Lakeshore Public Academy

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2007

Lakeshore Public Academy

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This section of the Lakeshore Public 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 Lakeshore Public 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 statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School 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 the Major Fund (Required Supplementary Information)

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

One of the most important questions asked about the School's financial statements is what are the statement of net assets and the statement of activities, which appear first in the School's financial statements. These statements report information on the School as a whole and its activities in a way that helps you better understand the school. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School's net assets—the difference between assets and liabilities, as reported in the statement of net assets—as one way to measure the School's financial health or financial position. Over time, increases or decreases in the School's net assets—as reported in the statement of activities—are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the schools operating results. The School's goal is to provide services to our students, not to generate profits as a commercial entity. 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, food service and athletics. Unrestricted State Aid (foundation allowance revenue), and grants finance most of these activities.

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. Some funds are required to be established by state law and bond covenants. However, the School has established other funds to help it control and manage money for particular purposes.

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 statement.

The School as a Whole
Recall that the statement of net assets provides the perspective of the School as a whole. The following table provides a summary of the School's net assets as of June 30, 2007.

Statement of Net Assets

	2007	2006
Assets		
Current and Other Assets	$ 258,179	$ 272,101
Capital Assets	-	1,706,607
Total Assets	258,179	1,978,708
Liabilities		
Current Liabilities	90,594	1,301,770
Long-term Liabilities	-	451
Total Liabilities	90,594	1,302,221
Net Assets		
Invested in Capital Assets, Net of Related Debt	-	444,856
Unrestricted	167,585	231,631
Total Net Assets	$ 167,585	$ 676,487

The analysis on the previous page focuses on the net assets. Capital assets net of depreciation and long-term debt decreased to zero as all assets were transferred as a settlement related to the default on the building promissory note. Current liabilities decreased due to the prior year including the balloon payment on the promissory note. The School's total net assets decreased due to the loss on the promissory note default. At June 30, 2007, the School had closed and vacated the facility.

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 year 2007. Revenue and expense comparison to fiscal year 2006 is listed below.

Statement of Activities

	2007	2006
Program Revenues		
Operating Grants	$ 98,072	$ 119,549
General Revenues		
Grants and Contributions Not Restricted to Specific Programs	801,475	916,581
Miscellaneous	4,725	1,661
Total Program Revenues and General Revenues	904,272	1,037,791
Expenses		
Instruction	441,089	477,057
Support Services	313,106	307,355
Food Services	19,011	15,064
Athletics	10,683	20,872
Interest on Long-term Debt	126,212	116,324
Unallocated Depreciation	52,044	58,461
Total Governmental Activities	962,145	995,133
Change in Net Assets Before Special Item	(57,873)	42,658
Special Item - Default on Long-term Debt	(451,029)	-
Change in Net Assets	(508,902)	42,658
Net Assets at Beginning of Year	676,487	633,829
Net Assets at End of Year	$ 167,585	$ 676,487

Change in Net Assets

The School experienced a decrease in net assets of $508,902. This decrease was due to a drop in School enrollment and additional costs of closing including the default settlement on the building, lease termination payment on vehicle leases entered into during the year, and the cost of unemployment coverage for terminated employees. Operating grants decreased due to the School not applying for the federal grants during the year. Grants and contributions not restricted to a specific program decreased due to the drop in enrollment mentioned above. Instruction decreased due to a reduction in teaching positions. Support services increased slightly during the year. The increase was due to special costs related to closing the School including vehicle termination payments of about $19,000 and a payment related to the termination of the telecommunication agreement of $2,500. Athletics decreased due to fewer programs offered. Interest on long-term debt increased due to a full year of debt payments at higher rates. Depreciation decreased due to some older assets becoming fully depreciated. The default on the promissory noted resulted in a $451,029 loss to the School after considering the capital assets forfeited and the termination payment made to satisfy the outstanding long-term debt. This loss is the result of pledging the building and all of its contents as collateral for the building promissory note along with a termination payment of $38,850.

The School's Funds

As we noted earlier, the School uses funds to help it control and manage money for specific purposes. The General Fund ended the year with a decrease in fund balance of $64,046. This loss was the result of a drop in enrollment, lack of federal funding, and costs associated with closing the School.

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. Below is a list of the more significant amendments to the original budget.

Revenues

- State sources were amended lower due to a drop in student enrollment.
- Federal revenues were amended lower due to not applying for federal grants for this fiscal year.

Expenditures

- Basic programs and added needs budgets were amended lowered due to a decrease in operating costs in reaction to the drop in student enrollment.
- Operations and maintenance costs were amended lower due to lower than anticipated costs.
- A budget contingency line item was added to the budget to account for the various unknown expenditures expected as part of closing the School.
- A settlement payment budget line item was broken out of the contingency budget to account for the settlement agreement on the default on the School's long-term debt.

The final amendment to the budget was adopted just before the end of the year. (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.) Below is a list of significant budget to actual variances.

Revenues

- State revenues came in higher than anticipated due the State of Michigan not cutting School funding as anticipated.
- Federal revenues under budget due to budgeting for all cash collected. Not all monies received were spent and some will have to be returned.

Expenditures

- The only significant budget to actual line item was the contingency line item. The School budgeted the balance of the School’s fund balance since any monies remaining will ultimately be returned to the State of Michigan.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007, the School had no capital assets. As noted earlier, the School defaulted on its promissory note related to the School’s building. As a result of the settlement agreement related to this debt, all assets were transferred as satisfaction of the promissory note.

Debt

At June 30, 2007, the School had no long-term debt. As noted above, the School defaulted on the promissory note related to the building. All other debt was paid off during the year.

Economic Factors and Next Year’s Budget

The School closed effective June 30, 2007. The School has established a temporary location in order to complete the balance of the procedures necessary to close the School in accordance with State of Michigan laws. The School expects to complete this process prior to June 30, 2008.

The School expects to have only a few additional significant expenditures prior to closing the temporary offices. The School is a reimbursing employer for State of Michigan unemployment purposes and therefore the School expects to reimburse the State of Michigan for all unemployment claims filed by former employees. The School will also have additional expenditures related to administration, possible legal fees and final auditing fees prior to closing the School.

Contacting the School Financial Management

The financial report is designed to provide a general overview of the School’s finances for all those interested in the School’s finances. If you have any questions about this report or need additional information, contact the Lakeshore Public Academy, 605 N. Rath Street, Ludington, MI 49431.

BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

November 1, 2007

Board of Directors
Lakeshore Public Academy
Ludington, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lakeshore Public Academy (the School), as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lakeshore Public Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The accompanying financial statements have been prepared assuming that Lakeshore Public Academy will continue as a going concern. As discussed in Note J to the financial statements, the School Board has decided to close the School. Management's plans regarding this matter is also described in Note J. The financial statements do not include any adjustments that might result from the outcome of this action.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2007, on our consideration of Lakeshore Public Academy's 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 i - v and page 19, are not a required part of the basic financial statement 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.

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Lakeshore Public Academy
STATEMENT OF NET ASSETS
June 30, 2007

ASSETS		Governmental activities
CURRENT ASSETS		
Cash and cash equivalents	$	100,522
Due from other governmental units		157,657
Total assets		258,179
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities		75,036
Due to other governmental units		15,558
Total liabilities		90,594
NET ASSETS		
Unrestricted	$	167,585

The accompanying notes are an integral part of this statement.

Lakeshore Public Academy
STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

Functions/Programs	Expenses	Program Revenue Operating grants and contributions	Net (Expense) Revenue and Changes in Net Assets Governmental activities
Governmental activities			
Instruction	$ 441,089	$ 98,072	$ (343,017)
Support services	313,106	-	(313,106)
Food services	19,011	-	(19,011)
Athletics	10,683	-	(10,683)
Interest on long-term debt	126,212	-	(126,212)
Unallocated depreciation	52,044	-	(52,044)
Total governmental activities	$ 962,145	$ 98,072	(864,073)
General revenues			
Grants and contributions not restricted to specific programs			801,475
Investment earnings			3,393
Miscellaneous			1,332
Special item - default on long-term debt			(451,029)
Total general revenues and special item			355,171
Change in net assets			(508,902)
Net assets at July 1, 2006			676,487
Net assets at June 30, 2007			$ 167,585

The accompanying notes are an integral part of this statemen

Lakeshore Public Academy

BALANCE SHEET

Governmental Funds

June 30, 2007

	General Fund	Other governmental funds	Total governmental funds
ASSETS			
Cash and cash equivalents	$ 100,522	$ -	$ 100,522
Due from other governmental units	157,657	-	157,657
Total assets	$ 258,179	$ -	$ 258,179
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 67,536	$ -	$ 67,536
Accrued liabilities	7,500	-	7,500
Due to other governmental units	15,558	-	15,558
Total liabilities	90,594	-	90,594
Fund balances			
Unreserved	167,585	-	167,585
Total liabilities and fund balances	$ 258,179	$ -	$ 258,179

The accompanying notes are an integral part of this statement.

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

	General Fund	Other governmental funds	Total governmental funds
REVENUES			
Local sources			
Investment earnings	$ 3,393	$ -	$ 3,393
Other	1,330	-	1,330
Total local sources	4,723	-	4,723
State sources	882,668	-	882,668
Federal sources	16,879	-	16,879
Total revenues	904,270	-	904,270
EXPENDITURES			
Current			
Instruction	441,089	-	441,089
Support services	313,106	-	313,106
Food services	-	19,011	19,011
Athletics	-	10,683	10,683
Debt service			
Principal	19,365	-	19,365
Interest and other charges	126,212	-	126,212
Total expenditures	899,772	29,694	929,466
Excess (deficiency) of revenues over (under) expenditures	4,498	(29,694)	(25,196)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	29,694	29,694
Transfers out	(29,694)	-	(29,694)
Total other financing sources (uses)	(29,694)	29,694	-
SPECIAL ITEM			
Termination fee on long-term debt default	(38,850)	-	(38,850)
Net change in fund balances	(64,046)	-	(64,046)
Fund balances at July 1, 2006	231,631	-	231,631
Fund balances at June 30, 2007	$ 167,585	$ -	$ 167,585

The accompanying notes are an integral part of this statement.

Lakeshore Public 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		$ (64,046)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.		
Depreciation expense	$ (52,044)	
Capital outlay	-	(52,044)
The transfer of the capital assets as part of the settlement agreement does not provide current financial resources and they are not reported in the g overnmental funds.		(1,654,563)
The settlement agreement on the defaulted long-term debt does not utilize current financial resources and it is not recorded in the governmental funds.		1,242,386
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.		19,365
Change in net assets of governmental activities		$ (508,902)

The accompanying notes are an integral part of this statement.

Lakeshore Public Academy
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2007

		Agency Fund
ASSETS		
Cash and cash equivalents	$	991
LIABILITIES		
Deposits held for others	$	991

The accompanying notes are an integral part of this statement.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lakeshore Public 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-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.

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 fund:

- 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. The School accounts for its food service and athletic activities in the school service special revenue funds.

Fiduciary funds – Fiduciary funds account for assets held by the School in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School under the terms of a formal trust agreement. 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.

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.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

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 Schools. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

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

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 deferred 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 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.

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.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Capital Assets
Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School as assets with an initial cost of more than $500 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than $500 as composite groups for financial reporting purposes. 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	50 years
Furniture and equipment	5-20 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.

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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

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.

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 funds. All annual appropriations lapse at year end.

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

1. The designated responsible official 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 taxpayer comments.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgets and Budgetary Accounting—Continued

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. The designated responsible official is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The School does not consider these amendments to be significant.

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 does not have a concentration of credit risk policy. 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.

Custodial credit risk - deposits. 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, $8,385 of the School's bank balance of $108,385 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The School does not have a custodial credit risk policy for investments. 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
Capital assets, not being depreciated:				
Land	$ 20,000	$ -	$ 20,000	$ -
Total capital assets, not being depreciated	20,000	-	20,000	-
Capital assets, being depreciated:				
Buildings and improvements	1,808,416	-	1,808,416	-
Furniture and equipment	188,452	-	188,452	-
Total capital assets, being depreciated	1,996,868	-	1,996,868	-
Less accumulated depreciation:				
Buildings and improvements	184,639	37,584	222,223	-
Furniture and equipment	125,622	14,460	140,082	-
Total accumulated depreciation	310,261	52,044	362,305	-
Total capital assets, being depreciated, net	1,686,607	(52,044)	1,634,563	-
Capital assets, net	$ 1,706,607	$ (52,044)	$ 1,654,563	$ -

Depreciation
Depreciation expense has been charged as unallocated depreciation.

During the year, the School disposed of all capital assets. See Note K for more information.

NOTE E—INTERFUND TRANSFERS

The General Fund transferred $19,011 and $10,683 to the Food Service and Athletics Funds, respectively, to finance operations.

NOTE F—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. Other long-term obligations include capital leases.

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:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due within one year
Governmental activities:					
Installment loan was payable in monthly installments of $12,950, including interest at prime plus 2% (10.25% at June 30, 2007). In June 2007, the School defaulted on this loan. See Note K for more information.	$ 1,257,510	$ -	$ 1,257,510	$ -	$ -
Capital leases for various equipment acquisitions payable in monthly installments varying from $285 to $322, including interest at rates varying from 5% to 6%. Final payment made June 2007.	4,241	-	4,241	-	-
	$ 1,261,751	$ -	$ 1,261,751	$ -	$ -

NOTE G—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan
Plan description – The School contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS. The MPSERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

NOTE G—EMPLOYEE BENEFITS—Continued

Employee Retirement System – Defined Benefit Plan—Continued
Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first $5,000; 3.6 percent of $5,001 through $15,000; 4.3 percent of all wages over $15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2007, were 17.74 percent of payroll. The contribution requirements of plan members and the School are established and may be amended by the MPSERS Board of Trustees. The School contributions to MPSERS for the year ended June 30, 2007, 2006 and 2005 were approximately $63,500, $61,700, and $60,800, respectively, and were equal to the required contribution for those years.

The School is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE H—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 although the School expects such amounts, if any, to be immaterial.

NOTE I—OTHER INFORMATION

Economic Dependence – State of Michigan school aid represents approximately 98 percent of General Fund revenues.

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 the 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.

NOTE J—GOING CONCERN / SCHOOL CLOSURE

In February 2007, the School's Board of Directors voted to close the School. The School has been struggling with declining enrollment, flat per pupil revenues from the State of Michigan and increasing fringe benefit costs. The School vacated their facilities in June 2007 and established a temporary site. The School expects to maintain this temporary site until all the required school closure procedures required by the State of Michigan are completed including payment of all bills. Management expects this to be completed by June 30, 2008.

As shown in the accompanying financial statements, the School ended the year with a decrease in fund balance of $60,046 and an ending fund balance of $167,585. As of June 30, 2007, the School had terminated all employees, transferred all capital assets to an outside third party as settlement for the default on a promissory note secured by the School's facilities (see Note K for more information) and transferred all School records to an appropriate site.

The School does expect a few additional significant expenditures before the School can be closed. The first significant item is unemployment. The School elected in the past to reimburse the State of Michigan for unemployment benefits received by former employees of the School. All the employees terminated by the School will probably qualify for unemployment benefits and the amount of those benefits is not currently determinable since it is unclear how many employees will claim benefits and how long the employees will receive benefits. Management has recorded an estimated liability of $5,000 for the unemployment benefits paid by the State of Michigan in June 2007. The balance of the unemployment expenditures not recorded is estimated between $40,000 and $75,000. The School will also have final administrative expenditures to close the School. Remaining funds, if any, are required to be paid to the Michigan Department of Treasury.

NOTE K—SETTLEMENT AGREEMENT ON THE BUILDING

In June 2007, the School defaulted on the promissory note guaranteed by the School's building. As part of a settlement agreement the School made a lump sum payment of $38,850 and transferred title to all the School's capital assets including the building and all its contents as full satisfaction of the promissory note. As a result of this agreement, the School incurred a loss on disposal of the capital assets of $451,029 as follows:

Cost of Capital assets	$ 2,016,870
Accumulated deprecation on capital assets	(362,305)
Termination payment	38,850
Balance on promissory note	(1,242,386)
Loss on disposal due to default on long-term debt	$ 451,029

NOTE L—RELATED PARTY TRANSACTIONS

In September 2006, the School entered into a ten month agreement with a Company to provide certain custodial services through June 2007. The owner of such company is related to a member of the School's Board of Directors. Total expenditures under this contract were approximately $25,000.

REQUIRED SUPPLEMENTARY INFORMATION

Lakeshore Public Academy

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

General Fund

For the year ended June 30, 2007

	Budgeted amounts			Variance with final budget-positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	$ 1,000	$ 5,081	$ 4,723	$ (358)
State sources	954,500	871,346	882,668	11,322
Federal sources	74,079	35,865	16,879	(18,986)
	1,029,579	912,292	904,270	(8,022)
EXPENDITURES				
Instruction				
Basic programs	404,926	353,605	348,907	4,698
Added needs	120,330	93,330	92,182	1,148
Support services				
Instructional staff	650	385	1,952	(1,567)
School administration	142,445	145,925	146,738	(813)
Business	31,045	35,620	37,550	(1,930)
Operations and maintenance	119,435	98,900	90,115	8,785
Pupil transportation services	28,500	31,510	32,363	(853)
Central	8,000	6,415	4,388	2,027
Debt service				
Principal	30,000	30,000	19,365	10,635
Interest and other charges	123,950	129,305	126,212	3,093
Contingencies	-	150,433	-	150,433
Transfers out	30,110	29,645	29,694	(49)
Settlement payment	-	38,850	38,850	-
Total expenditures	1,039,391	1,143,923	968,316	175,607
Excess (deficiency) of revenues over (under) expenditures	$ (9,812)	$ (231,631)	(64,046)	$ 167,585
Fund balance at July 1, 2006			231,631	
Fund balance at June 30, 2007			$ 167,585	

BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

November 1, 2007

Board of Directors
Starr Blohm, Board President
Lakeshore Public Academy
Ludington, Michigan

In planning and performing our audit of the financial statements of Lakeshore Public 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 Lakeshore Public 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 deficiencies in internal control that we consider to be significant deficiencies.

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.

Brickley DeLong, PLC

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SIGNIFICANT DEFICIENCIES

Segregation of Duties

Recommendation 1: Segregation of duties should be strengthened.

Although the small size of the School's staff limits the segregation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. Often, one of the most effective approaches is the expansion of documented approval of transactions and reconciliations by someone outside of the office staff.

We would suggest that the bank statements be received unopened and reviewed by someone independent of the accounting function.

Cash Management

Recommendation 2: Cash management procedures should be improved.

During our audit, we noted that the draw down of federal funds occurred for monies unspent. These draw downs in excess of expenditures are a violation of federal cash management rules.

The School should develop procedures to ensure that draw down of federal monies are only made for federal expenditures incurred. The excess draw down of federal monies should be returned to the State of Michigan.

Financial Statement Preparation

Recommendation 3: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The School should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.

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*

November 1, 2007

Board of Directors
Starr Blohm, Board President
Lakeshore Public Academy
Ludington, Michigan

We have audited the financial statements of Lakeshore Public Academy as of and for the year ended June 30, 2007 and have issued our report thereon dated November 1, 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 Lakeshore Public 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 Lakeshore Public Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lakeshore Public 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 deficiencies described in the accompanying Schedule of Findings and Responses, as Findings 1 - 3, to be significant deficiencies 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.

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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 deficiencies described above are not material weaknesses.

Compliance
As part of obtaining reasonable assurance about whether Lakeshore Public 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.*

Lakeshore Public Academy's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Lakeshore Public 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, PLC

Lakeshore Public Academy
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2007

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 1: Segregation of Duties

Criteria: Duties should be adequately segregated so as to separate incompatible duties.

Condition: A certain individual has access to both physical assets and the related accounting records or all phases of a transaction.

Cause: The School is a small organization with limited opportunities for the segregation of duties.

Effect: Errors in processing transactions and financial reporting and the misappropriation of assets could go undetected.

Recommendation: Segregation of duties should be strengthened by having the unopened bank statements reviewed by someone independent of the accounting function.

School Response: The School agrees with the finding and has implemented the recommended procedure.

Fiscal 2007 Finding No. 2: Cash Management Procedures Should be Improved

Criteria: Federal grant funds should only be drawn down after qualified grant expenditures have been incurred.

Condition: Federal funds were drawn down without a corresponding grant expenditure.

Cause: The School drew the funds down when available rather than after incurring qualified expenditures.

Effect: The School violated federal cash management rules by drawing down monies not spent

Recommendation: The School should develop procedures to ensure grant monies are only drawn down for expenditures incurred and all draw downs in excess of expenditures incurred should be returned to the State of Michigan.

School Response: The School agrees with the finding.

Fiscal 2007 Finding No. 3: Financial Statement Preparation

Criteria: The preparation of the formal financial statements should have documented control procedures.

Condition: There are currently no internal controls related to the preparation and review of the formal year end financial statements.

Cause: The School is a small organization with limited resources and personnel have difficulty in establishing and maintaining effective internal controls related to the preparation and review of the formal financial statements.

Effect: There could be errors and omissions in the financial statements that go undetected.

Recommendation: The School should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.

School Response: The School agrees with the finding, but will not implement any changes due to the closing of the School.