

# MID-MICHIGAN LEADERSHIP ACADEMY



Lansing, Michigan

**FINANCIAL STATEMENTS  
(Revised and Reissued)**

**For The Year Ended June 30, 2007**



**REHMANN ROBSON**

*Certified Public Accountants*

# MID-MICHIGAN LEADERSHIP ACADEMY

For the Year Ended June 30, 2007

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(Revised and Reissued)

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**REHMANN ROBSON**

*Certified Public Accountants*

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**INDEPENDENT AUDITORS' REPORT (REVISED AND REISSUED)**

January 4, 2008

Board of Education  
Mid-Michigan Leadership Academy  
Lansing, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **MID-MICHIGAN LEADERSHIP ACADEMY** (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 the Academy'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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mid-Michigan Leadership Academy, as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2008, on our consideration of **Mid-Michigan Leadership Academy's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

## MANAGEMENT'S DISCUSSION and ANALYSIS

## Management's Discussion and Analysis

As management of Mid-Michigan Leadership Academy, a public school academy, we offer readers of the Academy's financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2007.

### Financial Highlights

- The assets of the Academy exceeded its liabilities at the close of the most recent fiscal year by \$326,814 (*net assets*). Of this amount, \$143,637 (*unrestricted net assets*) may be used to meet the government's ongoing obligations for Academy programs.
- The government's total net assets decreased by \$129,448.
- As of the close of the current fiscal year, the Academy's governmental funds reported combined ending fund balances of \$143,637, a decrease of \$133,060 in comparison with the prior year. All (100%) of this fund balance is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$150,344 or 5.37 percent of total general fund expenditures.
- Capital assets, net of accumulated depreciation, amounted to \$825,647, an increase of \$648,082 in comparison with the prior year.
- The Academy had \$642,470 in long-term debt outstanding at the close of the most recent fiscal year.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Academy that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the Academy include instruction, support services, food service, athletics and community service. The Academy has no business-type activities as of and for the year ended June 30, 2007.

The government-wide financial statements can be found on pages 11-12 of this report.

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

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

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

The Academy maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the nonmajor food service fund.

The Academy adopts an annual appropriated budget for its general and special revenue funds. A budgetary comparison statement has been provided for the General Fund herein to demonstrate compliance with its budget.

The basic governmental fund financial statements can be found on pages 13-17 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-27 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Academy, assets exceeded liabilities by \$326,814 at the close of the most recent fiscal year.

Over one-half of the Academy's net assets (56 percent) reflect its investment in capital assets (e.g., real property and equipment), less any related debt used to acquire those assets that is still outstanding. The Academy uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the Academy's investment in its capital assets is reported net of related debt, it should be noted that the Academy has no debt outstanding related to acquisition of these assets.

### Academy's Net Assets

	<b>Governmental Activities</b>	
	<b><u>2005-06</u></b>	<b><u>2006-07</u></b>
Current and other assets	\$ 383,729	\$ 627,929
Capital assets, net	<u>179,565</u>	<u>825,647</u>
Total assets	<u>563,294</u>	<u>1,453,576</u>
Current liabilities	<u>239,239</u>	<u>484,292</u>
Current long term debt	<u>-</u>	<u>642,470</u>
Net assets:		
Invested in capital assets, net of related debt	179,565	183,177
Unrestricted	<u>144,490</u>	<u>143,637</u>
<b>Total net assets</b>	<b><u>\$ 324,055</u></b>	<b><u>\$ 326,814</u></b>

None of the Academy's net assets are subject to external restrictions on how they may be used. The balance of *unrestricted net assets* (\$143,637) may be used to meet the government's ongoing obligations to its programs.

The government's net assets decreased by \$129,448 during the 2006-07 fiscal year. 56% of this decrease reflects a reduction in capital assets net of depreciation.

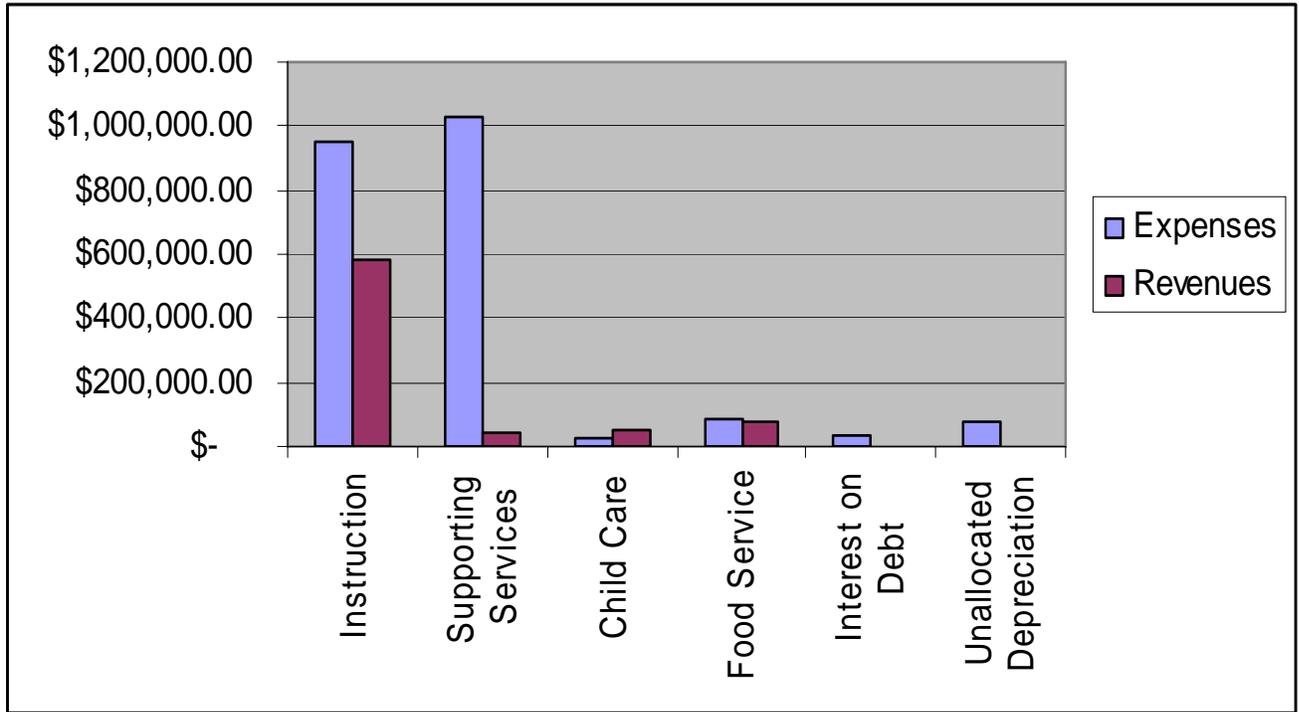
### Academy's Changes in Net Assets

	<b>Governmental Activities</b>	
<b>Revenue</b>	<b><u>2005-06</u></b>	<b><u>2006-07</u></b>
Program revenue:		
Charges for services	\$ 26,060	\$ 29,884
Operating grants and contributions	751,475	704,761
General revenue:		
State school aid	1,524,831	1,286,359
Grants and contributions not restricted	36,420	51,622
Investment earnings	<u>3,572</u>	<u>2,981</u>
<b>Total revenue</b>	<b><u>2,342,358</u></b>	<b><u>2,075,607</u></b>
<b>Expenses:</b>		
Instruction	876,422	954,818
Support services	1,433,358	1,050,687
Child care	17,277	5,931
Food service	94,481	84,774
Interest on debt	-	34,610
Depreciation – unallocated	<u>46,735</u>	<u>74,235</u>
<b>Total expenses</b>	<b><u>2,468,223</u></b>	<b><u>2,205,055</u></b>
<b>Change in net assets</b>	<b>(125,865)</b>	<b>(129,448)</b>
Net assets, beginning of year, as restated	<u>449,920</u>	<u>456,262</u>
<b>Net assets, end of year</b>	<b><u>\$ 324,055</u></b>	<b><u>\$ 326,814</u></b>

**Governmental activities.** Net assets decreased by \$129,448 due to a reduction in capital assets net of depreciation of \$73,352 and a reduction in fund balance of \$133,060.

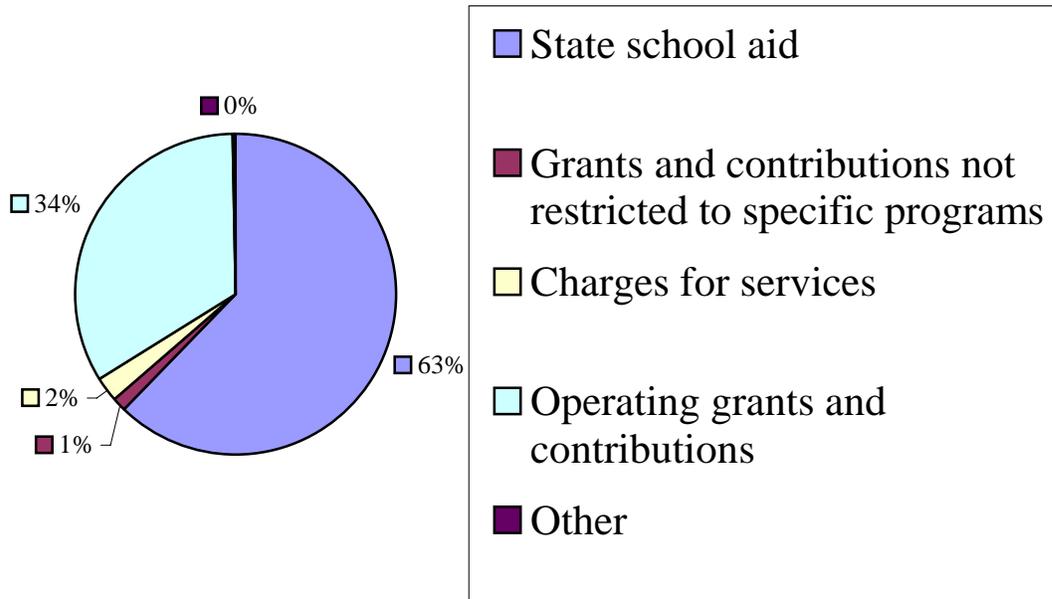
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**Expenses and Program Revenues - Governmental Activities**



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## Revenues by Source - Governmental Activities



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## Financial Analysis of the Government's Funds

As noted earlier, the Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the Academy's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Academy's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Academy's governmental funds reported combined ending fund balances of \$143,637, a decrease of \$133,060 in comparison with the prior year. All (100%) of this total amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the Academy. At the end of the current fiscal year, unreserved fund balance of the general fund was \$150,344, while total fund balance was \$143,637 due to a deficit of \$6,707 in the Food Service Fund. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents approximately 5.37 percent of total general fund expenditures.

The fund balance of the Academy's general fund decreased by \$126,321 during the 2006-07 fiscal year. This is primarily attributable to extenuating circumstances related specifically to real property acquisition, a change in employer/employee relationships, and a change in the business management contractor. Unfortunately, a change in Lansing City administration in January 2006 delayed completion of the sale until after the beginning of 2006-07, resulting in almost four months of additional lease payments by the Academy to the State of Michigan. Once the acquisition was complete, the Academy faced a number of other related challenges, not the least of which were the delays in contract work on utility separation and the resulting fees we incurred as a result of those delays. We also changed the way depreciation was determined and had changes in the ways funds were accounted for with the new business management contractor. We have completed the utility separation, thereby eliminating the excessive utility fees. We have also taken significant steps to bring the new business management firm in line with Academy expectations.

The special revenue fund has a total fund balance of (\$6,707), which decreased by \$6,739 from the previous year. Food service expenditures were greater than revenues, so a transfer from the general fund was necessary. This was due in large measure to the lease fees paid for the use of the cafeteria from the October 13, 2006 to the end of December, 2006. These lease fees totaled more than \$7,400 and was directly attributable to the deficit. Once the Academy was able to move the food service program from the leased cafeteria to our gymnasium, we eliminated the lease fees.

### **General Fund Budgetary Highlights**

Differences between the original and final amended budgets were due primarily to lower than projected student enrollment and issues related to a lack of continuity with the business management function. Once detailed enrollment information was known, subsequent budget amendments recognized the reduced revenue and planned expenditures were decreased. We believe the replacement of the previous accounting specialist within the business management firm will alleviate many of the accounting related issues.

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

**Capital assets.** The Academy's investment in capital assets for its governmental activities as of June 30, 2007, amounted to \$825,647 (net of accumulated depreciation). This investment in capital assets consists of real property, furniture and equipment. The total increase in the Academy's net capital assets for the current fiscal year was \$646,082 (all in governmental activities), mostly related to the real property acquisition described above.

### **Academy's Capital Assets**

(net of depreciation)  
June 30, 2007

Land	\$ 211,000
Buildings and improvements	486,830
Furniture, equipment and other	<u>127,817</u>
<b>Total</b>	<b><u>\$ 825,647</u></b>

Additional information on the Academy's capital assets can be found in note III.C on page 24 of this report.

**Long-term debt.** At the end of the current fiscal year, the Academy had long-term debt outstanding from the purchase of real property and the cost of making capital improvements. The loans (totaling \$675,000) were a sound business decision, especially when considering the lease fee from the State of Michigan was expected to equal \$460,000 for the State's 2006-07 fiscal year. When considering the options, purchasing the property for \$211,000 and making capital improvements of \$455,000, was a sound investment. While the property refinancing has yet to be completed, we have received a verbal commitment that it will be consummated once the language can be agreed to by the bank and Central Michigan University, the Academy's authorizer.

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

The following factors were considered in preparing the Academy's budget for the 2007-08 fiscal year:

- Continued leveling of the economic downturn of prior years. Increased foundation allowance of at least \$90 to \$7,475 for 2007/08.
- No cuts in professional staff are anticipated in 2007/08. Contracted service costs in several functional areas were reduced in the last two years, thereby adding to the savings expected in 2007-08. While some turbulence continues to exist in the business management function, we are actively pursuing options that will reduce that instability and provide for greater continuity.
- Health care cost containment was a major accomplishment in last two years. Administrators, support and faculty had completely changed to a Blue Cross Blues Shield Health Savings Account plan by the end of 2006-07, resulting in savings which was used to fund salary increases for teaching and administrative staff at the start of 2007-08.
- Retirement cost containment was also a major accomplishment last year. Administrators and support changed from public school employees to leased employees in 2006-07, and the teachers followed at the end of the collective bargaining agreement (August 31, 2007). This change, along with the implementation of a 401K retirement plan, replaced MPSERS and will save the school at least 8.5% of salaries from that point forward.
- By acquiring its facilities in 2006/07, the Academy has already begun to see a significant savings in annual facility costs. It also provides an opportunity to develop greater equity in capital assets.

### **Requests for Information**

This financial report is designed to provide a general overview of the Academy's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent, 730 West Maple, Lansing, Michigan 48906.

## BASIC FINANCIAL STATEMENTS

# GOVERNMENT-WIDE FINANCIAL STATEMENTS

**MID-MICHIGAN LEADERSHIP ACADEMY**  
**Statement of Net Assets**  
**June 30, 2007**

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 228,555
Receivables	399,374
Capital assets not being depreciated	211,000
Capital assets being depreciated, net	614,647
<b>Total assets</b>	1,453,576
 <b>Liabilities</b>	
Accounts payable, accrued liabilities and notes payable	484,292
Long-term debt, due within one year	642,470
<b>Total liabilities</b>	1,126,762
 <b>Net assets</b>	
Invested in capital assets, net of related debt	183,177
Unrestricted	143,637
<b>Total net assets</b>	\$ 326,814

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

# MID-MICHIGAN LEADERSHIP ACADEMY

## Statement of Activities

(Revised and Reissued)

For the Year Ended June 30, 2007

<u>Functions / Programs</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
<u>Expenses</u>	<u>Charges</u>	<u>Operating</u>	<u>Grants and</u>	<u>Revenue</u>
<u>Expenses</u>	<u>for Services</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Revenue</u>
Governmental activities:				
Instruction	\$ 954,818	\$ -	\$ 586,277	\$ (368,541)
Supporting services	1,050,687	-	42,678	(1,008,009)
Child Care	5,931	27,655	-	21,724
Food service	84,774	2,229	75,806	(6,739)
Interest on debt	34,610	-	-	(34,610)
Unallocated depreciation	74,235	-	-	(74,235)
Total	<u>\$ 2,205,055</u>	<u>\$ 29,884</u>	<u>\$ 704,761</u>	<u>(1,470,410)</u>
General revenues:				
Unrestricted state aid				1,286,359
Grants and contributions not restricted to specific programs				51,622
Unrestricted investment earnings				2,981
Total general revenues				1,340,962
Change in net assets				(129,448)
Net assets, beginning of year, as restated				456,262
<b>Net assets, end of year</b>				<u>\$ 326,814</u>

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

## FUND FINANCIAL STATEMENTS

# MID-MICHIGAN LEADERSHIP ACADEMY

## Balance Sheet Governmental Funds (Revised and Reissued)

June 30, 2007

<u>ASSETS</u>	<u>Nonmajor Fund</u>		<u>Totals</u>
	<u>General</u>	<u>Food Service</u>	
<b>Assets</b>			
Cash and cash equivalents	\$ 228,365	\$ 190	\$ 228,555
Accounts receivable	399,374	-	399,374
Due from other funds	6,897	-	6,897
	<hr/>	<hr/>	<hr/>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 634,636</u></b>	<b><u>\$ 190</u></b>	<b><u>\$ 634,826</u></b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 218,448	\$ -	\$ 218,448
Salaries and retirement payable	164,588	-	164,588
Due to other funds	-	6,897	6,897
State aid note payable	101,256	-	101,256
	<hr/>	<hr/>	<hr/>
Total liabilities	484,292	6,897	491,189
<b>Fund balances</b>			
Unreserved, undesignated (deficit)	150,344	(6,707)	143,637
	<hr/>	<hr/>	<hr/>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b><u>\$ 634,636</u></b>	<b><u>\$ 190</u></b>	<b><u>\$ 634,826</u></b>

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

**MID-MICHIGAN LEADERSHIP ACADEMY**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2007**

Fund balances - total governmental funds	\$ 143,637
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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 in the funds.

Add: capital assets not being depreciated	211,000
Add: capital assets being depreciated	996,184
Deduct: accumulated depreciation	(381,537)

Certain liabilities, such as loans payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: loans payable	(642,470)
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Net assets of governmental activities	\$ <u><u>326,814</u></u>
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The accompanying notes are an integral part of these financial statements.

**MID-MICHIGAN LEADERSHIP ACADEMY**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**(Revised and Reissued)**  
**For the Year Ended June 30, 2007**

	<u>General</u>	<u>Nonmajor Fund Food Service</u>	<u>Totals</u>
<b>Revenue</b>			
Local sources	\$ 104,275	\$ 2,229	\$ 106,504
State sources	1,518,828	5,388	1,524,216
Federal sources	374,469	70,418	444,887
	<u>1,997,572</u>	<u>78,035</u>	<u>2,075,607</u>
<b>Expenditures</b>			
Current:			
Instruction	954,818	-	954,818
Supporting services	1,041,687	-	1,041,687
Child care	5,931	-	5,931
Food service	-	84,774	84,774
Debt service:			
Principal	32,530	-	32,530
Interest	34,610	-	34,610
Issuance costs	9,000	-	9,000
Capital outlay	723,453	-	723,453
	<u>2,802,029</u>	<u>84,774</u>	<u>2,886,803</u>
Revenues under expenditures	(804,457)	(6,739)	(811,196)
<b>Other financing sources</b>			
Issuance of long-term deb	675,000	-	675,000
Proceeds from the sale of capital assets	3,136	-	3,136
	<u>(126,321)</u>	<u>(6,739)</u>	<u>(133,060)</u>
Net change in fund balances	(126,321)	(6,739)	(133,060)
Fund balances, beginning of year, as restated	<u>276,665</u>	<u>32</u>	<u>276,697</u>
<b>Fund balances, (deficit), end of year</b>	<u>\$ 150,344</u>	<u>\$ (6,707)</u>	<u>\$ 143,637</u>

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

**MID-MICHIGAN LEADERSHIP ACADEMY**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2007**

Net change in fund balances - total governmental funds \$ (133,060)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	723,453
Deduct: depreciation expense	(73,352)

Governmental funds report proceeds from the sale of capital assets as an other financing source. However, in the statement of activities, the difference between the sales proceeds and the net book value of the capital assets sold are reported as a gain (loss)

Deduct: proceeds from the sale of capital assets	(3,136)
Deduct: loss on disposal of capital assets	(883)

Loan proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but reduces long-term liabilities on the statement of net assets.

Add: principal payments on long-term liabilities	32,530
Deduct: proceeds for issuance of long-term liabilities	(675,000)

Change in net assets of governmental activities \$ (129,448)

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

**MID-MICHIGAN LEADERSHIP ACADEMY**  
**Statement of Revenue, Expenditures and**  
**Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**(Revised and Reissued)**  
**For the Year Ended June 30, 2007**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Over (Under) Final Budget</b>
<b>Revenue</b>				
Local sources	\$ 181,427	\$ 191,317	\$ 104,275	\$ (87,042)
State sources	1,673,728	1,567,821	1,518,828	(48,993)
Federal sources	335,224	373,288	374,469	1,181
Total revenue	<u>2,190,379</u>	<u>2,132,426</u>	<u>1,997,572</u>	<u>(134,854)</u>
<b>Expenditures</b>				
Instruction:				
Basic programs	647,374	634,376	660,698	26,322
Added needs	272,655	299,806	294,120	(5,686)
Supporting services:				
Pupil services	186,879	183,534	95,333	(88,201)
Instructional staff	186,435	120,488	92,946	(27,542)
General administration	104,249	99,884	126,949	27,065
School administration	108,212	116,819	123,830	7,011
Business services	133,534	94,906	109,834	14,928
Operations and maintenance	283,287	360,265	366,973	6,708
Pupil transportation	81,184	57,472	69,141	11,669
Other supporting services	49,653	63,265	56,681	(6,584)
Child Care	20,245	20,173	5,931	(14,242)
Debt service:				
Principal	107,069	35,178	32,530	(2,648)
Interest	-	35,000	34,610	(390)
Issuance costs	-	9,000	9,000	-
Capital outlay	7,500	19,172	723,453	704,281
Total expenditures	<u>2,188,276</u>	<u>2,149,338</u>	<u>2,802,029</u>	<u>652,691</u>
Revenues over (under) expenditure:	2,103	(16,912)	(804,457)	(787,545)
<b>Other financing sources</b>				
Issuance of long-term debt	-	-	675,000	675,000
Proceeds from the sale of capital assets	-	-	3,136	3,136
Total other financing sources:	<u>-</u>	<u>-</u>	<u>678,136</u>	<u>678,136</u>
Net change in fund balance	2,103	(16,912)	(126,321)	(109,409)
Fund balance, beginning of year, as restated	<u>196,952</u>	<u>187,401</u>	<u>276,665</u>	<u>89,264</u>
<b>Fund balance, end of year</b>	<u>\$ 199,055</u>	<u>\$ 170,489</u>	<u>\$ 150,344</u>	<u>\$ (20,145)</u>

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

## NOTES to the FINANCIAL STATEMENTS

# MID-MICHIGAN LEADERSHIP ACADEMY

## Notes to the Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

The Mid-Michigan Leadership Academy (the “Academy”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the Academy.

These financial statements have been revised and reissued as discussed more fully in Note V.

#### B. Government-wide and fund financial statements

The Government-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 primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Academy had no *business-type activities* during the year ended 2007.

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 to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided 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. Unrestricted state aid and other items not properly included among program revenues are reported instead as *general revenues*.

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

# MID-MICHIGAN LEADERSHIP ACADEMY

## Notes to the Financial Statements

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### C. Measurement focus, basis of accounting, and financial statement presentation

The Government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. 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.

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 government 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.

Intergovernmental revenue and interest revenue earned within the current fiscal period are all 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 government.

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

Additionally, the Academy reports a *special revenue fund*, which accounts for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for food service activities.

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

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

# MID-MICHIGAN LEADERSHIP ACADEMY

## Notes to the Financial Statements

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### D. Assets, liabilities and equity

#### 1. *Cash and cash equivalents/investments*

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. All investments are recorded at fair value.

#### 2. *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 either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

#### 3. *Prepaid items*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

#### 4. *Capital assets*

Capital assets, which only include equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$100 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20
Equipment	5-20

#### 5. *Fund equity*

In the fund financial statements, governmental funds report reservations 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.

# MID-MICHIGAN LEADERSHIP ACADEMY

## Notes to the Financial Statements

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### II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

#### B. Excess of expenditures over appropriations

During the year ended June 30, 2007, General Fund expenditures exceeded appropriations as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Over Final Budget</u>
Instruction:			
Basic Programs	\$ 634,376	\$ 660,698	\$ 26,322
Supporting services:			
General administration	99,884	126,949	27,065
School administration	116,819	123,830	7,011
Business services	94,906	109,834	14,928
Operations and maintenance	360,265	366,973	6,708
Pupil transportation	57,472	69,141	11,669
Capital outlay	19,172	723,453	704,281

#### C. Fund deficit

At year end, the Food Service Nonmajor Special Revenue Fund had an unreserved fund deficit of \$6,707.

# MID-MICHIGAN LEADERSHIP ACADEMY

## Notes to the Financial Statements

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### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

**Statement of Net Assets:**

Cash and cash equivalents	<u>\$ 228,555</u>
Bank deposits (checking accounts)	\$ 228,402
Cash on hand	<u>153</u>
	<u>\$ 228,555</u>

#### *Statutory Authority*

Michigan law authorizes the Academy to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The Academy's investment policy allows for all of these types of investments.

# MID-MICHIGAN LEADERSHIP ACADEMY

## Notes to the Financial Statements

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### *Investment and deposit risk*

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in list of authorized investments above. The Academy's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above. The Academy's investment policy does not have specific limits in excess of state law on investment credit risk.

*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. State law does not require and the Academy does not have a policy for deposit custodial credit risk. As of year end, \$145,442 of the Academy's bank balance of \$245,442 was exposed to custodial credit risk.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk 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. State law does not require and the Academy does not have a policy for investment custodial credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk. The Academy's investment policy does not have specific limits in excess of state law on concentration of credit risk.

### **B. Receivables**

At year end, General Fund receivables consisted entirely of amounts due from other governments and were expected to be collected within one year.

# MID-MICHIGAN LEADERSHIP ACADEMY

## Notes to the Financial Statements

### C. Capital assets

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ -	\$ 211,000	\$ -	\$ 211,000
Capital assets being depreciated:				
Buildings and improvements	-	512,453	-	512,453
Tachnology and equipment	354,010	-	-	354,010
Furniture and fixtures	139,765	-	10,044	129,721
Total capital assets being depreciated	493,775	512,453	10,044	996,184
Less accumulated depreciation for:				
Buildings and improvements	-	25,623	-	25,623
Equipment	260,672	-	-	260,672
Vehicles	53,538	47,729	6,025	95,242
Total accumulated depreciation	314,210	73,352	6,025	381,537
Total capital assets being depreciated, net	179,565	439,101	4,019	614,647
<b>Governmental activities capital assets, net</b>	<b>\$ 179,565</b>	<b>\$ 650,101</b>	<b>\$ 4,019</b>	<b>\$ 825,647</b>

The function “unallocated depreciation” includes depreciation expense of \$73,352, which was not allocated to the other functions. An additional \$883 was included with this amount representing a loss on the sale of capital assets.

### D. Payables

Accounts payable and accrued liabilities as of year end for the Academy’s individual major fund, are as follows:

	<b>General</b>
<b>Fund Financial Statements:</b>	
Accounts payable	\$ 218,448
Salaries and benefits payable	164,588
State aid note payable	101,256
	<b>\$ 484,292</b>

# MID-MICHIGAN LEADERSHIP ACADEMY

## Notes to the Financial Statements

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### E. Interfund receivables and payables and transfers

At June 30, 2007, the General Fund reported an interfund receivable of \$6,897 and the nonmajor governmental fund reported an interfund payable of \$6,897 in the fund financial statements. These interfund balances resulted primarily from the time lag between dates that (1) interfund goods and services were provided or reimbursable expenditures occurred, (2) transactions were recorded in the accounting system, and (3) payments between funds were made.

### F. State Aid Anticipation Note

During the year, the Academy financed some of its operations through the issuance of State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly, are recorded as liabilities of the respective funds from which they were issued. Short-term notes outstanding as of June 30, 2007, were comprised of the following:

#### General Fund:

State Aid Anticipation Notes, interest at 5.5% due 8/31/07:

Beginning balance	\$ 56,029
Additions	275,000
Reductions	<u>(229,773)</u>
<b>Ending balance</b>	<b><u>\$ 101,256</u></b>

### G. Long-term Debt

During the year, the Academy financed the purchase of property and improvements through the issuance of long-term debt. These loans were issued for terms of less than one year; however, the intent of the District was to refinance the notes. Long-term loans outstanding as of June 30, 2007, were comprised of the following:

#### General Fund:

Notes payable, interest at 7.1% to 7.287% due 10/20/07:

Beginning balance	\$ -
Additions	675,000
Reductions	<u>(32,530)</u>
<b>Ending balance</b>	<b><u>\$ 642,470</u></b>

# MID-MICHIGAN LEADERSHIP ACADEMY

## Notes to the Financial Statements

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### G. Operating Leases

The Academy leases equipment under a non-cancelable operating lease. Total costs for the lease were \$16,116 for the year ended June 30, 2007. Future minimum lease payments for the lease are as follows:

<b>Year Ending June 30,</b>	<b><u>Amount</u></b>
2008	\$ 16,116
2009	<u>12,087</u>
	<b><u>\$ 28,203</u></b>

## IV. OTHER INFORMATION

### A. Risk management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for general liability, property and casualty, health claims and employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### B. Defined benefit pension plan

#### Plan Description

The Academy contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

# MID-MICHIGAN LEADERSHIP ACADEMY

## Notes to the Financial Statements

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### **Funding Policy**

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. Mid-Michigan Leadership Academy is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 17.74% of annual covered payroll. The contribution requirements of plan members and Mid-Michigan Leadership Academy are established by Michigan State statute and may be amended only by action of the State Legislature. The Academy's contributions to MPERS for the years ended June 30, 2007, 2006 and 2005 were \$122,963, \$141,439, and \$145,161, respectively, equal to the required contributions for each year.

During the year ended June 30, 2007, the Office of Retirement Services issued a credit to all Michigan school districts against the MPERS contribution for the 2006/07 fiscal year by reducing State Aid cash payments. The amount of the credit for the Academy was \$29,450.

### **Other Postemployment Benefits**

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

### **C. Restatements**

Beginning fund balance of the general fund and beginning net assets of governmental activities were increased by \$132,207 to properly account for amounts due from the Michigan Department of Management and Budget Office of Retirement Services for overpayments to the Michigan Public School Employees Retirement System.

# MID-MICHIGAN LEADERSHIP ACADEMY

## Notes to the Financial Statements

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### V. REPORT REISSUANCE

Certain revenue and expenditures of the general and food service funds have been substantiated, and as a result, certain of these underlying captions have changed. Accordingly the financial statements have been reissued, and the qualification from the previous report has been removed.

\* \* \* \* \*

## APPENDIX



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

 an independent member of  
**BAKER TILLY**  
INTERNATIONAL

**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  
GOVERNMENT AUDITING STANDARDS**

January 4, 2008

Board of Education  
Mid-Michigan Leadership Academy  
Lansing, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **MID-MICHIGAN LEADERSHIP ACADEMY** as of and for the year ended June 30, 2007, and have issued our report thereon dated January 4, 2008. 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 Mid-Michigan Leadership 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 Mid-Michigan Leadership Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mid-Michigan Leadership Academy'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 Mid-Michigan Leadership 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 Mid-Michigan Leadership Academy's financial statements that is more than inconsequential will not be prevented or detected by the Mid-Michigan Leadership Academy's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

#### **Finding 2007-1 Preparation of Financial Statements in Accordance with GAAP**

**Criteria:** All school districts are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Academy's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting)

**Condition:** As is the case with many smaller and medium-sized entities, the Academy has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Academy's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the Academy's internal controls.

**Cause:** Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to outsource the preparation of its annual financial statements to the auditors rather than to incur the time and expense of obtaining the necessary training and expertise required for the Academy to perform this task internally.

**Effect:** As a result of this condition, the Academy lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

#### **View of Responsible Officials:**

The Academy has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Academy to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

#### **Finding 2007-2 Closing Process and Audit Adjustments**

**Criteria:** The Academy is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived. The auditors should be able to audit accounts which have been adjusted through the closing process.

**Condition:** At the time of our scheduled field work in September, the Academy's funds were not effectively closed out and in a proper state for audit. Bank accounts were not reconciled, and several other details of balance sheet accounts were not provided. Several significant adjustments were necessary to agree key accounts to their proper underlying balances, many affecting entries between funds.

**Cause:** Internal controls did not detect all adjustments necessary to properly record year-end adjustments in the current year or the prior year. Also, the Academy transitioned from a full-time Business Manager to a management company. The individual at the management company responsible for the accounting did not contain sufficient knowledge to accurately record routine transactions or to even perform account reconciliations for any accounts including bank reconciliations.

**Effect:** As a result of this condition, the Academy was not able to produce accurate financial information, which resulted in the audit being delayed.

**View of  
Responsible**

**Officials:** The individual at the management company who was performing the duties of a Business Manager has been removed from the position and the Academy is closely monitoring the performance of his replacement to ensure that accounting functions are being properly performed.

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 Mid-Michigan Leadership 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, we consider the significant deficiencies described above to be material weaknesses.

We noted certain matters that we reported to management of the Academy in a separate letter dated January 4, 2008.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mid-Michigan Leadership Academy's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 audit committee, management, the Board of Education, others within the organization, and 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.





# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



**January 4, 2008**

To the Board of Education of the  
Mid Michigan Leadership Academy  
Lansing, Michigan

We have audited the financial statements of Mid Michigan Leadership Academy for the year ended June 30, 2007, and have issued our report thereon dated January 4, 2008. Professional standards require that we provide you with the following information related to our audit.

## **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated May 22, 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 accounting principles generally accepted in the United States of America. 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 Mid Michigan Leadership Academy. 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 Mid Michigan Leadership Academy'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 advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Mid Michigan Leadership Academy are described in Note 1 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 Mid Michigan Leadership Academy 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. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

### **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 Mid Michigan Leadership Academy's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed various adjustments, all of which were recorded by the District, which in our judgment indicate matters that could have a significant effect on Mid Michigan Leadership Academy's financial reporting process. As a result, we included a material weakness in our report as Finding 2007-2.

### **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 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 Mid Michigan Leadership Academy'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 difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board of Education, management, and 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.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

# Mid Michigan Leadership Academy

## Comments and Recommendations

For the Year Ended June 30, 2007

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In planning and performing our audit of the financial statements of Mid Michigan Leadership 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 opinion 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.

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.

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. The deficiencies we noted that we consider to be significant deficiencies are described in our 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*.

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

### **Other Matters**

#### **Segregation of Duties**

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Academy's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the Academy lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

# **Mid Michigan Leadership Academy**

## **Comments and Recommendations (Concluded)**

**For the Year Ended June 30, 2007**

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Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Academy's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Academy's internal control structure, and cannot not be relied upon as part of management's systems to deter or detect fraud and abuse.

As a result of this condition, the Academy lacks the proper segregation of duties, although they have taken steps to require additional independent reviews in certain areas. While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

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