation as a non-profit corporation September 1, 1995.

The Academy has a five year agreement with Lake Superior State University (LSSU) to organize and administer the Academy (expires June 30, 2010). LSSU is paid 3 percent of state aid payments for oversight services. The Academy's board of directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy.

In evaluating how to define the Academy, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statements No. 14 and No. 39.

Based upon the application of these criteria, the basic financial statements of the Academy contain all the funds controlled by the Academy's Board of Directors as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the Academy nor is the Academy a component unit of another entity.

Academy-Wide And Fund Financial Statements

The Academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The Academy-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid and other unrestricted items are not included as program revenues but instead as *general revenues*.

CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Academy-Wide And Fund Financial Statements (Continued)

In the Academy-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Academy first utilizes restricted resources to finance qualifying activities.

The Academy-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (certain intergovernmental revenues and other revenue.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (state sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

This Academy-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from Academy-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The Academy reports the following major governmental funds:

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

Additionally, the Academy reports the following fund type:

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. This fund was closed during the year ended June 30, 2007.

CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Academy-Wide And Fund Financial Statements (Continued)

Fiduciary funds account for assets held by the Academy as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the Academy holds for student and parent activity groups in an agency capacity.

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The Academy-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Measurement Focus, Basis of Accounting and Basis of Presentation (Continued):

State Revenue (Continued)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October, 2006 to August, 2007. Thus, the unpaid portion at June 30th is reported as due from State of Michigan.

The Academy also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for those programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year were recorded as deferred revenue.

Other Accounting Policies

Cash and Cash Equivalents

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intend to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans).

All receivables are shown net of an allowance for uncollectible amounts, if any.

CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

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

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	40 years
Furniture and other equipment	5 - 20 years

The Academy's capitalization policy is to capitalize individual amounts exceeding \$1,000.

Long-term Obligations

In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Certificates of participation and bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the certificates of participation and bonds using the straight line method over the term of the related debt. Amortization of debt issuance costs for the year ended June 30, 2007 amounted to \$7,324.

The deferred amount on refunding (\$203,535) is the difference between the reacquisition price of the new debt (the amount placed in escrow) and the carrying amount of the old debt. This amount is being amortized as an element of interest expense over the life of the refunded debt based on the original principal maturities of the old debt. Amortization will begin for the year ended June 30, 2008.

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

Fund Balance

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

CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE B - BUDGETING:

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the general fund. All annual appropriations lapse at fiscal year end.

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

1. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain comments from the public.
3. Prior to July 1, the budget is legally adopted by enactment of a General Appropriations Act 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 be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, for the general fund are noted in the required supplementary information section.
4. The Chief Administrative Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30, 2007. The Academy does not consider these amendments to be significant.

CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE C - DEPOSITS AND RESTRICTED INVESTMENTS:

As of June 30, 2007, the Academy had the following investments:

Investment Type	<u>Fair Value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's Rating</u>	<u>%</u>
First American Treasury Obligations Fund - class D	<u>\$573,539</u>	<u>0.0027</u>	AAAm	<u>100%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

The Academy invests certain funds in external pooled investment funds which consist of treasury obligations. Per the treasury obligation reports as of June 30, 2007, the fair value of the Academy's investments is the same as the value of the pool shares. The above investments are restricted as follows:

Debt Service Reserve Accounts - The balance in these accounts will be used to make principal and interest payments on the bonds if monies in the Bond Principal Fund or Bond Interest Fund are insufficient to make such payments when due. All monies remaining at maturity may be used to pay the principal and interest due on the bonds. The earnings on these accounts will be used to reduce the annual debt service payments.	\$194,660
Pledged Revenue/Capitalized Interest/Miscellaneous Accounts - Include amounts withheld from the Academy's monthly foundation grant and reserved for debt service.	186,091
Project Fund Account - The balance in this account is to be used for capital improvements to the Academy's facilities.	177,420
Cost of Issuance Fund Account - The balance in this account is to be used to pay certain costs associated with the issuance of the bonds.	<u>15,368</u>
Total held by trustee	<u>\$573,539</u>

Interest Rate Risk

The Academy does not have specific investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2007, the Academy had \$573,539 at fair market value invested in a money market fund. The average maturity of this fund is less than one year.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations.

CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE C - DEPOSITS AND RESTRICTED INVESTMENTS (Continued):

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a formal deposit policy for custodial credit risk. At June 30, 2007, the bank balance was \$317,696 of which \$210,456 was uninsured and uncollateralized.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy does not have a formal investment policy for custodial credit risk. However, all of the investments are in the name of the Academy and are held in trust accounts with the financial institution from which they were purchased.

NOTE D - CAPITAL ASSETS:

The following is a summary of the changes in the various fixed asset class categories for the year ended June 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 32,000	\$ -	\$ -	\$ 32,000
Construction in progress	<u>-</u>	<u>6,000</u>	<u>-</u>	<u>6,000</u>
Total capital assets not being depreciated	32,000	6,000	-	38,000
Capital assets being depreciated:				
Land improvements	20,000	-	-	20,000
Buildings and improvements	2,802,210	-	-	2,802,210
Outdoor equipment	20,418	-	-	20,418
Computers and other equipment	52,850	11,263	-	64,113
Library materials	<u>15,755</u>	<u>-</u>	<u>-</u>	<u>15,755</u>
Total capital assets being depreciated	2,911,233	11,263	-	2,922,496
Less accumulated depreciation	<u>519,183</u>	<u>80,576</u>	<u>-</u>	<u>599,759</u>
Total capital assets being depreciated, net	<u>2,392,050</u>	<u>(69,313)</u>	<u>-</u>	<u>2,322,737</u>
Total capital assets, net	<u>\$2,424,050</u>	<u>\$ (63,313)</u>	<u>\$ -</u>	<u>\$2,360,737</u>

Depreciation for the fiscal year ended June 30, 2007 totaled \$80,576. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE E - LONG-TERM DEBT:

The following is a summary of long-term debt activity for the year ended June 30, 2007:

	Series 1998 Certificates of Participation	Series 2003 Certificates of Participation	Series 2007 Bonds Payable (Due 11/1/2022)	Series 2007 Bonds Payable (Due 11/1/2036)	Total
Long-term debt, July 1, 2006	\$1,855,000	\$625,000	\$ -	\$ -	\$2,480,000
Additions	-	-	845,000	1,955,000	2,800,000
Retirements	<u>(1,855,000)</u>	<u>(625,000)</u>	<u>-</u>	<u>-</u>	<u>(2,480,000)</u>
Balance, June 30, 2007	-	-	-	1,955,000	2,800,000
Less current portion	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total due after one year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 845,000</u>	<u>\$1,955,000</u>	<u>\$2,800,000</u>

Long-term debt at June 30, 2007, consists of the following:

Bonds payable (series 2007), payable in annual installments ranging from \$40,000 to \$80,000 through November, 2022, with semi-annual interest payments at 5.45 percent. Secured by the full faith and credit obligation pledge of the Academy, all monies in specified funds of the Trustee, all proceeds of those funds, and all real and personal property of the Academy.	\$ 845,000
Bonds payable (series 2007), payable in annual installments beginning November, 2023, ranging from \$85,000 to \$375,000 through November, 2036, with semi-annual interest payments at 5.60 percent. Secured by the full faith and credit obligation pledge of the Academy, all monies in specified funds of the Trustee, all proceeds of those funds, and all real and personal property of the Academy.	<u>1,955,000</u>
Total	<u>\$2,800,000</u>

Total principal and interest maturities on the long-term debt outstanding as of June 30, 2007, are as follows:

Year Ending June 30	Principal	Interest	Total
2008	\$ -	\$ 133,931	\$ 133,931
2009	40,000	154,443	194,443
2010	40,000	152,263	192,263
2011	40,000	150,083	190,083
2012	45,000	147,766	192,766
2013 through 2017	260,000	699,183	959,183
2018 through 2022	340,000	617,431	957,431
2023 through 2027	450,000	509,540	959,540
2028 through 2032	600,000	363,720	963,720
2033 through 2037	<u>985,000</u>	<u>165,060</u>	<u>1,150,060</u>
Total	<u>\$2,800,000</u>	<u>\$3,093,420</u>	<u>\$5,893,420</u>

CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE E - LONG-TERM DEBT (Continued):

Total interest expense for the year ended June 30, 2007 was \$136,053.

Bonds maturing in the year 2018 and thereafter may be redeemed early beginning November 1, 2017 at par plus accrued interest.

NOTE F - CONTRACTED SERVICES:

The Academy contracted with Lakeshore Educational Management, Inc. (Lakeshore) to provide teaching and administrative services for the Academy. The payments to Lakeshore cover expenses associated with the teachers and administrative personnel, including wages, payroll taxes, and benefits. Lakeshore charged a \$750 semi-monthly administration fee. Total expense for the year ended June 30, 2007 under the contracts was approximately \$957,000, including \$19,400 in administrative fees.

NOTE G - TRANSFERS:

During the year ended June 30, 2007, transfers between funds occurred. The debt service fund transferred \$448,074 to the general fund to close out the debt service fund.

NOTE H - RISK MANAGEMENT:

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters.

The Academy carries commercial insurance for the various risks of loss.

NOTE I - DEFEASED DEBT:

On June 21, 2007, the Academy issued \$2,595,000 refunding bonds with interest rates ranging between 5.45 percent and 5.60 percent. The bonds were issued to advance refund series 1998 and series 2003 certificates of participation totaling \$2,380,000 with interest rates ranging from 7.0 percent to 8.125 percent. The Academy also issued \$205,000 of new debt as part of this transaction. The bonds were issued at par value. The net proceeds from the issuance of the refunding bonds, along with other resources, were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for debt service on the refunded certificates of participation and redemption of the certificates in October, 2008. As a result, the series 1998 and series 2003 certificates are considered defeased, and the Academy has removed the liability from its accounts. The outstanding principal of the defeased certificates of participation is \$2,380,000 at June 30, 2007.

As a result of the advanced refunding, the Academy increased its total debt service requirements by approximately \$1,747,000. This results in an economic loss (difference between the present values of the debt service payments on the old and new debt) of approximately \$40,000. The Academy pursued the refunding to address current cash flow needs and received permission from the Michigan Department of Treasury to allow the refunding despite the net economic loss.

REQUIRED SUPPLEMENTARY INFORMATION

CONCORD ACADEMY - BOYNE
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
for the year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget - Favorable (Unfavorable)
REVENUES:				
Local sources	\$ 6,800	\$ 47,400	\$ 60,688	\$ 13,288
State sources	1,306,250	1,400,000	1,462,675	62,675
Federal sources	<u>24,000</u>	<u>35,500</u>	<u>34,288</u>	<u>(1,212)</u>
Total revenues	1,337,050	1,482,900	1,557,651	74,751
EXPENDITURES:				
Instruction, basic programs	691,645	807,560	817,251	(9,691)
Support services:				
General administration	66,700	69,500	70,132	(632)
School administration	143,800	193,750	179,881	13,869
Business services	76,150	80,640	77,116	3,524
Operation and maintenance of plant	<u>68,500</u>	<u>83,950</u>	<u>94,138</u>	<u>(10,188)</u>
Total support services	355,150	427,840	421,267	6,573
Debt service:				
Principal	100,000	-	100,000	(100,000)
Interest	182,000	-	177,019	(177,019)
Escrow agent fees	<u>-</u>	<u>-</u>	<u>5,462</u>	<u>(5,462)</u>
Total debt service	282,000	-	282,481	(282,481)
Debt issuance costs	<u>-</u>	<u>-</u>	<u>210,230</u>	<u>(210,230)</u>
Total expenditures	<u>1,328,795</u>	<u>1,235,400</u>	<u>1,731,229</u>	<u>(495,829)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	8,255	247,500	(173,578)	(421,078)
OTHER FINANCING SOURCES (USES):				
Proceeds of refunding bonds	-	-	2,595,000	2,595,000
Proceeds of new bonds	-	-	205,000	205,000
Payment to refunded bond escrow agent	-	-	(2,493,811)	(2,493,811)
Operating transfers in	283,129	-	448,074	448,074
Operating transfers out	<u>(283,129)</u>	<u>(295,000)</u>	<u>-</u>	<u>295,000</u>
Total other financing sources (uses)	<u>-</u>	<u>(295,000)</u>	<u>754,263</u>	<u>1,049,263</u>
NET CHANGE IN FUND BALANCE	<u>\$ 8,255</u>	<u>\$ (47,500)</u>	580,685	<u>\$ 628,185</u>
FUND BALANCE, beginning of year			<u>416,835</u>	
FUND BALANCE, end of year			<u>\$ 997,520</u>	

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November 12, 2007

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 Directors of
Concord Academy-Boyne:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Concord Academy-Boyne (the Academy) as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements of the Academy and have issued our report thereon dated November 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. These deficiencies are referenced as 2007-1 and 2007-2.

Finding 2007-1: Management does not have the internal expertise to prepare financial statements in accordance with accounting principles generally accepted in the United States of America.

Response: Due principally to the negative impact on cash funds available to the Academy, the hiring of accounting personnel capable of preparing the Academy's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

The Academy's response to the findings identified in our audit is described above. We did not audit the Academy's response and, accordingly, we express no opinion on it.

Finding 2007-2: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

Response: This condition is generally inherent in organizations the size of the Academy. Management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the Academy's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Board of Directors assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

The Academy's response to the findings identified in our audit is described above. We did not audit the Academy's response and, accordingly, we express no opinion on it.

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 Academy'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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 2007-1 to be a material weakness.

Compliance and Other Matters

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

We noted certain other matters that we reported to the management of the Academy in a separate letter dated November 12, 2007.

Board of Directors
Concord Academy-Boyne

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Smolinski & Christman, P.C.

Smolinski & Christman, P.C.
Certified Public Accountants



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November 12, 2007

Board of Directors
Concord Academy - Boyne
Boyne City, Michigan

In planning and performing our audit of the governmental activities, each major fund, and the aggregate remaining fund information of Concord Academy - Boyne (the "Academy") as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Academy's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

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

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 Academy's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies and one deficiency that we consider to be a material weakness. These deficiencies have been documented in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards*. Certain other matters related to operational or administrative efficiencies and improvements to internal controls are included on the following pages.

The following comment was reported last year and is being repeated this year:

Check Signing Procedures

Board policy states that checks over \$500 must have dual signatures unless they are for recurring expenses. Of eight checks selected for testing for the June 30, 2007 audit, we noted one check over \$500 that did not have a dual signature. We recommend that proper dual signatures be obtained on applicable checks. This policy was put in place to address the lack of segregation of duties in the accounting area and needs to be followed closely.

The following comments are being reported for the first time:

U.S. Bank Account Activity

The Academy's certificates of participation debt activity (such as interest earnings and debt payments) is detailed in various U.S. Bank accounts. U.S. Bank provides monthly statements to the Academy detailing the activity. Effective July 1, 2006, the Academy reports all debt activity in the General Fund. This will require the Academy to budget for the debt activity. Currently, the Academy does not record any of the debt activity in its accounting records. We recommend that the Academy record debt activity in its accounting records on a monthly basis. This will enable the Academy to track all debt activity and to budget accurately.

GASB 34 Funds

Government Accounting Standards Board (GASB) Statement No. 34 requires governmental entities, such as schools, to present certain information in government-wide financial statements. For the Academy, this information mainly relates to capital assets and long-term debt. The Academy currently does not maintain accounting records for this information; rather amounts are determined during the annual audit and then recorded on the audited financial statements. The Michigan Department of Education's School Accounting Manual provides guidance on what funds should be established to account for GASB 34 information. We recommend that the Academy create the necessary funds in its accounting system and adjust the balances at least annually.

Payroll Reporting Requirements

During the year ended June 30, 2007, the Academy disbursed merit pay to school personnel. The amounts were not reported on 1099-MISC forms or payroll tax forms. The Academy needs to be aware that they may be subject to penalties for not properly reporting this compensation.

This communication is intended solely for the information and use of management, the Board of Directors and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

This letter does not affect our report dated November 12, 2007 on the financial statements of the Academy.

We would like to acknowledge the courtesy and assistance extended to us by all the Academy's personnel during our audit. Should you have any questions with respect to the above comments, we would be pleased to discuss them with you at your convenience.

Very truly yours,

Smolinski & Christman, P.C. 
Smolinski & Christman, P.C.

Smolinski & Christman, P.C.
Certified Public Accountants 

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Adam B. Caron, C.P.A.
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November 12, 2007

To the Board of Directors of
Concord Academy - Boyne:

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

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated April 9, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Concord Academy - Boyne. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Concord Academy - Boyne's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Concord Academy - Boyne are described in Note A to the financial statements. During fiscal 2007, the Academy closed the Debt Service Fund by transferring all assets to the General Fund. The General Fund will account for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. We noted no other transactions entered into by Concord Academy - Boyne during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We noted no sensitive estimates that are included in the financial statements.

Audit Adjustments

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

In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.



Disagreements with Management

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

This information is intended solely for the use of the Board of Directors and management of Concord Academy - Boyne and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Smolinski & Christman, P.C.

Smolinski & Christman, P.C.



CONCORD ACADEMY - BOYNE
SUMMARY OF UNADJUSTED AUDIT DIFFERENCES
June 30, 2007

Description of adjustments:	Overstated (Understated)		
	<u>Liabilities</u>	<u>Net Assets</u>	<u>Expenses</u>
Capital lease of computers not recorded as a liability and related expense (computers are individually under capitalization limit)	<u>\$ (17,520)</u>	<u>\$ 17,520</u>	<u>\$ (17,520)</u>
Lease payment shown as expense rather than payment on capital lease liability, net of interest portion of first annual lease payment	<u>\$ 4,285</u>	<u>\$ (4,285)</u>	<u>\$ 4,285</u>
Accrued interest on capital lease not recorded	<u>\$ (1,434)</u>	<u>\$ 1,434</u>	<u>\$ (1,434)</u>

