

Muskegon Technical Academy

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

Year ended June 30, 2007

Muskegon Technical Academy

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# Muskegon Technical Academy

## Management's Discussion and Analysis

This section of the Muskegon Technical Academy's annual financial report presents our discussion and analysis of the School's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School's financial statements, which immediately follow this section.

### Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Muskegon Technical Academy financially as a whole. The School-wide financial statements provide information about the activities of the whole School, presenting both an aggregate view of the School's finances and a longer-term view of those finances. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School's operations in more detail than the School-wide financial statements by providing information about the School's most significant fund—the General Fund. The remaining funds are the food service fund and the agency fund. The food service fund presents financial activities related to providing breakfast and lunch services to the students. The agency fund acts solely as an agent for the benefit of students and parents. The basic financial statements are comprised of the following elements:

#### **Management's Discussion and Analysis (MD&A)**

(Required Supplementary Information)

#### **Basic Financial Statements**

School-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

#### **Budgetary Information for Major Funds**

(Required Supplementary Information)

### Reporting the School as a Whole—School-wide Financial Statements

The School-wide financial statements are designed to provide readers with a broad overview of Muskegon Technical Academy's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of Muskegon Technical 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 school is improving or deteriorating.

The Statement of Activities presents information showing how the School'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. The relationship between revenues and expenses is the School's operating results. However, the School's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School, which encompass all of the School's services, including instruction, support services, community services, and food services. Unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

# Muskegon Technical Academy

## Management's Discussion and Analysis

### Reporting the School's Most Significant Funds—Fund Financial Statements

The School's fund financial statements provide detailed information about the most significant funds, not the School as a whole. Muskegon Technical Academy uses three funds – a General Fund, Food Service Fund and agency fund – at this time. The governmental funds of the School use the following accounting approach:

Governmental funds—All of the School's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation.

### The School as a Whole

The following table provides a summary of the School's net assets as of June 30, 2007 and 2006:

#### Statement of Net Assets

	<u>2007</u>	<u>2006</u>
Assets		
Current and Other Assets	\$ 497,548	\$ 445,091
Capital Assets	<u>2,620,164</u>	<u>2,439,262</u>
Total Assets	3,117,712	2,884,353
Liabilities		
Current Liabilities	294,844	340,114
Long-term Liabilities	<u>2,533,609</u>	<u>2,258,658</u>
Total Liabilities	<u>2,828,453</u>	<u>2,598,772</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	6,881	87,596
Unrestricted	<u>282,378</u>	<u>197,985</u>
Total Net Assets	<u>\$ 289,259</u>	<u>\$ 285,581</u>

Recall that the Statement of Net Assets provides the perspective of the School as a whole. The significant changes from this year to last year were as follows:

- Current assets and other assets increased due to an increase in net assets.
- Capital assets increased due to a new building addition offset by normal depreciation.
- Current liabilities decreased due to a drop in the outstanding balance of state aid notes.
- Long-term debt increased due to financing the new building addition less normal scheduled debt payments.

# Muskegon Technical Academy

## Management's Discussion and Analysis

The above table focuses on the net assets. The change in net assets of the School's governmental activities is discussed below. The School's net assets were \$289,259 at June 30, 2007. Capital assets, net of related debt was \$6,881, which compares the original cost (less depreciation) of the School's capital assets to long-term debt used to finance the acquisition of those assets. The remaining net assets of \$282,378 was unrestricted.

The \$282,378 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund (the School's largest fund) will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School as a whole are reported in the Statement of Activities, which shows the changes in net assets for fiscal years 2007 and 2006.

### Statement of Activities

	<u>2007</u>	<u>2006</u>
Program Revenues		
Charges for Services	\$ 37,376	\$ 32,991
Operating Grants	400,445	373,961
General Revenues		
Grants and Contributions Not Restricted to Specific Programs	1,779,342	1,754,288
Miscellaneous	<u>3,522</u>	<u>8,179</u>
Total Program Revenues and General Revenues	2,220,685	2,169,419
Expenses		
Instruction	1,061,772	961,219
Support Services	676,129	664,793
Community Services	-	1,100
Food Services	105,260	91,888
Interest on Long-term Debt	197,086	175,741
Unallocated Depreciation and Amortization	<u>176,760</u>	<u>184,896</u>
Total Expenses	<u>2,217,007</u>	<u>2,079,637</u>
Change in Net Assets	3,678	89,782
Net Assets at Beginning of Year	<u>285,581</u>	<u>195,799</u>
Net Assets at End of Year	<u>\$ 289,259</u>	<u>\$ 285,581</u>

# Muskegon Technical Academy

## Management's Discussion and Analysis

The School experienced an increase in net assets of \$3,678. Expenses increased by \$137,370. Instruction expenses increased by approximately \$100,000. A large portion of this increase was due to the addition of a new special education teacher position. Interest expense increased due to higher interest rates and an increase in debt related to the new building addition.

Since unrestricted state aid constitutes the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School and balance those needs with state-prescribed available unrestricted resources.

### **The School's Funds**

As we noted earlier, the School uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School's overall financial health.

In the General Fund, our principal operating fund, the fund balance increased \$82,574 to \$285,481. This increase is comparable to the increase in the prior year. Revenues and expenditures remained about the same compared to last year.

### **General Fund Budgetary Highlights**

Over the course of the year, the School revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. (A schedule showing the School's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information section of these financial statements).

There were several revisions made to the 2006-2007 General Fund's original budget:

#### Revenues:

- The State sources budget was decreased in anticipation of a decrease in the per pupil funding by the State of Michigan.
- Federal revenues increased due to a carryover of federal grant monies from the prior year.

#### Expenditures:

- The basic program budget decreased due to reallocation of resources to added needs.
- Capital outlay increased due to a new building addition during the year.

# Muskegon Technical Academy

## Management's Discussion and Analysis

### Budget to Actual variances

#### Revenues:

- Federal revenues decreased due to not utilizing all anticipated revenues by the end of the year.
- State sources exceeded budget due to not incurring the anticipated decrease in per pupil funding by the State of Michigan.
- Incoming transfers and other transactions was overbudget due to the receipt of unanticipated funds.

#### Expenditures:

- General administration expenditures were less than budgeted due to not incurring all anticipated marketing expenditures and purchased services.

### Capital Asset and Debt Administration

#### Capital Assets

At June 30, 2007, the School had \$2,620,164 (after accumulated depreciation) invested in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$180,902 from last year. This year's increase was the result of current year additions exceeding normal depreciation. The largest capital asset addition during the year was approximately \$350,000. We present more detailed information about our capital assets in the notes to the financial statements.

	<u>2007</u>	<u>2006</u>
Buildings and Land	\$ 2,786,415	\$ 2,418,300
Furniture and Equipment	598,481	590,850
Construction-in-Progress	<u>-</u>	<u>18,750</u>
Total Capital Assets	3,384,896	3,027,900
Less Accumulated Depreciation	<u>764,732</u>	<u>588,638</u>
Total Capital Assets, Net	<u>\$ 2,620,164</u>	<u>\$ 2,439,262</u>

# Muskegon Technical Academy

## Management's Discussion and Analysis

### Debt

At June 30, 2007, the School had \$2,624,609 in debt relating to its building. The increase in long-term liabilities was due to the financing of the building addition noted above.

	<u>2007</u>	<u>2006</u>
Mortgages	\$ 2,583,850	\$ 2,282,163
Other Obligations	<u>40,759</u>	<u>81,495</u>
Total Debt	<u>\$ 2,624,609</u>	<u>\$ 2,363,658</u>

### Economic Factors and Next Year's Budget

Our appointed officials and administration considered many factors when setting the School's 2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The State of Michigan foundation allowance is determined by multiplying the blended student count by the per pupil foundation allowance. The blended count for the 2008 fiscal year is 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The original 2008 budget was adopted in June 2007, based on an estimate of students to be enrolled in September 2007. The budget adopted for the 2007-2008 school year is projecting a small increase in the student population and a small decrease in the per pupil foundation. The original budget for fiscal year 2008 is projecting a small increase in fund balance for the year.

Approximately 92 percent of total General Fund revenue comes from the State of Michigan foundation allowance. As a result, School funding is heavily dependent on the state's ability to fund local school operations. Based on early enrollment data at the start of the 2007-2008 school year, we anticipate that the fall student count will be near the estimates used in creating the fiscal 2008 budget. Once the final student count and related per pupil funding is validated, state law requires the School to amend the budget if actual district resources are not sufficient to fund original appropriations.

The School will also be obtaining a state aid anticipation note.

In September, the School refinanced all of its mortgage obligations. See Note G for more information.

### Request for Information

This financial report is designed to provide a general overview of Muskegon Technical Academy's finances for those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Muskegon Technical Academy, 2900 E. Apple Avenue, Muskegon, MI 49442, and (231) 777-3682.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

October 9, 2007

Board of Education  
Muskegon Technical Academy  
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Muskegon Technical Academy, as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Muskegon Technical Academy's management. Our responsibility is to express opinions of 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Muskegon Technical Academy, as of June 30, 2007, and the respective changes in financial position 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 October 9, 2007, on our consideration of Muskegon Technical 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 and budgetary comparison information on pages i - vi and page 21, 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.



Muskegon Technical Academy  
**STATEMENT OF NET ASSETS**  
 June 30, 2007

ASSETS

		Governmental activities
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$	114,110
Accounts receivable		2,780
Due from other governmental units		369,332
Total current assets		486,222
<b>NONCURRENT ASSETS</b>		
Capital assets, net		
Nondepreciable		100,000
Depreciable		2,520,164
Debt issuance costs, net		11,326
Total noncurrent assets		2,631,490
Total assets		3,117,712
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
State aid loan		20,462
Accounts payable and accrued liabilities		183,382
Mortgages and other obligations, due within one year		91,000
Total current liabilities		294,844
<b>NONCURRENT LIABILITIES</b>		
Mortgages and other obligations, less amounts due within one year		2,533,609
Total liabilities		2,828,453
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt		6,881
Unrestricted		282,378
Total net assets	\$	289,259

The accompanying notes are an integral part of this statement.

Muskegon Technical Academy  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2007

<i><b>Functions/Programs</b></i>	Expenses	Program Revenue		Net (Expenses) Revenue and Changes in Net Assets
		Charges for services	Operating grants and contributions	Governmental activities
Governmental activities				
Instruction	\$ 1,061,772	\$ 11,822	\$ 292,690	\$ (757,260)
Support services	676,129	-	24,778	(651,351)
Food services	105,260	25,554	82,977	3,271
Interest on long-term debt	197,086	-	-	(197,086)
Unallocated depreciation and amortization	176,760	-	-	(176,760)
Total governmental activities	\$ 2,217,007	\$ 37,376	\$ 400,445	(1,779,186)
General revenues				
Grants and contributions not restricted to specific programs				1,779,342
Miscellaneous				3,522
Total general revenues				1,782,864
Change in net assets				3,678
Net assets at July 1, 2006				285,581
Net assets at June 30, 2007				\$ 289,259

The accompanying notes are an integral part of this statement.

Muskegon Technical Academy  
**BALANCE SHEET**  
 Governmental Funds  
 June 30, 2007

	<u>General Fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 99,983	\$ 14,127	\$ 114,110
Accounts receivable	2,780	-	2,780
Due from other governmental units	369,332	-	369,332
Total assets	<u>\$ 472,095</u>	<u>\$ 14,127</u>	<u>\$ 486,222</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
State aid loan	\$ 20,462	\$ -	\$ 20,462
Accounts payable	13,736	1,093	14,829
Accrued liabilities	152,416	-	152,416
Total liabilities	186,614	1,093	187,707
 Fund balances			
Unreserved			
General Fund	285,481	-	285,481
School service	-	13,034	13,034
Total fund balances	<u>285,481</u>	<u>13,034</u>	<u>298,515</u>
Total liabilities and fund balances	<u>\$ 472,095</u>	<u>\$ 14,127</u>	<u>\$ 486,222</u>

The accompanying notes are an integral part of this statement.

Muskegon Technical Academy  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS**  
 June 30, 2007

Total fund balance—governmental funds \$ 298,515

Amounts reported for governmental activities in the Statement of Net Assets  
 are different because:

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

Cost of capital assets	\$ 3,384,896	
Accumulated depreciation	<u>(764,732)</u>	2,620,164

Debt issuance costs are not capitalized and amortized in the governmental funds.

Debt issuance costs	13,324	
Accumulated amortization	<u>(1,998)</u>	11,326

Accrued interest in governmental activities is not reported in the governmental funds. (16,137)

Long-term liabilities in governmental activities are not due and payable in the current  
 period and are not reported in the governmental funds. (2,624,609)

Net assets of governmental activities in the Statement of Net Assets \$ 289,259

The accompanying notes are an integral part of this statement.

Muskegon Technical Academy  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
 Governmental Funds  
 For the year ended June 30, 2007

	<u>General Fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
<b>REVENUES</b>			
Local sources			
Fees and charges	\$ -	\$ 20,809	\$ 20,809
Other	<u>15,344</u>	<u>-</u>	<u>15,344</u>
Total local sources	15,344	20,809	36,153
State sources	1,928,507	6,997	1,935,504
Federal sources	<u>156,976</u>	<u>80,724</u>	<u>237,700</u>
Total revenues	2,100,827	108,530	2,209,357
<b>EXPENDITURES</b>			
Instruction	1,068,008	-	1,068,008
Support services	677,524	-	677,524
Food services	-	105,260	105,260
Debt service			
Principal	88,414	-	88,414
Interest	195,635	-	195,635
Capital outlay	<u>349,365</u>	<u>-</u>	<u>349,365</u>
Total expenditures	<u>2,378,946</u>	<u>105,260</u>	<u>2,484,206</u>
Excess (deficiency) of revenues over (under) expenditures	(278,119)	3,270	(274,849)
<b>OTHER FINANCING SOURCES</b>			
Transfers from other governmental units and other transactions	11,328	-	11,328
Loan proceeds	<u>349,365</u>	<u>-</u>	<u>349,365</u>
	<u>360,693</u>	<u>-</u>	<u>360,693</u>
Net change in fund balances	82,574	3,270	85,844
Fund balances at July 1, 2006	<u>202,907</u>	<u>9,764</u>	<u>212,671</u>
Fund balances at June 30, 2007	<u>\$ 285,481</u>	<u>\$ 13,034</u>	<u>\$ 298,515</u>

The accompanying notes are an integral part of this statement.

Muskegon Technical Academy  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2007

Net change in fund balances—total governmental funds \$ 85,844

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

Governmental funds report outlays for capital assets and debt issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (176,760)	
Capital outlay	<u>356,996</u>	180,236

Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term obligations in the Statement of Net Assets.	(349,365)
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Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	88,414
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Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.	<u>(1,451)</u>
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Change in net assets of governmental activities	<u><u>\$ 3,678</u></u>
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The accompanying notes are an integral part of this statement.

Muskegon Technical Academy  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
Fiduciary Funds  
June 30, 2007

	<u>Agency funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>8,757</u>
<b>LIABILITIES</b>	
Deposits held for others	\$ <u>8,757</u>

The accompanying notes are an integral part of this statement.

Muskegon Technical Academy  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Muskegon Technical Academy (School) 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 School's accounting policies are described below.

**Reporting Entity**

The School is governed by an appointed five to nine member Board of Directors (Board), which has responsibility and control over all activities related to public school education within the School. The School receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

***School-wide and Fund Financial Statements***

**School-wide Financial Statements** – The primary focus of school-wide financial statements is on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities. The school-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 School. For the most part, the effect of interfund activity has been removed from these statements. The school-wide financial statements categorize primary activities as either governmental or business type. All of the School's activities are classified as governmental activities.

In the school-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 School's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School first utilizes restricted resources to finance qualifying activities. *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*.

The school-wide Statement of Activities reports both the gross and net cost of each of the School's functions. The functions are also supported by general revenues (certain intergovernmental revenues and charges, etc.). 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 School does not allocate indirect costs.

Muskegon Technical Academy  
NOTES TO FINANCIAL STATEMENTS—CONTINUED  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*School-wide and Fund Financial Statements—Continued*

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

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

The School reports the following major governmental funds:

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

The other nonmajor governmental funds are reported within the following types:

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

**Fiduciary funds** – Fiduciary funds account for assets held by the School in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the school-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School holds for others in an agency capacity (primarily student activities).

*Measurement Focus, Basis of Accounting and Basis of Presentation*

**Accrual Method**

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

Muskegon Technical Academy  
NOTES TO FINANCIAL STATEMENTS—CONTINUED  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Measurement Focus, Basis of Accounting and Basis of Presentation—Continued*

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. 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 School 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 compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, 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 School.

**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 schools based on information supplied by the school. For the year ended June 30, 2007, the Foundation allowance was based on pupil membership counts taken in February and September of 2006.

The School 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. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

*Other Accounting Policies*

**Deposit and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, 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 standard also provides 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 School intends to hold the investment until maturity.

Muskegon Technical Academy  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Other Accounting Policies—Continued*

**Deposit and Investments—Continued**

State statutes authorize the School 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 School 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. The School's deposits and investments are in accordance with statutory authority.

**Interfund Receivables and Payables**

Activities between funds that are representative of lending or 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). All other outstanding balances between funds are reported as "due to/from other funds". The School had no advances between funds.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

**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. Capital assets are defined by the School as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	10-30 years
Furniture and equipment	3-7 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Muskegon Technical Academy  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Other Accounting Policies—Continued*

**Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

**Long-term Obligations**

In the school-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

**Net Assets In School-wide Financial Statements**

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

**Fund Equity In Fund Financial Statements**

The School reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Muskegon Technical Academy  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue fund. All annual appropriations lapse at year end.

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

1. The President submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain constituent comments.
3. Prior to July 1, the budget is legally adopted by Board of Directors resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will 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, are noted in the required supplementary information section.
4. Formal budgetary integration is employed as a management control device during the year.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007.

**NOTE C—DEPOSITS AND INVESTMENTS**

**Interest rate risk.** The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School has no investment policy that would further limit its investment choices.

**Concentration of credit risk.** The School's concentration of credit risk policy seeks to minimize loss by diversifying the investment portfolio so the impact of potential losses from any one type of security or issuer will be minimized. Concentration of credit risk is the risk of loss attributed to the magnitude of the School investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Muskegon Technical Academy  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
 June 30, 2007

**NOTE C—DEPOSITS AND INVESTMENTS—Continued**

**Custodial credit risk - deposits.** The School's custodial credit risk policy for deposits seeks to minimize custodial credit risk by pre-qualifying financial institutions based upon various criteria. In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to it. As of June 30, 2007, \$59,884 of the School's bank balance of \$159,884 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments.** The School's custodial credit risk policy for investments seeks to minimize custodial credit risk by limiting investments to those authorized by their investment policy and by pre-qualifying financial institutions, broker/dealers, intermediaries and advisors based upon various criteria. This is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Foreign currency risk.** The School is not authorized to invest in investments which have this type of risk.

**NOTE D—CAPITAL ASSETS**

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

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<b>Capital assets, not being depreciated:</b>				
Land	\$ 100,000	\$ -	\$ -	\$ 100,000
Construction in progress	18,750	-	18,750	-
Total capital assets, not being depreciated	118,750	-	18,750	100,000
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	2,318,300	368,115	-	2,686,415
Furniture and equipment	590,850	7,631	-	598,481
Total capital assets, being depreciated	2,909,150	375,746	-	3,284,896
<b>Less accumulated depreciation:</b>				
Buildings and improvements	253,009	90,170	-	343,179
Furniture and equipment	335,629	85,924	-	421,553
Total accumulated depreciation	588,638	176,094	-	764,732
Total capital assets, being depreciated, net	2,320,512	199,652	-	2,520,164
Capital assets, net	\$ 2,439,262	\$ 199,652	\$ 18,750	\$ 2,620,164

**Depreciation**

Depreciation expense has been charged as unallocated depreciation.

Muskegon Technical Academy  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
 June 30, 2007

**NOTE E—DEBT ISSUANCE COSTS**

Debt issuance cost activity for the year ended June 30, 2007 was as follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2007</u>
Debt issuance costs	\$ 13,324	\$ -	\$ -	\$ 13,324
Less accumulated amortization	<u>1,332</u>	<u>666</u>	<u>-</u>	<u>1,998</u>
Debt issuance costs, net	<u>\$ 11,992</u>	<u>\$ (666)</u>	<u>\$ -</u>	<u>\$ 11,326</u>

**Amortization**

Amortization expense has been charged as unallocated amortization.

**NOTE F—SHORT-TERM DEBT**

The School issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School. The short-term debt activity for the year ended June 30, 2007 follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>
State aid anticipation note				
2005/2006 6.31% due July 2006	\$ 42,094	\$ -	\$ 42,094	\$ -
2006/2007 4.95% due July 2007	<u>-</u>	<u>200,000</u>	<u>179,538</u>	<u>20,462</u>
	<u>\$ 42,094</u>	<u>\$ 200,000</u>	<u>\$ 221,632</u>	<u>\$ 20,462</u>

**NOTE G—LONG-TERM OBLIGATIONS**

The School issues notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. The notes are direct obligations and pledge the full faith and credit of the School.

**Summary of Long-term Obligations**

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

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Due within</u> <u>one year</u>
<b>Governmental activities:</b>					
Mortgages	\$ 2,282,163	\$ 349,365	\$ 47,678	\$ 2,583,850	\$ 60,083
Installment purchase agreement	48,328	-	17,757	30,571	20,729
Capital lease	<u>33,167</u>	<u>-</u>	<u>22,979</u>	<u>10,188</u>	<u>10,188</u>
	<u>\$ 2,363,658</u>	<u>\$ 349,365</u>	<u>\$ 88,414</u>	<u>\$ 2,624,609</u>	<u>\$ 91,000</u>

Muskegon Technical Academy  
NOTES TO FINANCIAL STATEMENTS—CONTINUED  
June 30, 2007

**NOTE G—LONG-TERM OBLIGATIONS—Continued**

**Summary of Long-term Obligations—Continued**

Mortgages consist of the following:

Mortgage payable in monthly installments of \$6,441 including interest at 8% (prime less .25% to .5%); final payment of approximately \$908,000 due January 2010	\$ 926,832
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Mortgage payable in monthly installments of \$7,330 including interest at 6.59%; final payment of approximately \$825,000 due January 2010	890,148
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Mortgage payable in monthly installments of \$3,764 including interest at 8%; final payment of approximately \$402,000 due December 2009	425,647
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Mortgage payable in monthly installments of \$1,357 plus interest at 8% (prime less .25% to .5%); final payment of approximately \$313,000 due January 2010	341,223
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Installment purchase agreement

Furniture installment loan payable in monthly installments of \$1,796 including interest at 9.25% (prime plus 1%); final payment due September 2008	30,571
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Capital lease

Capital lease obligation, secured by computer equipment, payable in monthly installments of \$2,045 including interest at 6.35%; final payment due November 2007	<u>10,188</u>
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Total long-term obligations	<u><u>\$ 2,624,609</u></u>
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Muskegon Technical Academy  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
 June 30, 2007

**NOTE G—LONG-TERM OBLIGATIONS—Continued**

**Summary of Long-term Obligations—Continued**

The annual requirements of principal and interest to amortize obligations outstanding as of June 30, 2007 follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 91,000	\$ 189,313	\$ 280,313
2009	75,781	183,375	259,156
2010	2,457,828	113,233	2,571,061
	\$ 2,624,609	\$ 485,921	\$ 3,110,530

Included in long-term debt is a \$341,223 demand mortgage payable with payments due through January 2010. The mortgage is payable to the bank upon demand plus accrued interest. The proceeds of the mortgage were used to fund the School's building addition during the year. The redemption schedule for this mortgage is included in the long-term obligation redemption schedule above. This mortgage along with the other three mortgages were refinanced. See Note J.

**NOTE H—COMMITMENTS AND CONTINGENCIES**

**Commitments**

- **Operating leases** - The School has lease agreements expiring at various dates through September 2011. Expense for the year ended June 30, 2007 was approximately \$10,000. The following is a schedule of future minimum rental payments required under operating leases for the School office equipment.

Year ending June 30,	Total
2008	\$ 8,832
2009	8,832
2010	8,832
2011	2,208
	\$ 28,704

Muskegon Technical Academy  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE H—COMMITMENTS AND CONTINGENCIES—Continued**

**Contingencies**

- **Grant programs** - The School participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Based upon prior experience and audit results, the School believes it is not likely it will incur significant losses on possible grant disallowances.

**NOTE I—OTHER INFORMATION**

**Economic dependence** - The School does not have the ability to levy property taxes and a majority of School revenues came from the State of Michigan.

**Risk management** - The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2007 or any of the prior three years.

**Management services agreement** - The School leases its employees from an employee leasing company (Company). Expenditures for employee costs such as salaries and wages, payroll taxes, and benefits under the management services agreements have been recorded and reported in conformance with the State of Michigan's standard chart of accounts.

**Defined contribution plan** - The Company maintains a defined contribution plan covering substantially all of the leased employees. In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings. Contributions and costs are determined as 6 percent of each covered employee's salary. For the year ended June 30, 2007, the contributions totaled approximately \$51,000.

**NOTE J—SUBSEQUENT EVENTS**

**State Aid Note**

In August 2007, the School received the proceeds of a \$250,000 State of Michigan (State) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity in July 2008 and bears interest at the rate of 4.7 percent per annum. The School pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit, and resources of the School.

**Revenue Refunding Bonds**

In September 2007, the School issued bonds to refinance all of the School's outstanding mortgages. The \$3,210,000 revenue refunding bonds are payable in annual installments of \$45,000 to \$205,000 plus interest through August 2037. Interest is payable at rates varying from 5 to 6 percent.

**REQUIRED SUPPLEMENTARY INFORMATION**

Muskegon Technical Academy  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**

General Fund

For the year ended June 30, 2007

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 17,000	\$ 16,000	\$ 15,344	\$ (656)
State sources	1,961,493	1,911,271	1,928,507	17,236
Federal sources	164,221	181,111	156,976	(24,135)
Incoming transfer and other transactions	-	-	11,328	11,328
	2,142,714	2,108,382	2,112,155	3,773
<b>EXPENDITURES</b>				
Instruction				
Basic programs	809,249	780,410	772,516	7,894
Added needs	297,665	306,252	295,492	10,760
Support services				
Pupil	121,754	127,028	123,640	3,388
Instructional staff	17,306	18,447	17,995	452
General administration	295,971	314,396	298,767	15,629
School administration	-	-	1,123	(1,123)
Business	74,112	71,589	63,729	7,860
Operations and maintenance	169,062	160,600	158,525	2,075
Pupil transportation services	4,000	4,000	3,373	627
Central	13,000	14,452	10,372	4,080
Debt service				
Principal	87,762	88,937	88,414	523
Interest	208,663	196,563	195,635	928
Capital outlay	-	350,000	349,365	635
Outgoing transfers and other transactions	20,000	-	-	-
Total expenditures	2,118,544	2,432,674	2,378,946	53,728
Excess (deficiency) of revenues over expenditures	24,170	(324,292)	(266,791)	57,501
<b>OTHER FINANCING SOURCES</b>				
Loan proceeds	2,997	352,000	349,365	(2,635)
Net change in fund balance	\$ 27,167	\$ 27,708	82,574	\$ 54,866
Fund balances at July 1, 2006			202,907	
Fund balances at June 30, 2007			\$ 285,481	

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

October 9, 2007

Board of Directors  
Muskegon Technical Academy  
Muskegon, Michigan

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

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

A *material weakness* is a significant deficiency, or a 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.

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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiency in internal control that we consider to be a significant deficiency.

This communication is intended solely for the information and use of the Board of Directors, management, 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.



## SIGNIFICANT DEFICIENCIES

### *Cash disbursements*

Recommendation 1: All vendor invoices should bear proper evidence of receipt.

During our detailed cash disbursement tests, we noted two vendor invoices were paid without proper evidence of receipt.

Requiring proper documentation of receipt would ensure that cash disbursements are made for goods actually received.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**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***

October 9, 2007

Board of Directors  
Muskegon Technical Academy  
Muskegon, Michigan

We have audited the financial statements of Muskegon Technical Academy as of and for the year ended June 30, 2007 and have issued our report thereon dated October 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered Muskegon Technical Academy's internal control over financial reporting 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 Muskegon Technical Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Muskegon Technical 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 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 entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a significant deficiency in internal control over financial reporting.

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.

Board of Directors  
October 9, 2007  
Page 2

*Internal Control Over Financial Reporting—Continued*

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 believe that the significant deficiency described above is not material weaknesses.

*Compliance*

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

Muskegon Technical Academy's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Muskegon Technical Academy's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, 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.

*Brickley DeLong, PLLC*

Muskegon Technical Academy  
**SCHEDULE OF FINDINGS AND RESPONSES**  
Year ended June 30, 2007

**COMPLIANCE**

NONE

**SIGNIFICANT DEFICIENCIES**

**Fiscal 2007 Finding No. 1: Proper evidence of receipt**

*Criteria:* All cash disbursements should have proper evidence of receipt.

*Condition:* The School did not have proper evidence of receipt for two cash disbursements tested.

*Cause:* School personnel did not document the receipt of the goods or services received.

*Effect:* Cash disbursements could be made for goods or services not received.

*Recommendation:* The School should follow existing procedures and stress the importance of documenting evidence of receipt.

*School Response:* The School agrees with the finding.