Woodland School

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2007

Dennis, Gartland & Niergarth

CONTENTS

Woodland School
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Woodland School annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2007.

Financial Highlights

Total General Fund revenues were $1,386,748. Expenditures exceeded revenues by $14,797.

Total General Fund ending fund balance was $566,270.

The total cost of instructional programs was $724,382 (last year $685,333).

Enrollment in the District stayed steady at 192 (our goal is to be between 190-200).

Outlays for capital assets from the General Fund totaled $13,511 and consisted primarily of additions to the gym and auditorium. Outlays for capital assets from the Capital Projects Fund totaled $58,461 and consisted primarily of addition to buildings.

Overview of the Financial Statements

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

- The first two statements are *District-wide financial statements*. These statements provide both *short-term* and *long-term* information about the District's *overall* financial status.

- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the District-wide statements.

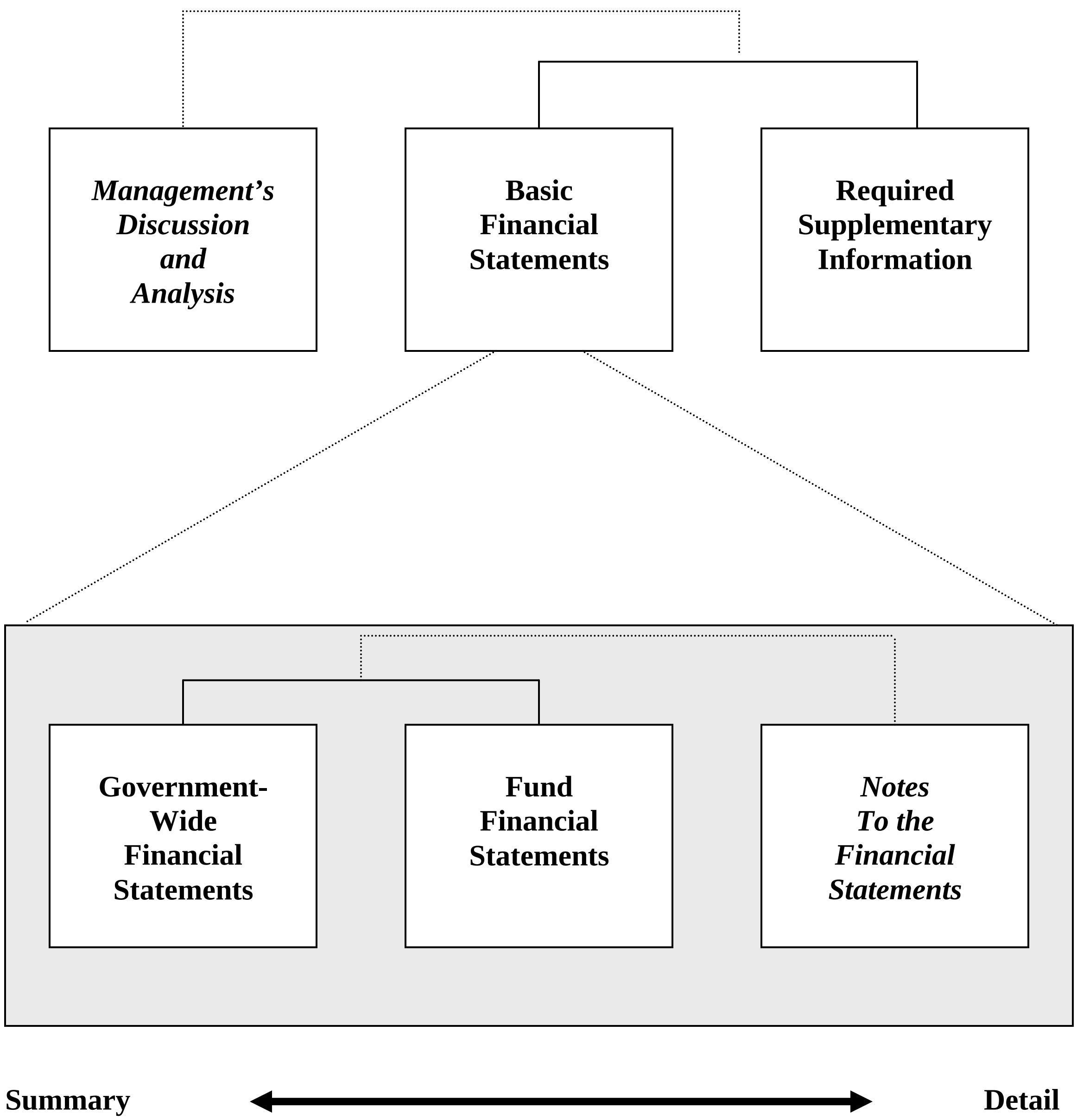
    - The *governmental funds statements* tell how basic services such as regular and added needs programs were financed in the *short-term* as well as what remains for future spending.

    - *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others.

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

The composition of the financial report is as follows:

Figure A-1



LEA'S Figure A-2
Major Features of Government-Wide and Fund Financial Statements

	Government-Wide Statements	Governmental Funds	Fiduciary Funds
Scope	Entire District government (except fiduciary funds) and the District's component units	The activities of the District that are not fiduciary	Instances in which the District is the trustee or agent for someone else's resources such as material for scholarships funds
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 • Statement of changes in 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 and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; the District'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 payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

District-Wide Statements

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

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

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the District's overall health, you need to consider additional non-financial factors, such as the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are reported as *governmental activities*. The District's basic services are included here, such as regular and added needs education and administration. State formula aid finances these activities with minimal contributions from grants (generally less than 2% of total revenues).

The District has no activities meeting the definition of *business-type activities* as interpreted by the Michigan Department of Education.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds* - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.

- The Board of Education establishes other funds to control and manage money for particular purposes, e.g., the Trust and Agency Fund.

The District has two kinds of funds:

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

Fiduciary funds—The District is the trustee, or *fiduciary*, for assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

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

	June 30, 2007	June 30, 2006
Assets		
Current assets	$566,270	$ 581,546
Total non-current assets	$3,265,388	3,369,286
Total assets	$3,831,658	$3,950,832
Liabilities		
Total current liabilities	$ 96,346	$ 90,191
Total long-term liabilities	2,633,887	2,669,530
Total liabilities	$2,730,233	$2,759,721
Net Assets		
Invested in capital assets, net of related debt	$ 535,155	$ 610,044
Restricted for capital projects	-	-
Unrestricted	566,270	581,067
Total net assets	1,101,425	1,191,111
Total liabilities and net assets	$3,831,658	$3,950,832

The analysis above focuses on the net assets of the District while the change in these net assets is discussed below. The School District's net assets were $1,101,425 at June 30, 2007. Capital assets net of related debt reports the original cost, less depreciation of capital assets minus long-term debt used to finance these acquisitions. Most of the debt will be repaid from State aid. Restricted assets are disclosed in the footnotes to indicate legislative requirements and debt covenants. These assets may not be used by the District in its day-to-day operations. $566,270 of net assets is unrestricted. This figure represents the accumulated results of all past years' operations. Year to year variances in these assets are significantly affected by General Fund operations.

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

Revenues:

	June 30, 2007	June 30, 2006
General Revenues:		
State and Federal aid	$1,342,238	$1,348,684
Interest and other	44,510	20,522
Loss on sale of equipment	(15,075)	-
Total revenues	$1,371,673	1,369,206

Expenses:

	June 30, 2007	June 30, 2006
Instruction	724,382	685,333
Support services	442,725	401,207
Interest on long-term debt & Loan fee amortization	172,490	118,849
Depreciation	121,763	40,525
Total Expenses	1,461,360	1,245,914
Increase (decrease) in net assets	$ (89,687)	$ 123,292

The School District experienced a decrease of $89,686 in net assets. The difference between the change in net assets and the change in fund balance is provided in a reconciliation in the financial statements.

Financial Analysis of the District's Funds

As the District completed the year, its governmental funds reported combined fund balance of $566,270 a 2.5 percent decrease over last year's ending fund balance of $581,067.

General Fund Budgetary Highlights

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

- Changes made to account for new revenue sources and the accompanying expenditures.
- Changes in State aid allocations.
- Increases in appropriations to prevent budget overruns.

The District's final budget for the general fund anticipated that expenditures would exceed revenues by $126,328; the actual results for the year show a $14,797 deficit. This difference is due to savings in various expenditure categories.

- Actual revenues were approximately $31,000 above budgeted revenues.
- Actual expenditures and operation transfers out were approximately $49,000 below budget.

Capital Assets

By the end of 2007, the District had invested $3,141,723 in a broad range of capital assets, including school buildings, land, and administrative offices. Total depreciation expense for the year was $121,763. During the year, the District added $67,209 of capital assets; primarily for the completion on construction of a new performance hall.

Debt

A summary of indebtedness follows:

Balance June 30, 2006	Balance June 30, 2007
$2,759,242	$2,730,233

No new debt was added during the fiscal year.

Factors Bearing on the District's Future

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

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administration Office, at address 7224 Supply Road, Traverse City, MI 49686.

DENNIS, GARTLAND & NIERGARTH

Business and Financial Advisors
Our clients' success – our business

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Academy Board
Woodland School

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2007 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The management's discussion and analysis on pages i - vii and the budgetary comparison information on page 18, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Dennis, Gartland & Niergarth

August 24, 2007

Woodland School

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	$ 325,221
Receivables	241,049
Total current assets	566,270
Non-current assets	
Capital assets, net of accumulated depreciation	3,141,723
Loan fees, net of accumulated amortization	123,665
Total non-current assets	3,265,388
Total assets	$ 3,831,658
LIABILITIES AND NET ASSETS	
LIABILITIES	
Current liabilities	
Current portion of long-term liabilities	$ 96,346
Long-term liabilities	2,633,887
Total liabilities	2,730,233
NET ASSETS	
Invested in capital assets, net of related debt	535,155
Unrestricted	566,270
Total net assets	1,101,425
Total liabilities and net assets	$ 3,831,658

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

Woodland School

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Functions/Program	Expenses	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets Governmental Activities
Governmental activities			
Instruction	$ 724,382	$ 18,671	$ (705,711)
Supporting Services	442,725	-	(442,725)
Interest and loan fee amortization	172,490	-	(172,490)
Depreciation-unallocated	121,763	-	(121,763)
Total governmental activities	$1,461,360	$ 18,671	(1,442,689)
General purpose revenues			
State school aid - unrestricted			1,323,568
Interest and other - unrestricted			44,510
Special items			
Loss on disposal of capital equipment			(15,075)
Total general purpose revenues			1,353,003
Change in net assets			(89,686)
Net assets, beginning of year			1,191,111
Net assets, end of year			$ 1,101,425

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

Woodland School

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2007

		General Fund
ASSETS		
Cash and cash equivalents	$	325,221
Receivables		241,049
Total assets	$	566,270
FUND BALANCE		
Unreserved	$	566,270

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

General Fund fund balance	$	566,270
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is $3,483,186 and the accumulated depreciation is $341,463.		3,141,723
Long-term note payable fees are treated as expenditures in the governmental funds. In the district-wide statement, long-term note payable fees are capitalized and amortized over the life of the note payable. The cost of the note payable fees is $271,735 and the accumulated amortization is $148,070.		123,665
Long-term notes payable are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. The amount of long-term notes payable at year-end is:		(2,730,233)
Total net assets - governmental activities	$	1,101,425

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

Woodland School

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

Year Ended June 30, 2007

	General Fund	Non-Major Capital Projects Fund	Total Governmental Funds
Revenues			
Interest	$ 8,251	$ -	$ 8,251
State revenues	1,315,318	-	1,315,318
Federal revenues	30,191	-	30,191
Other	32,989	-	32,989
Total revenues	1,386,749	-	1,386,749
Expenditures			
Instruction	724,382	-	724,382
Supporting Services	437,962	-	437,962
Debt Service			
Principal	87,471	-	87,471
Interest	138,220	-	138,220
Capital outlay	13,511	58,461	71,972
Total expenditures	1,401,546	58,461	1,460,007
REVENUES UNDER EXPENDITURES	(14,797)	(58,461)	(73,258)
Other financing sources			
Proceeds from note payable	-	58,461	58,461
REVENUE AND OTHER SOURCES UNDER EXPENDITURES	(14,797)	-	(14,797)
Fund balance, beginning of year	581,067	-	581,067
Fund balance, end of year	$ 566,270	$ -	$ 566,270

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

Woodland School

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

Year Ended June 30, 2007

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS			$ (14,797)
Amounts reported for governmental activities in the statement of activities are different because:			
Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capitalized outlays exceeds depreciation in the period.			
	Capital outlays	$ 67,209	
	Depreciation expense	(121,763)	(54,554)
In the governmental funds, a disposal of capital equipment acquired in prior years were reflected as expenditures in the year acquired. In the statement of activities, the disposal of this equipment is reflected as a loss on the sale of equipment in the current year since the proceeds received on the disposal were less than the assets net book value.			(15,074)
Repayment of note payable principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.			87,470
Long-term note payable fees are treated as expenditures in the governmental funds. In the district-wide statement, long-term note payable fees are capitalized and amortized over the life of the note payable. The amount of note payable fee amortization in the period is:			(34,270)
Borrowing on notes payable is an other financing source in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities.			(58,461)
CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES			$ (89,686)

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

Woodland School

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	Agency Fund
ASSETS	
Cash and cash equivalents	$ 19,028
LIABILITIES	
Due to student and faculty groups	$ 19,028

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

Woodland School

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Woodland School (the "School") is a public school academy that primarily serves the communities in and around the Grand Traverse area. The School was previously known as Traverse Bay Community School and changed its name during the year ended June 30, 2007.

The accounting policies of the School conform to generally accepted accounting principles as applicable to governments. Following is a summary of the more significant accounting policies:

The Financial Reporting Entity

Woodland School is a public school academy organized under Act No. 362 of the Michigan Public Acts of 1993. An academy is a corporation organized under the Michigan Nonprofit Corporation Act for the purpose of operating as an academy and as a governmental entity. For Federal tax purposes, an academy is exempt from taxes because its income is derived from the exercise of an essential governmental function and is not eligible for recognition of exemption under Section 501(c)(3) of the Internal Revenue Code.

The School is overseen by Saginaw Valley State University, which is known as the authorizing body. A fiscal agent agreement was made effective August 1, 1996. However, the Woodland School Academy Board (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school academy education. The Board receives funding from State and Federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity," as defined by Governmental Accounting Standards Board ("GASB") Statement 14, since Board members have decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncement, student, parent and teacher organizations are not included, except to the extent that the School holds assets in the capacity of an agent.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the School as a whole, except for its fiduciary activities. Individual funds are not displayed.

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

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

Fund Types and Major Funds

Activities in Major Funds

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

Other Funds

The Capital Projects Fund is used for financial resources designated for the construction of school buildings.

Fiduciary Funds

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

Cash and Equivalents

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

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 15 to 50 years. The School generally capitalizes assets with cost of $5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

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

Buildings and improvements	15-50	years
Improvements, other than buildings	20-30	years
Furniture and equipment	15-25	years

Long-Term Debt and Deferred Debt Expense

In the government-wide financial statements, outstanding debt is reported as a liability. Note payable issuance costs are capitalized and amortized over the life of the respective note using the straight-line method.

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

Fund Equity

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

Spending Policy

The School's policy is to apply restricted revenues first when an expense is incurred for purposes when both restricted and unrestricted net assets are available.

Allocation of Expenses

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

The School has elected to not allocate indirect expenses.

Use of Estimates in the Preparation of Financial Statements

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

NOTE B - BUDGETARY POLICY AND PRACTICE

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

NOTE C - CASH AND INVESTMENTS

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

	Balance Sheet Classification		
	Cash and Equivalents	Investments	Total
Bank deposits	$ 344,249	$ -	$ 344,249

Custodial Credit Risk - Deposits

In the event of a bank failure, the School's deposits may not be returned to it. As of June 30, 2007, approximately $130,000 of the School's bank balance of $329,966 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE D - STATE SCHOOL AID

Saginaw Valley State University receives State School Aid payments and transfers these monies, less a fee of 3% of the per pupil funding, to the School within ten days of receipt. This 3% fee is the oversight fee required by Saginaw Valley State University.

State Aid is based on enrolment and is paid in 11 installments, with the final two installments totaling approximately $241,000 to be received in July and August 2007.

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	June 30, 2006	Additions	Disposals	June 30, 2007
Buildings and improvements	$ 2,728,167	$ 67,209	$ (27,000)	$ 2,768,376
Furniture and equipment	35,300	-	-	35,300
Land improvements	227,346	-	-	227,346
Total depreciable assets	2,990,813	67,209	(27,000)	3,031,022
Less accumulated depreciation	(231,626)	(121,763)	11,925	(341,464)
Land	452,165	-	-	452,165
Total capital assets, net	$ 3,211,352	$ (54,554)	$ (15,075)	$ 3,141,723

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

Unallocated	$ 121,763

NOTE F - LONG-TERM LIABILITIES

The changes in long-term liabilities during the year are as follows:

Balance June 30, 2005	Additional Borrowings	Principal Payments	Balance June 30, 2006	Current Portion
$2,759,242	$58,461	$87,470	$2,730,233	$96,346

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

2006 Note Payable and Interest Rate Swap

In February 2006, the School entered into a five-year pay fixed, receive floating, interest rate swap for the purpose of hedging variable interest rate debt on its facilities. Under the terms of the interest rate swap, the School makes payments based on a fixed rate and will receive interest payments based on the LIBOR rate. The interest rate swap settles on the 2nd day of each month until expiration. As a result of entering into the interest rate swap, the School has mitigated its exposure to interest rate fluctuations. Therefore interest on the note is effectively at a fixed rate of 5.98% until February 2011. The outstanding balance of the underlying note was $938,133 at June 30, 2007. The note is secured by all assets of the School. Repayment of the note began in August 2006. The market value of the swap is based on changes in LIBOR from the inception of the agreement to June 30, 2007. No liability or asset on the interest rate swap has been recorded as of June 30, 2007 since there has been no significant fluctuation in the LIBOR rate since the inception of the agreement.

Principal maturities on the debt are as follows:

Years Ending June 30,	Principal
2008	$ 27,790
2009	29,423
2010	31,169
2011	849,751
	$ 938,133

2004 Note Payable and Interest Rate Swap

In February 2004, the School entered into a seven-year pay fixed, receive floating, interest rate swap for the purpose of hedging variable interest rate debt on its facilities. Under the terms of the interest rate swap, the School makes payments based on a fixed rate and will receive interest payments based on the LIBOR rate. The interest rate swap settles on the 29th day of each month until expiration. As a result of entering into the interest rate swap, the School has mitigated its exposure to interest rate fluctuations. Therefore interest on the note is effectively at a fixed rate of 4.45% until February 2011. The outstanding balance of the underlying note was $1,792,100 at June 30, 2007. The note is secured by all School assets. The market value of the swap is based on changes in LIBOR from the inception of the agreement to June 30, 2007. An asset of approximately $34,000 existed on the interest rate swap as of June 30, 2007 however, no amount has been recorded in these statements to reflect this asset since the School believes that utilization of this asset would only occur through debt refinancing and any such refinancing would result in loan refinancing fees in excess of this asset value.

Principal maturities on the debt are as follows:

Years Ending June 30,	Principal
2008	$ 68,556
2009	71,641
2010	74,864
2011	1,577,039
	$ 1,792,100

Interest expense for the year ended June 30, 2007 was approximately $138,000.

NOTE G - RISK MANAGEMENT

During the normal course of its operations, the School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. In all instances, other than employment, the School has retained coverage through commercial insurance carriers. Losses have been within insured limits.

NOTE H - RETIREMENT PLAN

The School participates in the Advance Staff Leasing, Inc. 401(k) Plan. All salaried employees are eligible to participate. Hourly employees must complete one year of service (with a minimum of 1,000 hours of service) to be eligible to participate. The School must contribute 5% of employees' wages to the plan and employees may contribute up to 15% of their annual wages. Employees are fully vested in employer contributions after two (2) years. Employer contributions for the year ended June 30, 2007, 2006 and 2005 were approximately $30,000, $28,000 and $26,000, respectively, and were included in the gross amount paid to Advance Staff Leasing, Inc. (see Note I).

NOTE I - EMPLOYEE LEASE AND ADMINISTRATIVE SERVICES AGREEMENT

The employees of the School are leased from Advance Staff Leasing, Inc. ("Advance"), a Michigan corporation in Lansing, Michigan. The School is involved with the selection of employees; however, the final selection and assignment of personnel is made by Advance. The agreement was effective July 1, 1999 and continues until a 90-day written notice is given by either party. Advance's fee for this service is calculated as a percentage of employee's gross pay.

The School also entered into an agreement with Advanced Accounting Services, an entity related to Advance, in July 1999 for accounting services. The School pays $550 per month through this agreement which is subject to a 30-day written cancellation notice by either party.

REQUIRED SUPPLEMENTARY INFORMATION

Woodland School

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variances - Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual Total
Revenues					
Local and intermediate sources	$ 8,000	$ 13,800	$ 8,251	$ 5,800	$ (5,549)
State program revenues	1,370,000	1,325,067	1,315,318	(44,933)	(9,749)
Federal program revenues	25,000	33,000	30,191	8,000	(2,809)
Other	-	-	32,989	-	32,989
Total revenues	1,403,000	1,371,867	1,386,749	(31,133)	14,882
Expenditures					
Instruction	750,100	769,464	724,382	(19,364)	45,082
Supporting Services	424,214	438,731	437,962	(14,517)	769
Capital outlay	45,000	62,000	13,511	(17,000)	48,489
Debt Service	230,000	228,000	225,691	2,000	2,309
Total expenditures	1,449,314	1,498,195	1,401,546	(48,881)	96,649
REVENUES OVER (UNDER) EXPENDITURES	(46,314)	(126,328)	(14,797)	(80,014)	111,531
Fund balance, beginning of year	581,067	581,067	581,067	-	-
Fund balance, end of year	$ 534,753	$ 454,739	$ 566,270	$ (80,014)	$ 111,531

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

To the Academy Board
Woodland School

We have audited the financial statements of the governmental activities, each major fund and aggregate remaining fund information of ***Woodland School*** (the "School"), as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements and have issued our report thereon dated August 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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We consider the following deficiencies to be significant deficiencies in internal control:

Segregation of Duties: The size of the administrative staff precludes proper segregation of duties for optimal internal control. Ideally, the internal control system of the School should segregate the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll from authorization and approval of transactions and account reconciliations. It is our understanding that the Board is very active in the financial oversight of the School's operations and has established an environment of active oversight responsibility. Although there is no indication of any significant errors or misappropriation of assets, we recommend the Board continue its financial oversight involvement due to the inherent lack of segregation of duties.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

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

Dennis, Gartland & Niergarth

August 24, 2007

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AUDIT-RELATED COMMUNICATIONS

To the Academy Board
Woodland School

We have audited the financial statements of Woodland School (the "School") for the year ended June 30, 2007 and have issued our report thereon dated August 24, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

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

Internal Controls

As part of our audit, we considered the internal control of the School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a 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.

We consider the following deficiencies to be *significant deficiencies* in internal control:

Segregation of Duties

The size of the administrative staff precludes proper segregation of duties for optimal internal control. Ideally, the internal control system of the School should segregate the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll from authorization and approval of transactions and account reconciliations. It is our understanding that the Board is very active in the financial oversight of the School's operations and has established an environment of active oversight responsibility. Although there is no indication of any significant errors or misappropriation of assets, we recommend the Board continue its financial oversight involvement due to the inherent lack of segregation of duties. We specifically recommend the following procedures be implemented or modified to improve your internal control environment:

1. Backup for all cash disbursements should be reviewed and initialed as reviewed during the invoice approval process performed by the School Administrator. The detail is currently reviewed but not physically initialed as approved. Further, Advanced Accounting Services should be informed that no invoices should be paid without such signature of approval.

2. The School Board president currently reviews all disbursements and signs all checks. We also recommend that the invoice backup for such disbursements be reviewed by the Board president during this oversight process. Ideally this could be easily achieved with an electronic scan of the invoice backup.

3. We recommend that a member of the School Board familiar with the school staff review the detail invoice for payroll from Advance Staff Leasing. This invoice is currently approved only by the School Administrator with the Board reviewing the total payroll disbursement but not reviewing any detail backup.

<u>*Reporting Financial Data*</u>

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

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the School 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. There are no estimates of an unusual or sensitive nature in the School's 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 could have a significant effect on the School's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the School, either individually or in the aggregate, indicate matters that could have a significant effect on the School's financial reporting process.

Unrecorded Adjustments

- As described in footnote F, the asset created by the debt SWAP agreement was not recorded in the financial statements. This was not recorded because the School believes that realization of this asset would only occur through debt refinancing and any such refinancing would result in loan refinancing fees in excess of the SWAP asset value.

Recorded Adjustments

- There were no adjustments recorded as a result of our audit.

No Disagreements with Management Occurred During the Audit

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

No Difficulties were Encountered in Performing the Audit

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

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

Dennis, Gartland & Niergarth

August 24, 2007