

TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS

**REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)**

YEAR ENDED JUNE 30, 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Tri-Valley Academy of Arts and Academics
Muskegon, Michigan

October 19, 2007

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri-Valley Academy of Arts and Academics, 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 Tri-Valley Academy of Arts and Academics' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Tri-Valley Academy of Arts and Academics as of June 30, 2007 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
Tri-Valley Academy of Arts and Academics
Muskegon, Michigan

October 19, 2007

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2007 on our consideration of Tri-Valley Academy of Arts and Academics' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through x and 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Maner, Costerisan + Ellis, P.C.

Certified Public Accountants

MANAGEMENT’S DISCUSSION AND ANALYSIS

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

Financial Highlights

- The Academy had a decrease in the fund balance for the general fund of \$126,743. This gives the Academy a fund balance in the general fund of \$379,727.
- The Academy's net assets decreased by \$182,347 during 2007 to \$478,765.

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 Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy’s operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy’s budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

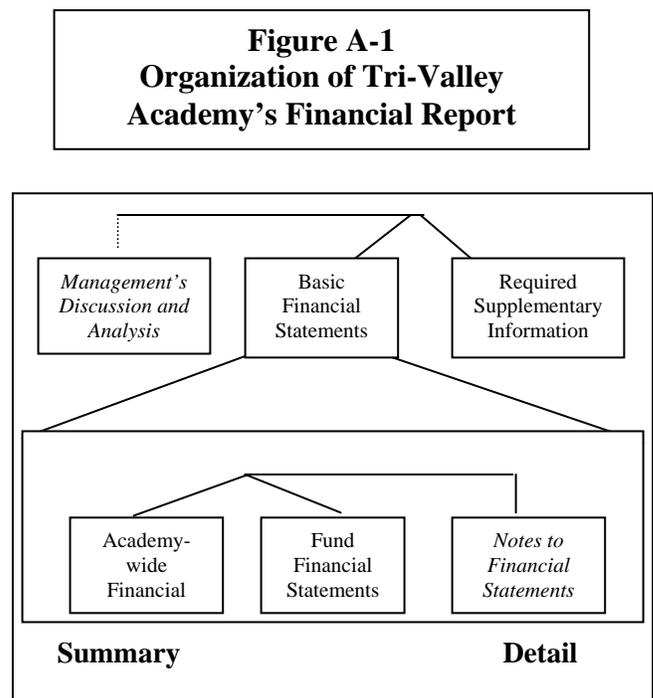


Figure A-2 summarized the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Governmental funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Academy-wide statements

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

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

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

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

Fund financial statements

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

- Some funds are required by State law.
- The Academy establishes other funds to control and manage money for particular purposes or show that it is properly using certain revenues (like school lunch).

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

Financial analysis of the Academy as a whole

Net assets - the Academy's combined net assets of \$478,765 decreased by \$182,347 during the year. See Figures A-3 and A-4.

The total revenues decreased by 20% to \$2,722,297. State aid foundation allowance included in revenue from state sources accounts for 55% of the Academy's revenue. The blended enrollment decreased 102 students in 2007 to 205 students. This resulted in a decrease in budgeted state foundation allowance payments of approximately \$753,000.

The total cost of instruction decreased by 4% to \$1,031,392. Total support services decreased by 9% to \$1,698,831.

Academy governmental activities

Figure A-3		
Tri-Valley's Net Assets		
	<u>2007</u>	<u>2006</u>
Current assets	\$ 741,091	\$ 1,697,421
Capital assets, net	99,038	103,553
Total assets	<u>840,129</u>	<u>1,800,974</u>
Current liabilities	361,364	1,139,862
Net assets:		
Invested in capital assets, net of related debt	99,038	103,553
Unrestricted	379,727	557,559
Total net assets	<u>\$ 478,765</u>	<u>\$ 661,112</u>

Figure A-4		
Changes in Tri-Valley's Net Assets		
	<u>2007</u>	<u>2006</u>
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 1,136,196	\$ 1,179,401
Charges for service	274	652
General revenues:		
State aid - unrestricted	1,497,752	2,170,008
Investment	9,457	17
Incoming transfers and other	78,618	71,804
Total general revenues	<u>1,585,827</u>	<u>2,241,829</u>
Total revenues	<u>2,722,297</u>	<u>3,421,882</u>
Expenses:		
Instruction	1,031,392	1,070,460
Support services	1,698,831	1,865,760
Community services	1,397	12,948
Food services	129,062	171,593
Outgoing transfers and other transactions	20,363	242,080
Unallocated depreciation	23,599	23,840
Total expenses	<u>2,904,644</u>	<u>3,386,681</u>
Change in net assets	<u>\$ (182,347)</u>	<u>\$ 35,201</u>

Financial analysis of the Academy's funds

The financial operation of the Academy is considered stable. The fund balance at June 30, 2007 is \$379,727. There was a 17% decrease in general fund revenue and a 2% decrease in expenditures for instructional programs and a decrease of 9% in expenditures for support services. All decreases were due to a 33% reduction in enrollment.

The general fund transferred \$61,936 to the special revenue fund to cover a food service shortfall. The excess of expenditures over revenue (prior to transfers from the general fund) in the special revenue fund was \$61,936 compared to an excess of revenue over expenditures of \$3,983 in 2006. The change between the 2007 and 2006 years predominately relates to a reduction in revenue from free and reduced meals within the National School Lunch Program.

General fund budgetary highlights

Over the course of the year, the Academy revised the general fund annual operating budget to stay within its budgetary plan.

While the Academy's final budget for the general fund anticipated expenditures and other financing uses would exceed revenues by \$210,901, the actual results for the year showed a decrease in fund balance of \$126,743.

Actual revenues were \$54,391 less than budgeted primarily due to not expending federal funds at the level anticipated.

Actual expenditures were \$200,485 under budget due in part to federal funds not expended at the level anticipated. Additional savings was recognized in the areas of instructional staff, operations and maintenance, and administration.

A transfer from the general fund to the special revenue fund in the amount of \$61,936 was unbudgeted.

Capital assets

As of June 30, 2007, the Academy had invested \$99,038 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a net decrease of \$4,515 from the beginning of the year. Total additions was \$19,084 and depreciation expense for the year was \$23,599. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

Figure A-5				
Tri-Valley's Capital Assets				
	2007			2006
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Buildings	\$ 153,342	\$ 92,841	\$ 60,501	\$ 70,724
Leasehold improvements	69,858	68,083	1,775	2,186
Furniture and equipment	65,548	28,786	36,762	30,643
Total	<u>\$ 288,748</u>	<u>\$ 189,710</u>	<u>\$ 99,038</u>	<u>\$ 103,553</u>

Factors bearing on the Academy's future

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

- Changes to the foundation allowance for the next year have yet to be determined. Due to State budget issues and possible future cuts the Academy has budgeted a reduction in foundation allowance of \$60 to \$7,325 per pupil.
- The Academy has adopted a budget for 2008 with a decrease to fund balance of \$156,245.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, Choice Schools Associates, LLC, at P.O. Box 141493, Grand Rapids, Michigan, 49514. Phone (616) 785-8440.

TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental activities
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 11,229
Due from other governmental units	597,948
Prepaid expenses	131,914
TOTAL CURRENT ASSETS	741,091
NONCURRENT ASSETS:	
Capital assets	288,748
Less accumulated depreciation	(189,710)
TOTAL NONCURRENT ASSETS	99,038
TOTAL ASSETS	\$ 840,129
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 40,829
Deferred revenue	118,972
Other accrued expenses	201,563
TOTAL CURRENT LIABILITIES	361,364
NET ASSETS:	
Invested in capital assets, net of related debt	99,038
Unrestricted	379,727
TOTAL NET ASSETS	478,765
TOTAL LIABILITIES AND NET ASSETS	\$ 840,129

TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net assets</u>
Governmental activities:				
Instruction	\$ 1,031,392	\$	\$ 706,402	\$ (324,990)
Support services	1,698,831		341,182	(1,357,649)
Community services	1,397		1,397	
Food services	129,062	274	66,852	(61,936)
Outgoing transfers and other transactions	20,363		20,363	
Unallocated depreciation expense	23,599			(23,599)
Total governmental activities	<u>\$ 2,904,644</u>	<u>\$ 274</u>	<u>\$ 1,136,196</u>	<u>(1,768,174)</u>
General revenues:				
Investment earnings				9,457
State sources				1,497,752
Intermediate sources				60,277
Local sources				18,341
Total general revenues				<u>1,585,827</u>
CHANGE IN NET ASSETS				(182,347)
NET ASSETS , beginning of year				<u>661,112</u>
NET ASSETS , end of year				<u>\$ 478,765</u>

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	General fund	Other nonmajor governmental funds	Total governmental funds
ASSETS			
ASSETS:			
Cash	\$ 11,229	\$	\$ 11,229
Due from other governmental units	584,663	13,285	597,948
Prepaid expenditures	131,914		131,914
Due from other funds		32,864	32,864
TOTAL ASSETS	\$ 727,806	\$ 46,149	\$ 773,955
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 40,782	\$ 47	\$ 40,829
Accrued salaries and related items	201,563		201,563
Due to other funds	32,864		32,864
Deferred revenue	72,870	46,102	118,972
TOTAL LIABILITIES	348,079	46,149	394,228
FUND BALANCES:			
Reserved for prepaid expenditures	131,914		131,914
Designated for subsequent year expenditures	156,245		156,245
Unreserved, undesignated	223,482		223,482
TOTAL FUND BALANCES	379,727		379,727
TOTAL LIABILITIES AND FUND BALANCES	\$ 727,806	\$ 46,149	\$ 773,955
Total governmental fund balances			\$ 379,727
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 are not reported in the funds:			
The cost of the capital assets is		\$ 288,748	
Accumulated depreciation is		(189,710)	
			99,038
Net assets of governmental activities			\$ 478,765

TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Other	Total
REVENUES:			
Local sources:			
Private sources	\$ 1,961	\$	\$ 1,961
Food service		274	274
Investment income	9,457		9,457
Incoming transfers and other	16,380		16,380
Total local sources	27,798	274	28,072
State sources	1,906,620	15,616	1,922,236
Federal sources	660,476	51,236	711,712
Intermediate school district	111,366		111,366
Total revenues	2,706,260	67,126	2,773,386
EXPENDITURES:			
Instruction:			
Basic programs	490,802		490,802
Added needs	559,674		559,674
Total instruction	1,050,476		1,050,476
Support services:			
Pupil	142,198		142,198
Instructional staff	167,117		167,117
General administration	323,064		323,064
School administration	209,222		209,222
Business	27,086		27,086
Operation and maintenance	616,222		616,222
Transportation	145,154		145,154
Central services	68,768		68,768
Total support services	1,698,831		1,698,831
	General	Other	Total
EXPENDITURES (Concluded):			
Community service	\$ 1,397	\$	\$ 1,397
Food service		129,062	129,062
Outgoing transfers and other transactions	20,363		20,363
Total expenditures	2,771,067	129,062	2,900,129
EXCESS OF REVENUES OVER EXPENDITURES	(64,807)	(61,936)	(126,743)
OTHER FINANCING SOURCES (USES):			
Operating transfers in		61,936	61,936
Operating transfers out	(61,936)		(61,936)
Total other financing sources (uses)	(61,936)	61,936	
NET CHANGE IN FUND BALANCES	(126,743)		(126,743)
FUND BALANCES:			
Beginning of year	506,470		506,470
End of year	\$ 379,727	\$	\$ 379,727

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Net change in fund balances total governmental funds	\$ (126,743)
<p>Amounts reported for governmental activities in the statement of activities are different because: Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.</p>	
Depreciation expense	(23,599)
Capital outlay	19,084
<p>Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:</p>	
Deferred revenue, beginning of the year	(51,089)
Deferred revenue, end of the year	<hr style="width: 100%;"/>
Change in net assets of governmental activities	<hr style="width: 100%;"/> \$ (182,347)

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting entity

The Tri-Valley Academy of Arts and Academics (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Grand Valley State University is the authorizing governing body for the Academy and has contracted to charter the Academy through June 30, 2008. The Academy's board of directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. In addition, the Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

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 Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

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

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

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued)

B. Government-wide and fund financial statements (Concluded)

The Academy first utilizes restricted resources to finance qualifying activities.

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

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

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

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The Academy reports the following major governmental fund:

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

Other non-major funds

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service activities in the special revenue fund.

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement focus, basis of accounting and basis of presentation

Accrual method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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.

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 Government Accounting Standards Board.

Modified accrual method

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

State and federal aid and interest associated with the current fiscal period are 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 Academy.

State revenue

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

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement focus, basis of accounting and basis of presentation (Concluded)

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

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

D. Other accounting policies

1. Cash and equivalents

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

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

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other accounting policies (Continued)

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 noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”.

All receivables are shown net of an allowance for uncollectibles.

3. Prepaid expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Capital assets

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

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

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

Building and improvements	10 - 39 years
Furniture and other equipment	5 - 10 years

The Academy’s capitalization policy is to capitalize individual amounts exceeding \$5,000.

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other accounting policies (Concluded)

5. Use of estimates

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

6. Fund balance

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.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

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

1. The Chief Administrative Officer submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

3. The Chief Administrative Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The Academy does not consider these amendments to be significant.

NOTE 3 - CASH DEPOSITS - CREDIT RISK

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2007, \$36,279 of the Academy's bank balance of \$136,279 was exposed to custodial credit risk because it was not covered by federal depository insurance and was not collateralized.

TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Governmental Activities:				
Capital assets, being depreciated:				
Buildings	\$ 153,342	\$	\$	\$ 153,342
Leasehold improvements	69,858			69,858
Equipment and furniture	169,350	19,084	(122,886)	65,548
Total capital assets being depreciated	392,550	19,084	(122,886)	288,748
Accumulated depreciation:				
Buildings	82,618	10,223		92,841
Leasehold improvements	67,672	411		68,083
Equipment and furniture	138,707	12,965	(122,886)	28,786
Total accumulated depreciation	288,997	23,599	(122,886)	189,710
Net governmental capital assets	\$ 103,553	\$ (4,515)	\$	\$ 99,038

Depreciation for the fiscal year ended June 30, 2007 amounted to \$23,599. The Academy determined it is impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - NOTES PAYABLE

At June 30, 2007, the Academy had no amounts outstanding on two state aid anticipation notes payable. The first note was dated October 3, 2005, with interest at 5.06 %, maturing September 5, 2006. The second note was dated June 27, 2006, with interest at 5.00%, maturing June 26, 2007. Both notes were secured by future state school aid payments.

	Balance June 30, 2006	Additions	Payments	Balance June 30, 2007
Note 1 - 5.06%	\$ 104,545	\$	\$ 104,545	\$
Note 2 - 5.00%	800,000		800,000	
	\$ 904,545	\$	\$ 904,545	\$

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - NOTES PAYABLE (Concluded)

Subsequent to year-end, the Academy obtained a \$664,000 state aid anticipation note bearing an interest rate at 6.65% and maturing August 22, 2008. The note is secured by the full faith and credit of the Academy as well as pledged state aid.

NOTE 6 - OPERATING LEASE

The Academy leases its building from an affiliate of a Board Member. The Academy is responsible for insurance, repairs, and maintenance related to the facility. The lease expires June 30, 2008. In September 2006, the Academy entered into an agreement to lease a bus for the transportation of students. The lease expires May 2009.

The Academy incurred lease expense in connection with the leases of approximately \$500,000 for the year ended June 30, 2007.

Minimum future lease payments are as follows:

Year ending	
2008	\$ 275,169
2009	14,686

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2007 are as follows:

Receivable fund		Payable fund	
Food service fund	\$ 32,864	General fund	\$ 32,864

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - TRANSFERS

Operating transfers between the governmental funds were as follows:

<u>Operating transfers out</u>		<u>Operating transfers in</u>	
General fund	<u>\$ 61,936</u>	Food service fund	<u>\$ 61,936</u>

Operating transfers were made to the food service fund to subsidize operating expenditures in excess of revenues.

NOTE 9 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and Proposal A obligation payments to the Grand Valley State University Board of Trustees, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2007, the Academy incurred expense of approximately \$45,000 for oversight fees.

NOTE 10 - MANAGEMENT AGREEMENT

The Academy entered into a two year (through June 2008) management agreement with Choice Schools Associates, LLC (Choice Schools) for operations of the Academy. Under the terms of the management agreement, Choice Schools' compensation for operating the Academy was \$260,447 for the fiscal year 2007.

NOTE 11 - PURCHASED SERVICES

The Academy leases all employee services from Choice Schools. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Choice Schools.

NOTE 12 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. To minimize these related risks, the Academy carries commercial insurance.

TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS
NOTES TO FINANCIAL STATEMENTS

NOTE 13 - CONTINGENCY AND SIGNIFICANT ESTIMATE

During the fiscal year ended June 30, 2007, the Michigan Department of Education (MDE) performed a review of the Academy's food service operations. The review yielded findings related to the claims for reimbursement of free and reduced meals in excess of that allowable based on the applications for free and reduced meals on file with the Academy. As of the report date, MDE has not yet recalculated the amount of reimbursements received by the Academy in excess of that allowable.

The Academy estimates the overpayment of meal claims during fiscal year 2006/2007 to be approximately \$46,000 and has recorded that amount as deferred revenue in the food service fund. The range of potential over payment could be as high as \$75,000. This liability is considered a significant estimate subject to change in amounts that could be material to the financial statements in the near term because the actual liability will result from calculations to be provided by the MDE in the fall of 2007.

REQUIRED SUPPLEMENTARY INFORMATION

**TRI-VALLEY ACADEMY OF ARTS AND ACADEMICS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2007**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local	\$ 100	\$ 17,165	\$ 27,798	\$ 10,633
State sources	2,665,210	1,933,302	1,906,620	(26,682)
Federal sources	666,850	712,270	660,476	(51,794)
Incoming transfers	18,000	97,914	111,366	13,452
Total revenues	<u>3,350,160</u>	<u>2,760,651</u>	<u>2,706,260</u>	<u>(54,391)</u>
EXPENDITURES:				
Instruction:				
Basic programs	806,265	541,123	490,802	50,321
Added needs	606,860	608,938	559,674	49,264
Total instruction	<u>1,413,125</u>	<u>1,150,061</u>	<u>1,050,476</u>	<u>99,585</u>
Support services:				
Pupil	171,372	149,998	142,198	7,800
Instructional staff	243,210	189,513	167,117	22,396
General administration	421,584	338,402	323,064	15,338
School administration	186,265	220,033	209,222	10,811
Business	28,489	27,280	27,086	194
Operation and maintenance	652,116	639,530	616,222	23,308
Transportation services	130,018	158,172	145,154	13,018
Central services	38,000	73,200	68,768	4,432
Total support services	<u>1,871,054</u>	<u>1,796,128</u>	<u>1,698,831</u>	<u>97,297</u>
	Original budget	Final budget	Actual	Variance with final budget positive (negative)
EXPENDITURES: (Concluded)				
Community service	\$ 18,092	\$ 5,000	\$ 1,397	\$ 3,603
Outgoing transfers and other transactions	29,080	20,363	20,363	
Total expenditures	<u>3,331,351</u>	<u>2,971,552</u>	<u>2,771,067</u>	<u>200,485</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	18,809	(210,901)	(64,807)	146,094
OTHER FINANCING SOURCES (USES):				
Operating transfers out			(61,936)	(61,936)
NET CHANGE IN FUND BALANCE	<u>\$ 18,809</u>	<u>\$ (210,901)</u>	(126,743)	<u>\$ 84,158</u>
FUND BALANCE:				
Beginning of year			<u>506,470</u>	
End of year			<u>\$ 379,727</u>	



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Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

October 19, 2007

To the Board of Directors
Tri-Valley Academy of Arts and Academics
Muskegon, Michigan

In planning and performing our audit of the financial statements of Tri-Valley Academy of Arts and Academics 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 Tri-Valley Academy of Arts and Academics' 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 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 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 Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control.

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

National School Lunch

The Michigan Department of Education (MDE) conducted a follow-up Coordinated Review Effort (CRE) of the NSLP at the Academy on May 17, 2007 in which it identified non compliance with meal counting and claiming procedures and the application approval process. There were 110 students listed on the student roster as eligible for free and reduced benefits for which the Academy did not have valid applications on file. As a result, the Academy submitted reimbursement claims for free and reduced price lunches in excess of that allowable. Documentation of free, reduced price and paid meals served at the point of service did not exist on a daily basis to support meal reimbursement. In addition, meal pattern compliance was not maintained because the Academy did not maintain the adequate documentation to support that proper food items/components were being offered in the serving lines to students and that nutritional standards were being met.

The Academy should have a valid application on file for each student listed on the benefits issuance roster (roster). The Academy should provide training to the individual approving the application to ensure that applications are approved or denied according to program regulations. A roster check-off system must be used daily at the point of service to accurately count student meals served. Food production records must be kept daily documenting the five food items/components. Menus must be written and indicate all five food items/components are offered on a daily basis.

In addition, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 19, 2007 on the financial statements of Tri-Valley Academy of Arts and Academics. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

New Notification Requirements for Related Not-for-Profit Organizations with Gross Receipts of \$25,000 or less Such as Booster Groups and PTO's

The Pension Protection Act of 2006 requires these organizations to file an annual electronic notice for tax periods beginning after December 31, 2006, if these organizations are not required to file Form 990 (or 990-EZ), Return of Organization Exempt From Income Tax because their gross receipts are normally \$25,000 or less.

If they are a section 509(a)(3) supporting organization, generally, they must file a paper or electronic Form 990 (or Form 990-EZ) even if their gross receipts are normally \$25,000 or less. However, if they are a supporting organization of a religious organization and their gross receipts are normally \$5,000 or less they may file an annual electronic notice instead of Form 990 (or Form 990-EZ).

The annual electronic notice is due by the 15th day of the fifth month after the close of their tax period. For example, if their tax period ends on December 31, 2007, the annual electronic notice is due May 15, 2008.

The notice will require these organizations to provide the following information:

- Organization's legal name,
- Any other names your organization uses,
- Organization's mailing address,
- Organization's website address (if applicable),
- Organization's employer identification number (EIN),
- Name and address of a principal officer of your organization.
- Organization's annual tax period,
- Verify that your organization's annual gross receipts are still normally \$25,000 or less,
and
- Indicate if your organization has terminated (is no longer in business).

New Auditing Standards

Recently, 10 new auditing standards have been released and are effective, or will become effective for your June 30, 2008 year end. In reviewing the new standards, they will have an impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach. One area which will continue to be emphasized is your internal controls.

New Interpretation Of Deferred Compensation Rules Applicable To Teachers And Similar

Employees

In August of 2007, the IRS issued new questions and answers related to deferred compensation which can effect teachers and similar employees.

When employees can elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation under the Internal Revenue Code. These payments could be subject to an additional 20% tax if the specified procedures are not followed. For example, school employees who work 10 months but are paid over 12 months would be deferring compensation into a future year.

These rules are not applicable unless an election must be made. If a school district provides that all employees must spread their pay over 12 months, these rules do not apply.

In order to avoid imposition of extra taxes, the employees must give a written or electronic election to notify the employer that they want to spread out the compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid (for example, ratably over the 12 months starting with the beginning of the school year). This election does not need to be made for future years if the arrangement provides that the election will remain in place until the employee elects a change. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 - 2009 school year.

To the Board of Directors
Tri-Valley Academy of Arts and Academics
Muskegon, Michigan

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October 19, 2007

This report is intended solely for the information and use of Tri-Valley Academy of Arts and Academics, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner, Costerisan + Ellis, P.C.



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October 19, 2007

To the Board of Directors
Tri-Valley Academy of Arts and Academics
Muskegon, Michigan

We have audited the financial statements of Tri-Valley Academy of Arts and Academics for the year ended June 30, 2007, and have issued our report thereon dated October 19, 2007. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether 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.

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

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

2. 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 Tri-Valley Academy of Arts and Academics 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 2007. We noted no transactions entered into by the 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.

3. 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 amount of deferred revenue recorded in the food service fund is considered a significant estimate subject to potentially material changes in the near term. The actual liability will be determined by the Michigan Department of Education in the fall of 2007.

4. 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 Academy's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Academy, either individually or in the aggregate, indicate matters that could have a significant effect on the Academy's financial reporting process. Management has approved all adjustments.

5. 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.

6. 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.

7. 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 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.

8. Difficulties Encountered in Performing the Audit

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

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

Very truly yours,

Maner, Costerisan + Ellis, P.C.