

The Morey Charter School

Shepherd, Michigan

Audited Financial Statements

June 30, 2007

CROSKEY, LANNI & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of The Morey Charter School

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

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

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of The Morey Charter School 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 management's discussion and analysis and budgetary comparison information on pages iii through viii and 17, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Morey Charter School's basic financial statements. The introductory section, combining and individual non major fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2007 on our consideration of The Morey Charter School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.


Croskey, Ianni & Company, P.C.

August 30, 2007
Rochester, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Morey Charter School's (Academy) annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

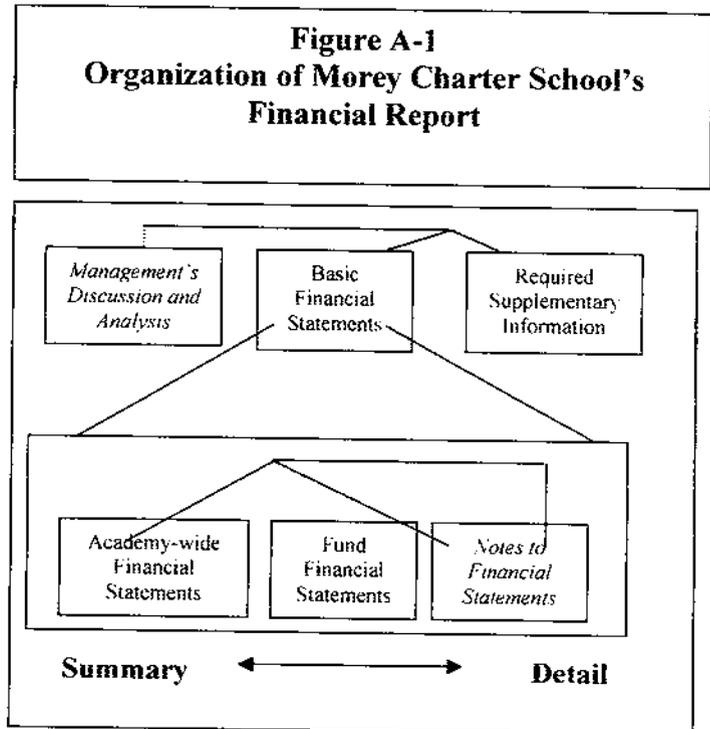
Financial Highlights

- The Academy had a decrease in the fund balance in the general fund of \$54,362 compared to a budgeted decrease of \$109,023. This gives the Academy a general fund balance of \$239,505.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



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

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

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

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

Academy-Wide Statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two Academy-wide statements report the Academy’s net assets and how they have changed. Net assets - the difference between the Academy’s assets and liabilities, are one way to measure the Academy’s financial health or position.

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

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

Fund Financial Statements

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

- Governmental funds - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.
- Fiduciary funds - The Academy is the trustee, or fiduciary, for assets that belong to others. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the Academy-wide financial statements because the Academy cannot use these assets to finance operations.

Financial Analysis of the Academy as a Whole

Net assets - the Academy's combined net assets of \$259,009 decreased by \$66,383 during the year. See Figures A-3 and A-4.

The total revenues decreased by 13.7% to \$1,934,630. This is mainly due to a 18.7% decrease in enrollment. State aid foundation allowance included in revenue from state sources accounts for 83.0% of the Academy's revenue.

The total cost of instruction decreased by 15.7% to \$948,049. Total support service decreased by 6.9% to \$994,803. Both were primarily due to cost cutting measures resulting from the decrease in enrollment.

**Figure A-3
Morey Charter School's Net Assets**

	<u>2007</u>	<u>2006</u>
Current assets	\$ 393,814	\$ 469,072
Capital assets, net	14,844	25,639
Total assets	408,658	494,711
Current liabilities	149,649	69,319
Long-term liabilities	-	-
Total liabilities	149,649	69,319
Net assets:		
Invested in capital assets, net of related debt	14,844	25,639
Unrestricted, as restated	244,165	299,753
Total net assets	<u>\$ 259,009</u>	<u>\$ 325,392</u>

**Figure A-4
Changes in Morey Charter School's Net Assets**

	<u>2007</u>	<u>2006</u>
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 296,848	\$ 254,271
General revenues:		
State aid - unrestricted	1,605,658	1,926,485
Other	32,124	62,599
Total general revenues	1,637,782	1,989,084
Total revenues	1,934,630	2,243,355
Expenses:		
Instruction	948,049	1,124,148
Support services	994,803	1,068,961
Community services	41,642	52,992
Depreciation	10,795	21,840
Interest	5,724	6,625
Total expenses	2,001,013	2,274,566
Change in net assets	<u>\$ (66,383)</u>	<u>\$ (31,211)</u>

Financial analysis of the Academy's funds

The Academy's general fund balance decreased by \$54,362 to \$239,505. Instruction and support service expenditures decreased by approximately \$250,000 due to cost cutting measures resulting from a 18.7% decrease in enrollment.

General fund budgetary highlights

Over the course of the year, the Academy revised the general fund annual operating budget when necessary. Changes were made in both the revenue and expenditure which reflected anticipated decreases in state aid and actual salary figures for staff.

While the Academy's final budget for the general fund anticipated expenditures would exceed revenues by \$109,023, the actual results for the year showed expenditures over revenues of \$55,081.

Actual revenues were \$8,926 under budget, due primarily to unspent federal grants.

Actual expenditures were \$62,868 under budget, due primarily to lower instruction and building operations cost.

Capital asset and debt administration

Capital assets

By the end of the year ended June 30, 2007, the Academy had invested \$14,844 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a decrease of \$10,795 from the beginning of the year. Total depreciation expense for the year was \$10,795. More detailed information about capital assets can be found in Note 5 to the financial statements.

The Academy's capital assets are as follows:

	Cost	2007 Accumulated Depreciation	Net Book Value	2007 Net
Computers and furniture	\$ 443,768	\$ 428,924	\$ 14,844	\$ 25,639

Factors Bearing on the Academy's Future

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

- Changes to the foundation allowance for the next year have yet to be determined. Due to State budget issues and possible future cuts the Academy has budgeted a reduction in foundation allowance of \$60 to \$7,087 per pupil.
- The Academy has adopted a balanced budget for 2008.
- The Academy entered into a new management agreement with Choice Schools Associates for management, operation, administration, and education at the Academy. The agreement is effective August 1, 2007 and ends June 30, 2010.

The Board of Directors and management have taken appropriate steps to reduce cost. Considering the factors noted, necessary reductions touched every segment of the operation. Primary consideration was given to maintaining the educational integrity of the program.

Contacting the Academy's Financial Management

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

THE MOREY CHARTER SCHOOL

STATEMENT OF NET ASSETS JUNE 30, 2007

ASSETS

Current Assets

Cash and cash equivalents	\$ 12,545
Accounts receivable	45
Due from other governmental units	377,759
Prepaid expenses	<u>3,465</u>
Total current assets	393,814

Furniture and Equipment

At cost less accumulated depreciation of \$428,924	<u>14,844</u>
Total assets	<u>\$ 408,658</u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 47,370
Other accrued expenses	<u>102,279</u>
Total current liabilities	149,649

Net Assets

Invested in capital assets	14,844
Unrestricted	<u>244,165</u>
Total net assets	<u>259,009</u>
Total liabilities and net assets	<u>\$ 408,658</u>

See accompanying notes to financial statements



THE MOREY CHARTER SCHOOL

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Functions	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants	Revenues and Changes in Net Assets
				Government Type Activities
Elementary school	\$ 407,727	\$ -	\$ 21,133	\$ (386,594)
Middle school	165,844	-	21,133	(144,711)
High school	135,751	-	21,133	(114,618)
Pre-school	32,462	-	21,132	(11,330)
Special education	91,991	-	36,853	(55,138)
Compensatory education	114,274	-	111,436	(2,838)
Guidance services	15,202	-	-	(15,202)
Custody and care of children	41,642	5,892	-	(35,750)
Support services- instructional staff	3,484	-	-	(3,484)
General administration	37,356	-	-	(37,356)
Executive administration	130,278	-	-	(130,278)
Building administration	168,314	-	-	(168,314)
Fiscal services	56,396	-	-	(56,396)
Lunch program	74,464	21,530	52,828	(106)
Business support services	274,176	-	-	(274,176)
Operations and maintenance	230,725	-	11,200	(219,525)
Pupil transportation	93	-	-	(93)
Athletics	4,315	3,914	-	(401)
Unallocated depreciation	10,795	-	-	(10,795)
Unallocated interest	5,724	688	-	(5,036)
Total primary government	<u>\$ 2,001,013</u>	<u>\$ 32,024</u>	<u>\$ 296,848</u>	<u>(1,672,141)</u>
General Purpose Revenues:				
State school aid - unrestricted				1,605,658
Miscellaneous				100
Total general purpose revenues				<u>1,605,758</u>
Excess of expenses over revenues				(66,383)
Net assets - July 1, 2006				<u>325,392</u>
Net assets - June 30, 2007				<u>\$ 259,009</u>

See accompanying notes to financial statements



THE MOREY CHARTER SCHOOL

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007**

ASSETS

	<u>General</u>	<u>School Service</u>
Cash and cash equivalents	\$ 7,930	\$ 4,615
Accounts receivable	-	45
Due from other governmental units	377,759	-
Prepaid expenses	<u>3,465</u>	<u>-</u>
Total assets	<u>\$ 389,154</u>	<u>\$ 4,660</u>

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable	\$ 47,370	\$ -
Other accrued expenses	<u>102,279</u>	<u>-</u>
Total liabilities	149,649	-

Fund Balances

Unreserved: Undesignated	<u>239,505</u>	<u>4,660</u>
Total liabilities and fund balances	<u>\$ 389,154</u>	<u>\$ 4,660</u>

See accompanying notes to financial statements



THE MOREY CHARTER SCHOOL

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS
OF GOVERNMENTAL ACTIVITIES**

JUNE 30, 2007

Amounts reported for governmental activities in the statement of net assets are different because:

Total Governmental Fund Balance	\$ 244,165
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$443,768 and the accumulated depreciation is \$428,924.	<u>14,844</u>
Net Assets of Governmental Activities	<u>\$ 259,009</u>

See accompanying notes to financial statements



THE MOREY CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>School Service</u>
Revenues		
Local sources	\$ 29,340	\$ 25,444
State sources	1,737,686	720
Federal sources	89,332	52,108
Total governmental fund revenues	<u>1,856,358</u>	<u>78,272</u>
Expenditures		
Elementary school	407,727	-
Middle school	165,844	-
High school	135,751	-
Pre-school	32,462	-
Special education	91,991	-
Compensatory education	114,274	-
Guidance services	15,202	-
Custody and care of children	41,642	-
Support services - instructional staff	3,484	-
General administration	37,356	-
Executive administration	130,278	-
Building administration	168,314	-
Fiscal services	56,396	-
Lunch program	-	74,464
Business support services	274,176	-
Operations and maintenance	230,725	-
Pupil transportation	93	-
Athletics	-	4,315
Debt principal and interest	5,724	-
Total governmental fund expenditures	<u>1,911,439</u>	<u>78,779</u>
Excess of expenditures over revenues	(55,081)	(507)
Other Financing Sources (Uses)		
Operating transfers in	719	-
Operating transfers out	-	(719)
Total other financing sources (uses)	<u>719</u>	<u>(719)</u>
Excess of expenditures and other uses over revenues and other financing sources	(54,362)	(1,226)
Fund balance - July 1, 2006	<u>293,867</u>	<u>5,886</u>
Fund balance - June 30, 2007	<u>\$ 239,505</u>	<u>\$ 4,660</u>

See accompanying notes to financial statements



THE MOREY CHARTER SCHOOL

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

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

Net Change in Fund Balances - Total Governmental Funds \$ (55,588)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense (10,795)

Change in Net Assets of Governmental Activities \$ (66,383)

THE MOREY CHARTER SCHOOL

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2007**

ASSETS

	<u>Agency</u>
Cash and cash equivalents	\$ 29,280
Total assets	<u>\$ 29,280</u>

LIABILITIES

Due to student groups	\$ 29,280
Total liabilities	<u>\$ 29,280</u>

See accompanying notes to financial statements



THE MOREY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - Summary of Significant Accounting Policies

The accounting policies of The Morey Charter School (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

The Morey Charter School was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on May 22, 1997, and began operation in July 1997.

In July 2002, the Academy entered into a five-year contract with the Central Michigan University Board of Trustees to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University's Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Central Michigan University Board of Trustees three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2007 were approximately \$57,700.

In July 2005, the Academy entered into a two-year agreement with Woodbridge Group. Under the terms of this agreement, Woodbridge Group provides a variety of services including management curriculums, educational programs and teacher training. The Academy is obligated to pay Woodbridge Group 3.5% of its applicable revenues from state aid. The total paid for these services amounted to approximately \$72,600 for the year ended June 30, 2007.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operation of financial relationships with the public school academy. Based on application of criteria, the entity does not contain component units.

Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Academy has elected to specify all of its funds as major.

Basis of Presentation - Fund Accounting

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined basic financial statements in this report, into governmental fund types as follows:

THE MOREY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - Summary of Significant Accounting Policies - Continued

Governmental Fund

A governmental fund is a fund through which most academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

General Fund - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

School Service Fund - The school service fund is used to account for the food service program operations. The school service fund is a subsidiary operation and is an obligation of the general fund. The school service fund does not maintain its own assets and liabilities; accordingly, no balance sheet is presented for this fund.

Fiduciary Fund - The fiduciary fund is used to account for assets held by the Academy in a trustee capacity or as an agent. The agency fund is custodial in nature and does not involve the measurement of results of operations.

Activity (Agency) Fund - The Academy presently maintains an activity fund to record the transactions of a student group for school and school-related purposes. The fund is segregated and held in trust for the students.

Governmental funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

THE MOREY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - Summary of Significant Accounting Policies - Continued

Government Wide Financial Statements

The government-wide financial statements (i.e. the statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation's with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self financing or draws from the general revenues of the Academy.

Net assets should be reported as restricted when constraints placed on net asset use are either externally, imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even through the latter are excluded from the government-wide financial statements.

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration the rate of return is fixed and the Academy intends to hold the investment until maturity. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and 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 Corporation or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or Federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

THE MOREY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - Summary of Significant Accounting Policies - Continued

Receivables

Receivables at June 30, 2007 consist primarily of state school aid due from the State of Michigan. All receivables are expected to be fully collected in July and August of 2007 and are considered current for the purposes of these basic financial statements.

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 and recorded as deferred revenue.

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2007, 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 is reported in the year in which services are consumed.

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than 1 year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Furniture and equipment	3 - 15 years
Computers and software	3 - 10 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

THE MOREY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - Summary of Significant Accounting Policies - Continued

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance of amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

Estimates

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

NOTE 2 - Stewardship, Compliance and Accountability

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan law. The Academy is required by law to adopt a general fund and school services fund budget. During the year ended June 30, 2007 the budgets were amended in a legally permissible manner.

The budget statement (budgetary comparison schedule - all governmental funds) is presented on the combined statement of revenue, expenditures, and fund balances. Budget overruns are as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund		
Elementary school	\$ 404,969	\$ 407,727
Executive administration	110,445	130,278
Fiscal services	54,197	56,396
Business support services	269,614	274,176
Pupil transportation	-	93
School Service Fund		
Lunch program	71,000	74,464
Athletics	4,173	4,315

NOTE 3 - Deposits and Investments

The Academy maintains cash balances at various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 per institution. The Academy's uninsured and uncollateralized cash balance as of June 30, 2007 amounted to \$46,348.

THE MOREY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 4 - Due From Other Governmental Units

Amounts due from other governmental units consist of the following:

At risk	\$	8,060
Local sources		62,858
Michigan school readiness		9,004
Middle school math		474
Special education		5,362
State aid		292,001
Total	\$	<u>377,759</u>

NOTE 5 - Capital Assets

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

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2007</u>
Computers and software	\$ 439,078	\$ -	\$ 439,078
Furniture and equipment	4,690	-	4,690
Subtotal	443,768	-	443,768
Accumulated depreciation	418,129	10,795	428,924
Net book value of assets	<u>\$ 25,639</u>	<u>\$ (10,795)</u>	<u>\$ 14,844</u>

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

NOTE 6 - Note Payable

A business loan bearing interest at 4.25% was obtained through a bank to provide the Academy with funds to finance school operations at the beginning of the fiscal year. The note is due in full June 30, 2007 and is secured by future state aid payments and general funds. Note activity can be summarized as follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Retirements</u> <u>and Payments</u>	<u>Balance</u> <u>June 30, 2007</u>
Business loan 2005 - 2006	\$ 23,553	\$ -	\$ 23,553	\$ -
Business loan 2006 - 2007	-	250,000	250,000	-
Total	<u>\$ 23,553</u>	<u>\$ 250,000</u>	<u>\$ 273,553</u>	<u>\$ -</u>

THE MOREY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 7 - Accrued Expenses

Accrued expenses are summarized as follows:

CMU oversight fee	\$ 8,731
Purchased services - payroll and benefits	82,135
Management fee	<u>11,413</u>
Total	<u>\$ 102,279</u>

NOTE 8 - Operating Lease

The Academy had the following long-term obligation during the year ended June 30, 2007.

The Academy has entered into two operating lease agreements with a third party for its elementary school facility and its middle and high school facility. The Academy is responsible for all maintenance, repair, utilities and personal property taxes related to the property. The Academy is required to maintain adequate property and liability insurance coverage as well as maintain the property in like condition as at the inception of the lease terms. The rental payments for the elementary school facility lease, which began in August 2002, are \$8,333 per month with final payment due July 1, 2007. The middle and high school lease payments are \$11,902 per month, which began in August 2002, with final payment due July 1, 2007. The school facility leases have been renewed effective July 3, 2007 and shall continue for a period of three years through July 31, 2010. The Academy has entered into prior lease agreements covering the elementary and middle/high school facilities, both expire July 31, 2007. There is still outstanding the sum of \$25,000 for the elementary school facility and \$23,803 for the middle/high school facility, which represents payments due September 1 and October 1, 2007. These remaining balances have been carried forward as part of the lease renewal and will be paid monthly at a rate of \$694 for the elementary school and \$663 for the middle/high school, beginning August 1, 2009 until paid in full through July, 2013.

The approximate amount of lease obligations coming due during the next five years and in total are as follows:

	<u>Elementary</u>	<u>Middle/High</u>
2008	\$ 91,667	\$ 130,918
2009	100,000	142,820
2010	107,639	150,094
2011	16,667	19,836
2012 - 2013	9,028	8,596

Total rent expense included in the determination of net deficit for the year ended June 30, 2007 amounted to \$254,722.

THE MOREY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 9 - Retirement Plan

All leased employees of the Academy are eligible to participate in a retirement plan which qualifies under the provisions of Section 401(k) of the Internal Revenue Code. The Academy under this plan will contribute 4% of salaries regardless of the amount the employee contributes. The Academy will additionally match up to 4% of employee contributed funds. Eligible employees may contribute up to 15% of their salaries under the terms of this plan. Total Academy contributions to the plan amounted to \$43,427 for the year ended June 30, 2007.

NOTE 10 - Interfund Transfers

During the normal course of the school year the Academy transferred amounts between its two major funds as follows:

	<u>General</u>	<u>School Service</u>
Transfers In	\$ 719	\$ -
Transfers Out	-	(719)

NOTE 11 - Risk Management

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

NOTE 12 - Contingencies

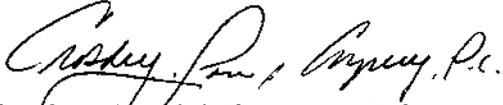
The Academy is a defendant in a lawsuit filed by a third party and plans to vigorously defend its position. As of June 30, 2007, no settlement has been reached between the Academy and the other party. The outcome of the litigation cannot be predicted currently and no provision for the liability or recovery has been reflected in the accompanying financial statements. The Academy believes that the results of the above litigation will not have a materially adverse effect on the Academy's financial condition.

David M. Croskey, CPA
Thomas B. Lanni, CPA
Carolyn A. Jones, CPA
Clifton E. Powell Jr., CPA

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors of The Morey Charter School

We have audited the accompanying financial statements of The Morey Charter School for the year ended June 30, 2007. Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of The Morey Charter School. This information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.


Croskey, Lanni & Company, P.C.

August 30, 2007
Rochester, Michigan

THE MOREY CHARTER SCHOOL
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	General Fund		
	Original Budget	Final Budget	Actual
Revenues			
Local sources	\$ 71,754	\$ 33,450	\$ 29,340
State sources	1,895,262	1,737,799	1,737,686
Federal sources	107,049	94,035	89,332
Total governmental fund revenues	2,074,065	1,865,284	1,856,358
Expenditures			
Elementary school	491,894	404,969	407,727
Middle school	172,806	172,266	165,844
High school	136,308	144,055	135,751
Pre-school	-	49,500	32,462
Special education	126,100	95,410	91,991
Compensatory education	145,925	122,649	114,274
Guidance services	12,191	15,469	15,202
Custody and care of children	51,465	43,143	41,642
Support services - instructional staff	14,772	8,240	3,484
General administration	27,500	37,800	37,356
Executive administration	123,683	110,445	130,278
Building administration	206,174	188,896	168,314
Fiscal services	54,227	54,197	56,396
Lunch program	-	-	-
Business support services	254,879	269,614	274,176
Operations and maintenance	290,967	251,654	230,725
Pupil transportation	-	-	93
Athletics	-	-	-
Debt principal and interest	3,500	6,000	5,724
Total governmental fund expenditures	2,112,391	1,974,307	1,911,439
Excess (deficiency) of revenues over expenditures	(38,326)	(109,023)	(55,081)
Other Financing Sources (Uses)			
Operating transfers in	-	-	719
Operating transfers out	-	-	-
Total other financing sources (uses)	-	-	719
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(38,326)	(109,023)	(54,362)
Fund balance - July 1, 2006	293,867	293,867	293,867
Fund balance - June 30, 2007	\$ 255,541	\$ 184,844	\$ 239,505

THE MOREY CHARTER SCHOOL

SCHEDULE OF REVENUES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>School Service</u>
Local Sources		
Athletics	\$ -	\$ 3,914
Custody and care of children	5,892	
Educational reimbursement grant	5,497	-
Interest	688	-
Maintenance grant	11,200	-
School lunch / milk program	-	21,530
Special education	1,259	-
USF grant	4,704	-
Miscellaneous	100	-
	<hr/>	<hr/>
Total local sources	29,340	25,444
 State Sources		
At risk	44,328	-
Math and science centers	2,606	-
Michigan school readiness	49,500	-
School lunch/milk program	-	720
Special education	35,594	-
State aid	1,605,658	-
	<hr/>	<hr/>
Total state sources	1,737,686	720
 Federal Sources		
Federal commodities	-	4,370
Restricted rural grant	22,224	-
School lunch/milk program	-	47,738
Title I	50,328	-
Title II A	517	-
Title II D	16,206	-
Title V	57	-
	<hr/>	<hr/>
Total federal sources	89,332	52,108
 Total governmental fund revenues	<hr/> <u>\$ 1,856,358</u>	<hr/> <u>\$ 78,272</u>

See independent auditor's report on supplemental information



THE MOREY CHARTER SCHOOL

SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>School Service</u>
Elementary School		
Purchased services - salaries	\$ 300,142	\$ -
Purchased services - benefits	61,041	-
Purchased services - payroll taxes	21,882	-
Other purchased services	1,997	-
Teaching and testing materials	22,562	-
Technology supplies	103	-
	<hr/>	<hr/>
Total elementary school	407,727	-
Middle School		
Purchased services - salaries	125,288	-
Purchased services - benefits	27,013	-
Purchased services - payroll taxes	9,579	-
Other purchased services	967	-
Teaching and testing materials	2,888	-
Textbooks	109	-
	<hr/>	<hr/>
Total middle school	165,844	-
High School		
Purchased services - salaries	83,311	-
Purchased services - benefits	19,037	-
Purchased services - payroll taxes	6,370	-
Other purchased services	967	-
Teaching and testing materials	4,110	-
Textbooks	109	-
Tuition - pupil	21,847	-
	<hr/>	<hr/>
Total high school	135,751	-

See independent auditor's report on supplemental information



THE MOREY CHARTER SCHOOL

SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS - Continued
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>School Service</u>
Pre-School		
Purchased services - salaries	18,184	-
Purchased services - benefits	1,635	-
Purchased services - payroll taxes	952	-
Teaching and testing materials	11,691	-
	<hr/>	<hr/>
Total pre-school	32,462	-
Special Education		
Purchased services - salaries	76,918	-
Purchased services - benefits	8,490	-
Purchased services - payroll taxes	5,873	-
Teaching materials	710	-
	<hr/>	<hr/>
Total special education	91,991	-
Compensatory Education		
Purchased services - salaries	91,998	-
Purchased services - benefits	11,232	-
Purchased services - payroll taxes	7,768	-
Teaching and testing materials	3,276	-
	<hr/>	<hr/>
Total compensatory education	114,274	-
Guidance Services		
Purchased services - salaries	13,315	-
Purchased services - benefits	1,179	-
Purchased services - payroll taxes	708	-
	<hr/>	<hr/>
Total guidance services	15,202	-

See independent auditor's report on supplemental information

THE MOREY CHARTER SCHOOL

SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS - Continued
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>School Service</u>
Custody and Care of Children		
Purchased services - salaries	27,618	-
Purchased services - benefits	2,074	-
Purchased services - payroll taxes	11,362	-
Teaching materials	588	-
	<hr/>	<hr/>
Total custody and care of children	41,642	-
Support Services - Instructional Staff		
Professional development	999	-
Teaching materials	840	-
Workshops and conferences	1,645	-
	<hr/>	<hr/>
Total support services - instructional staff	3,484	-
General Administration		
Professional fees	37,356	-
Executive Administration		
CMU oversight	57,679	-
Management fees	72,599	-
	<hr/>	<hr/>
Total executive administration	130,278	-
Building Administration		
Purchased services - salaries	127,016	-
Purchase services - benefits	18,804	-
Purchased services - payroll taxes	14,231	-
Advertising	2,535	-
Dues and memberships	1,931	-
Office supplies	1,509	-
Postage	2,288	-
	<hr/>	<hr/>
Total building administration	168,314	-

See independent auditor's report on supplemental information

THE MOREY CHARTER SCHOOL

SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS - Continued
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>School Service</u>
Fiscal Services		
Purchased services - salaries	46,046	-
Purchased services - benefits	6,828	-
Purchased services - payroll taxes	3,522	-
	<hr/>	<hr/>
Total fiscal services	56,396	-
Lunch Program		
Purchased services - salaries	-	32,792
Purchased services - benefits	-	892
Purchased services - payroll taxes	-	2,509
Food cost	-	38,271
	<hr/>	<hr/>
Total lunch program	-	74,464
Business Support Services		
Bank fees	2,100	-
Building and land lease	254,722	-
Liability insurance	17,354	-
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Total business support services	274,176	-
Operations and Maintenance		
Purchased services - salaries	42,632	-
Purchased services - benefits	11,841	-
Purchased services - payroll taxes	3,150	-
Contracted services	39,780	-
Repairs and maintenance	5,290	-
Supplies	10,106	-
Telephone and internet	13,992	-
Utilities	103,934	-
	<hr/>	<hr/>
Total operations and maintenance	230,725	-

See independent auditor's report on supplemental information



THE MOREY CHARTER SCHOOL

SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS - Continued
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>School Service</u>
Pupil Transportation	93	-
Athletics		
Purchased services - salaries	-	2,001
Purchased services - payroll taxes	-	152
Miscellaneous	-	2,162
	<hr/>	<hr/>
Total athletics	-	4,315
Debt Principal and Interest	5,724	-
	<hr/>	<hr/>
Total governmental fund expenses	<u>\$ 1,911,439</u>	<u>\$ 78,779</u>

See independent auditor's report on supplemental information



David M. Croskey, CPA
Thomas B. Lanni, CPA
Carolyn A. Jones, CPA
Clifton F. Powell Jr., CPA

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*

**To the Board of Directors
of The Morey Charter School**

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

Internal Control Over Financial Reporting

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

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.

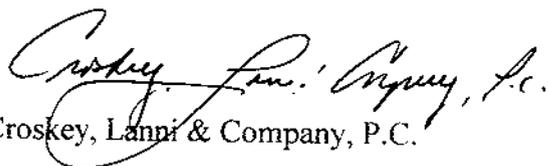
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

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

This report is intended solely for the information and use of management, the board of directors, the Michigan Department of Education, and others within the entity and is not intended to be and should not be used by anyone other than those specified parties.


Croskey, Lanni & Company, P.C.

August 30, 2007
Rochester, Michigan