

**CHATFIELD SCHOOL
LAPEER, MICHIGAN**

**FINANCIAL REPORT
WITH ADDITIONAL INFORMATION
JUNE 30, 2007**

CHATFIELD SCHOOL

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BROWN & KENT, P.C.

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Board of Education
Chatfield School
Lapeer, Michigan 48446

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chatfield School (the "School"), Lapeer, Michigan, as of and for the year ended June 30, 2007, which collectively comprise Chatfield School's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the 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 basic financial statement presentation. We believe that our audit provides a reasonable basis of 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 Chatfield School as of June 30, 2007 and the respective changes in financial position thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2007, on our consideration of Chatfield School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 *Governmental Auditing Standards* and should be considered when assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information (identified in the table of contents) are not a required part of the basic financial statements, but are supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management, regarding the methods of measurement and presentation of the required supplemental 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 School's basic financial statements. The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not a required part of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brown & Kent, P. C.

Certified Public Accountants

October 11, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHATFIELD SCHOOL – LAPEER, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Chatfield School’s (the “School”), annual financial report presents our discussion and analysis of the School’s financial performance during the fiscal year that ended on June 30, 2007.

FINANCIAL HIGHLIGHTS

- The School’s financial status remained stable, total net assets increased more than 1.8 percent over the course of the year.
- Revenues increased 4.6 percent to \$2.5 million while expenses increased 6.3 percent to \$2.4 million.
- Enrollment has remained stable. Ideal enrollment is 291 with equal numbers in each grade level. For the past year there were 292 children enrolled. For the year beginning in September 2007 there are 299 children at the school. The primary source of funds for the Chatfield School is the State’s Foundation Grant allocated on a per-pupil basis. Chatfield has steadily maintained its maximum enrollment. Each year the number of applicants exceeds the vacancies. Although additional revenues could be received, the Chatfield administrators and the Chatfield Board have kept enrollment close to the ideal number because too large a student population could have a negative impact on the school program.

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 School.

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the School’s overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School, reporting the School’s operations *in more detail* than the government-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.
- *Fiduciary funds* statements provide information about the financial relationships in which the School acts solely as a *trustee or agent* for the benefit of others.

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 School’s budget for the year.

The following summarizes the major features of the School's financial statements, including the portion of the School'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.

Major Features of Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire School (except fiduciary funds)	The activities of the School that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the School administers resources on behalf of someone else, such as scholarship programs and student activities monies.
Required financial statements	<ul style="list-style-type: none"> - Statement of net assets - Statement of activities 	<ul style="list-style-type: none"> - Balance sheet - Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> - Statement of fiduciary net assets - Statement of changes in fiduciary net assets
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, School'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

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets includes *all* of the School'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 government-wide statements report the School's *net assets* and how they have changed. Net assets – the difference between the School's assets and liabilities – are one way to measure the School's financial health or *position*.

- Over time, increases or decreases in the School's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the School, you need to consider additional nonfinancial factors such as changes in the condition of School buildings and other facilities.

In the government-wide financial statements, the School's activities:

- *Governmental activities* – Most of the School's basic services are included here, such as regular and special education and administration. State formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

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

- Some funds are required by State law and by bond covenants.
- The School establishes other funds to control and manage money for particular purposes like building additions.

The School has two kinds of funds:

- *Governmental funds* – Most of the School's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* 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 School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information with the governmental funds statements that explains the relationship (or differences) between them.
- *Fiduciary funds* – The School is the trustee, or *fiduciary*, for assets that belong to others, such as the student activities funds. The School is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the government-wide financial statements, because the School cannot use these assets to finance its operations.

DISTRICT MANAGEMENT ACTIVITIES

- The School administrators and the Chatfield Board of Directors have consistently monitored expenditures each year to produce a positive cash balance (revenues exceeding expenditures) for each of the past ten years of operation; the goal of careful monitoring is to create an unrestricted cash balance that will be adequate in future years to maintain the building, renovate and refurbish as necessary, and meet contingencies that might develop either within the building or at the state funding level. The funds reserved for these purposes have increased each year and now appear adequate thus allowing the school board to allocate a portion of its fund balance to building improvements and expansion.
- The School administrators and the entire school staff maintain a purchasing evaluation and inventory analysis system that controls expenditures for supplies and materials. In-house routine maintenance and repair procedures minimize the cost of maintenance.
- Recognizing that the School's future stability and well-being is entirely dependent upon parents continuing to choose to enroll children at Chatfield, the School administrators, the School staff, and the School's board have collaborated extensively to create an exceptional school for children and to create a staff work environment that retains staff and provides teachers the opportunities to be effective, self-fulfilled professionals. The Chatfield School has been fortunate in hiring and retaining highly qualified teachers and ancillary staff. It is recognized that the percent of the budget allocated for salaries and benefits will have to be increased in the future to have staff compensation for its highly experienced and trained staff reasonably comparable to surrounding traditional public schools.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net assets – The School's *combined* net assets were larger on June 30, 2007, than they were the year before – increasing more than 1.8 percent to \$4.8 million.

Chatfield School's Net Assets

	<u>2007</u>	<u>2006</u>
Current and Other Assets	\$ 2,257,390	\$ 2,070,266
Capital Assets	<u>2,684,310</u>	<u>2,762,100</u>
Total Assets	4,941,700	4,832,366
Current Liabilities	<u>133,162</u>	<u>113,387</u>
Total Liabilities	133,162	113,387
Net Assets		
Invested in Capital Assets, Net of Related Debt	2,684,310	2,762,100
Restricted	55,588	60,831
Unrestricted	<u>2,068,640</u>	<u>1,896,048</u>
Total Net Assets	<u>\$ 4,808,538</u>	<u>\$ 4,718,979</u>

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE (Continued)

Changes in Chatfield School's Net Assets

	<u>2007</u>	<u>2006</u>
Revenues		
Program Revenues		
Charges for Services	\$ 117,590	\$ 110,264
Federal and State Categorical Grants	226,268	193,461
General Revenues		
State Aid – Unrestricted	2,069,157	2,007,844
Other	94,917	84,968
Total Revenues	<u>2,507,932</u>	<u>2,396,537</u>
Expenses		
Instruction	1,379,273	1,285,039
Support Services	816,973	778,856
Community Services	134,228	126,140
Unallocated Depreciation	87,899	84,822
Total Expenses	<u>2,418,373</u>	<u>2,274,857</u>
Increase in Net Assets	<u>\$ 89,559</u>	<u>\$ 121,680</u>

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The strong financial performance of the School as a whole is reflected in its governmental funds as well. As the School completed the year, its governmental funds reported *combined* fund balances of \$2.12 million, above last year's ending fund balances of \$1.95 million.

General Fund Budgetary Highlights

Over the course of the year, the School revised the annual operating budget several times. These budget amendments are:

- Changes made in the second and fourth quarters to account for changes in assumptions since the original budget was adopted.
- While the School's final budget for the general fund anticipated an increase to Fund Balance of \$41,677, the actual results for the year show a \$109,405 increase.
- Actual expenditures in 2006-07 were below amended budget estimates because all expenditures were thoroughly reviewed and evaluated. The cost controlling in the past year were particularly necessary due to the uncertainty of the state's funding. The reductions were achieved without changing the basics of services to children and without imposing unreasonable expectations on staff. The Partners in Education (parents group) continuously helps by making substantial donations for technology, playground items, field trips, and various classroom items requested by teachers.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

During the 2007 school year, the Chatfield School had invested \$10,109 in a range of capital assets, including computers and architecture fees. (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year was \$87,899.

Chatfield School's Capital Assets (Net of Depreciation)

	2007	2006
Land	\$ 50,000	\$ 50,000
Buildings	2,568,003	2,638,223
Equipment and Furniture	66,306	73,877
Total	<u>\$ 2,684,310</u>	<u>\$ 2,762,100</u>

The Chatfield School has designated \$1.3 million for the construction of the Willows Outdoor Classrooms Center. Construction began in July 2007.

Long-term Debt

At year-end the School had no outstanding debt obligation.

FACTORS BEARING ON THE SCHOOL'S FUTURE

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

- The state has not finalized the foundation Grants for 2007-08 school funding; the preliminary budget of the Chatfield School is based upon the 2006-07 Foundation Grant. For the beginning of the 2007-08 school year no salary improvements were granted and steps were taken to reduce the cost of health care provided to fulltime employees. In 2006-07 Chatfield did not receive any Title I funding. For 2007-08 the Title I and Title II funds will total approximately \$16,000. These federal funds are based on the percentage of students qualifying for free lunch. The net result is that Chatfield will be able to maintain all of its current programs for 2007-08.
- The status of charter schools in Michigan remains tenuous and subject to various funding issues related to traditional public school funding and charter schools; Chatfield School's management must monitor these activities (particularly a proposal to fund K-8 programs at less than the funding provided for K-12 programs) and be prepared to adjust, if necessary.
- Chatfield administrators have aggressively sought partnerships and grants that can enhance the school's program and its standing in the community. Chatfield was awarded a Dissemination Grant of \$300,000 for the 2005-07 school years for the purpose of developing the Chatfield Outdoor Classrooms concepts in area schools—including two schools in Lapeer County. Currently Chatfield is a partner in a consortium funded by federal grants to provide character education programs within the routine classroom activities. This program will provide approximately \$30,000 to Chatfield for each of the next five years.

FACTORS BEARING ON THE SCHOOL'S FUTURE (continued)

- The primary changes for the Chatfield School will be the opening of the Willows Earth Education Center in Spring, 2008 and the addition of grades seven and eight beginning with the 2008-09 school year. The Willows Earth Education Center is a separate building located on the school's property and adjacent to the Prairies and Ponds Wilderness Center of the City of Lapeer. The Willows Center was designed and built to be an environmentally-friendly building incorporating building components that will make it a demonstration building for persons and groups interested in "green" construction. The Center will be used both by Chatfield students and teachers and by groups from area schools that will attend special programs conducted at the Center. The Willows Building, costing approximately \$1.3 million is being paid for by a combination of private donations and funds accumulated in the school's fund balance over the past ten years. The addition of grades seven and eight requires an addition to the building. The cost of the addition is estimated to be \$2.15 million. The school board has secured a mortgage-based loan from the Lapeer County Bank & Trust for this addition. The addition of grades and modifications to the current K-6 program is expected to result in an increase of 150 students. The increased state funding will provide enough funding to repay the loan over its twenty-year amortization.

CONTACT THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Administrative Office, Chatfield School, 231 Lake Drive, Lapeer, MI 48446.

BASIC FINANCIAL STATEMENTS

**CHATFIELD SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	GOVERNMENTAL ACTIVITIES
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 1,828,278
Accounts Receivable	429,112
	2,257,390
TOTAL CURRENT ASSETS	2,257,390
NON-CURRENT ASSETS	
Capital Assets	3,444,221
Less: Accumulated Depreciation	759,911
	2,684,310
TOTAL NON-CURRENT ASSETS	2,684,310
TOTAL ASSETS	\$ 4,941,700
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts Payable	\$ 133,162
TOTAL LIABILITIES	133,162
NET ASSETS	
Investment Capital Assets	2,684,310
Restricted for:	
Community Garden	14,913
Environmental Science Building	40,675
Unrestricted	2,068,640
	4,808,538
TOTAL NET ASSETS	4,808,538
TOTAL LIABILITIES AND NET ASSETS	\$ 4,941,700

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

**CHATFIELD SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

		PROGRAM REVENUES		GOVERNMENTAL ACTIVITIES NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS	
FUNCTIONS/PROGRAMS				
GOVERNMENTAL ACTIVITIES				
Instruction & Instructional Support	\$ 1,379,273	\$ -	\$ 55,712	\$ (1,323,561)
Support Services	816,973	28,999	170,556	(617,418)
Community Services	134,228	88,591	-	(45,637)
Depreciation (Unallocated)	87,899	-	-	(87,899)
	<u>\$ 2,418,373</u>	<u>\$ 117,590</u>	<u>\$ 226,268</u>	<u>(2,074,515)</u>
TOTAL GOVERNMENTAL ACTIVITIES				
GENERAL REVENUES				
State of Michigan Aid Unrestricted				2,069,157
Investment Revenue				76,205
Miscellaneous				18,712
				<u>2,164,074</u>
TOTAL GENERAL REVENUES				
CHANGE IN NET ASSETS				89,559
NET ASSETS:				
BEGINNING OF YEAR				4,718,979
END OF YEAR				\$ 4,808,538

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

**CHATFIELD SCHOOL
COMBINED BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2007**

	GOVERNMENTAL FUND TYPES		TOTAL GOVERNMENTAL FUNDS
	GENERAL	CAPITAL PROJECTS	
ASSETS			
Cash and Cash Equivalents	\$ 503,725	\$ 1,324,553	\$ 1,828,278
Accounts Receivable	429,112	-	429,112
Prepaid Expenses	-	-	-
Due from Other Funds	-	-	-
TOTAL ASSETS	<u>\$ 932,837</u>	<u>\$ 1,324,553</u>	<u>\$ 2,257,390</u>
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
LIABILITIES			
Accounts Payable	\$ 133,162	\$ -	\$ 133,162
Deferred Revenue	-	-	-
TOTAL LIABILITIES	<u>133,162</u>	<u>-</u>	<u>133,162</u>
FUND EQUITY AND OTHER CREDITS			
Unreserved			
Designated	14,913	1,324,553	1,339,466
Undesignated	784,762	-	784,762
TOTAL FUND EQUITY AND OTHER CREDITS	<u>799,675</u>	<u>1,324,553</u>	<u>2,124,228</u>
TOTAL LIABILITIES, FUND EQUITY, AND OTHER CREDITS	<u>\$ 932,837</u>	<u>\$ 1,324,553</u>	<u>\$ 2,257,390</u>

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Assets

TOTAL GOVERNMENTAL FUND BALANCES \$ 2,124,228

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital assets used in Governmental Activities are not financial resources and are not reported in the funds.

The Cost of the Capital Assets is	3,444,221
Accumulated Depreciation is	<u>(759,911)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 4,808,538

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

**CHATFIELD SCHOOL
COMBINED STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007**

	GOVERNMENTAL FUND TYPES		TOTAL GOVERNMENTAL FUNDS
	GENERAL	CAPITAL PROJECTS	
REVENUE			
Local Sources	\$ 158,832	\$ 60,762	\$ 219,594
State Sources	2,094,599	-	2,094,599
Federal Sources	193,739	-	193,739
Other Transactions	-	-	-
OTHER FINANCING SOURCES			
Operating Transfers	-	-	-
TOTAL REVENUE AND OTHER SOURCES	2,447,170	60,762	2,507,932
EXPENDITURES			
Instruction	1,386,641	-	1,386,641
Supporting Services	816,896	77	816,973
Community Services	134,228	-	134,228
Capital Outlay		2,741	2,741
OTHER FINANCING USES			
Operating Transfers	-	-	-
TOTAL EXPENDITURES AND OTHER USES	2,337,765	2,818	2,340,583
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	109,405	57,944	167,349
FUND BALANCE – JULY 1, 2006	690,270	1,266,609	1,956,879
FUND BALANCE – JUNE 30, 2007	<u>\$ 799,675</u>	<u>\$ 1,324,553</u>	<u>\$ 2,124,228</u>

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

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

Net Change in Fund Balance – Total Governmental Funds \$ 167,349

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

Governmental Funds report capital outlays as expenditures. In the
Statement of Activities, the cost of those assets is allocated over
their estimated useful lives as depreciation expense.

Depreciation Expense	(87,899)	
Capital Outlay	<u>10,109</u>	<u>(77,790)</u>

Change in Net Assets of Governmental Activities		<u><u>\$ 89,559</u></u>
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The accompanying notes are an integral part of the financial statements.

**CHATFIELD SCHOOL
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2007**

	<u>TRUST & AGENCY FUND</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 15,503</u>
TOTAL ASSETS	<u><u>\$ 15,503</u></u>
LIABILITIES	
Due to Student Groups	<u>\$ 15,503</u>
	<u><u>\$ 15,503</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Chatfield School conform to accounting principles generally accepted in the United States of America, as applicable to schools. The following is a summary of the significant accounting policies:

A. REPORTING ENTITY

The School is governed by a five-member Board of Education. The School is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Saginaw Valley State University is the authorizing governing body for the School and has contracted with the School to charter the public school through June 2012. 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 operational financial relationships that determine which of the governmental organizations are a part of the School's reporting entity, and which organizations are legally separate, component units of the School. Based on the application of the criteria, the School does not contain component units.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the School. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include; (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular program. State foundation aid and other unrestricted items are not included among program revenues but are reported instead as general revenues.

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues soon as all eligibility requirements imposed by the provider have been met.

**CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007**

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

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

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 general government, except those required to be accounted for in another fund.

Additionally, the School reports the following fund types:

The *Capital Project Fund* accounts for the financial resources used for the acquisition or construction of major capital facilities.

The *Agency Fund* accounts for assets held for other groups and organizations and is custodial in nature.

The School first utilizes restricted resources to finance qualifying activities.

D. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase.

E. CAPITAL ASSETS

Capital assets include land, building and improvements, and furniture and equipment. Assets are capitalized if the initial cost exceeds \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Repairs and maintenance that do not add to the value or extend the lives of the asset are not capitalized. Construction work in process is not depreciated until placed in service. Depreciation is not computed on land. Depreciation is computed using the straight-line method and the estimated useful lives are as follows:

Building and Improvements	25 – 50 years
Furniture and Equipment	5 – 20 years

F. FUND EQUITY

Reserved fund balances represent those portions of fund equity not available for expenditure or are legally segregated for a specific future use.

Designated fund balances are used to identify tentative plans for or restrictions on the future use of financial resources.

**CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. REVENUE

State Foundation Revenue – The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide 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 school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on the pupil membership counts taken in February and September of 2006.

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 is reported as accounts receivable.

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

Federal Revenue – Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

H. USE OF ESTIMATES

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

I. COMPARATIVE DATA/RECLASSIFICATIONS—Comparative data is not included in the School's financial statements.

NOTE 2 – BUDGETS

The official budgets were formally adopted by the School Board, prior to the expenditure of funds for the General Fund, using the modified accrual basis of accounting consistent with generally accepted accounting principles. The budgets were adopted at the functional level and control was exercised at that level. Expenditures in excess of the amounts budgeted at the level of the adopted budget are a violation of the Budgeting Act. Unexpended appropriations lapse at year-end and encumbrances are not included as expenditures. The budget was properly amended by the School Board throughout the year, as needed.

The budget statement (Budgetary Comparison Schedule) is presented on the same basis of accounting used in preparing the adopted budget. The budget information is a summary of the actual budget adopted.

**CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 3 – DEPOSITS AND INVESTMENTS

The School's cash and cash equivalents and investments at June 30, 2007, are composed of the following:

	TOTAL CASH AND CASH EQUIVALENTS	INVESTMENTS
Deposits	\$ 36,365	\$ -
Investments:		
Bank Cash Management Funds	1,807,316	-
Petty Cash and Cash on Hand	101	-
TOTAL	\$ 1,843,782	\$ -

DEPOSITS

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$40,248, of that amount \$40,248 was covered by federal depository insurance and no amount was uninsured and uncollateralized.

State law prohibits the collateralization of bank deposits.

INVESTMENTS

The School is authorized by Michigan Public Act 132 of 1986 to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds and investment pools that are composed of authorized investment vehicles. To the extent that cash from various funds has been pooled in an investment-related investment, income is allocated to each fund based on relative participation in the pool.

The School's investments during the year included bank cash management (investment pool) funds that had a carrying amount and market value of \$1,807,316 at June 30, 2007. Investments are normally categorized to give an indication of the level of risk assumed by the School; however, cash management funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

**CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 4 – CAPITAL ASSETS

Capital assets activity of the School's Governmental Activities was as follows:

	Balance July 1, 2006	Additions	Deletions or Adjustments	Balance June 30, 2007
CAPITAL ASSETS				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Building & Improvements	3,175,731	2,741	-	3,178,472
Furniture & Equipment	208,381	7,368	-	215,749
	<u>3,434,112</u>	<u>10,109</u>	<u>-</u>	<u>3,444,221</u>
Accumulated Depreciation				
Building & Improvements	(537,508)	(72,961)	-	(610,469)
Furniture & Equipment	(134,504)	(14,938)	-	(149,442)
	<u>(672,012)</u>	<u>(87,899)</u>	<u>-</u>	<u>(759,911)</u>
NET CAPITAL ASSETS	<u>\$ 2,762,100</u>	<u>\$ (77,790)</u>	<u>\$ -</u>	<u>\$ 2,684,310</u>

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

NOTE 5 – RISK MANAGEMENT

The School has exposure to risks of loss due to torts, errors and omissions, and property loss. The School manages these risks by purchasing commercial insurance through the Employers Mutual Company.

NOTE 6 – EXPENDITURES AND APPROPRIATIONS

No funds incurred expenditures in excess of appropriations (at budgetary levels).

NOTE 7 – LEASED EMPLOYEES

On July 17, 1997, Chatfield School signed an agreement with Chatfield Management Corporation to lease all workers. Chatfield Management Corporation will be responsible for all wages, payroll taxes, and employee benefits, including health insurance and 401(k) contributions. This agreement is effective from July 17, 1997 to June 30, 2007. The agreement was extended to June 30, 2012.

NOTE 8 – COST SHARING AGREEMENT

Lapeer County Intermediate School District will act as a service bureau for the constituent districts for maintenance and support of their financial software.

**CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 9 – OVERSIGHT FEES

The School pays an administrative oversight fee of 3% of its state school aid discretionary and Proposal A obligation payments to the Saginaw Valley State University Board of Trustees, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the School's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2007, the School incurred expense of approximately \$62,000 for oversight fees.

NOTE 10 – DESIGNATED FUND BALANCE

In June 2000, a private donation was received in the amount of \$83,000. The remaining donation was designated to be spent as follows:

<u>AMOUNT</u>	<u>PROJECT</u>
\$ 14,913	Maintaining and Upgrading Community Gardens

Any interest earned or unexpended funds are to go to maintaining and upgrading the community garden.

NOTE 11 – LEASE AGREEMENT

The School leases space from Charles Stewart Mott Community College for facilities at the Oakdale Center on Lake Drive for a child care program from July 1, 2006 to June 30, 2007 for \$824 per month. The renewed lease for 2007-2008 was signed in May 2007 for \$890 per month.

In May 2006, the School entered into an agreement to lease a vehicle for 24 months for \$288 per month.

NOTE 12 – RELATED PARTY TRANSACTIONS

Michael Blazo is a board member and owner of Kirk Construction, Inc. Building repairs were done by Kirk Construction with payments totaling \$14,154.

Ralph McCreedy is a board member and co-owner of McCreedy Farms Landscaping & Lawncare, LLC. Landscaping was done by McCreedy Farms with payments totaling \$19,133.

NOTE 13 – CAPITAL PROJECT

In November 2003, the board approved transferring previously designated and restricted money of \$603,209 to a capital projects fund. They added \$300,000 of previously undesignated funds to the capital projects fund and designated it to the Willows Earth Education Center with interest compounded monthly.

In November 2003, the board approved transferring \$300,000 of previously undesignated funds to the capital projects fund and designated it for technology, furnishings, and equipment upgrades.

CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 13 – CAPITAL PROJECT (Continued)

A summary of the capital projects designated fund balance as of June 30, 2007 is:

Willows Earth Education Center	\$ 1,024,553
Technology, Furnishings, & Upgrades	<u>300,000</u>
	<u>\$ 1,324,553</u>

Effective July 1, 2007, the Board approved a transfer from the general fund of \$279,000 to the Willows Center. In July 2007, construction began on the Willow Center with a budgeted cost, including furnishings of \$1.3 million. Kirk Construction is the construction manager and McCreedy Farms will supply landscape services and straw bales for the project.

NOTE 14 – SUBSEQUENT EVENT

In August 2007, the Board authorized the signing of a loan agreement with Lapeer County Bank & Trust Co., for a loan up to \$2.3 million for the purpose of constructing an addition to the building which shall house the 6th, 7th, and 8th grade classrooms. As of the date of the financial statements, the loan document has not been signed.

REQUIRED SUPPLEMENTAL INFORMATION

**CHATFIELD SCHOOL
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED JUNE 30, 2007**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
REVENUE				
Local Sources	\$ 140,500	\$ 143,700	\$ 158,832	\$ 15,132
State Sources	2,077,450	2,090,975	2,094,599	3,624
Federal Sources	26,250	175,090	193,739	18,649
OTHER FINANCING SOURCES				
Operating Transfers	-	-	-	-
TOTAL REVENUE AND OTHER SOURCES	2,244,200	2,409,765	2,447,170	37,405
EXPENDITURES				
Instruction	1,366,190	1,398,755	1,386,641	12,114
Supporting Services	717,275	829,048	816,896	12,152
Community Services	138,285	140,285	134,228	6,057
OTHER FINANCING USES				
Operating Transfers	-	-	-	-
TOTAL EXPENDITURES AND OTHER USES	2,221,750	2,368,088	2,337,765	30,323
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	\$ 22,450	\$ 41,677	109,405	\$ 67,728
FUND BALANCE – JULY 1, 2006			\$ 690,270	
FUND BALANCE – JUNE 30, 2007			\$ 799,675	

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

**CHATFIELD SCHOOL
BUDGETARY COMPARISON SCHEDULE – CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2007**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
REVENUE				
Local Sources	\$ -	\$ 54,400	\$ 60,762	\$ 6,362
State Sources	-	-	-	-
Federal Sources	-	-	-	-
Other Transactions	-	-	-	-
OTHER FINANCING SOURCES				
Operating Transfers	-	279,000	-	(279,000)
TOTAL REVENUE AND OTHER SOURCES	-	333,400	60,762	(272,638)
EXPENDITURES				
Instruction	-	-	-	-
Supporting Services	-	-	77	(77)
Community Services	-	-	-	-
Capital Outlay	1,250,319	1,600,009	2,741	1,597,268
OTHER FINANCING USES				
Operating Transfers	-	-	-	-
TOTAL EXPENDITURES AND OTHER USES	1,250,319	1,600,009	2,818	1,597,191
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>\$ (1,250,319)</u>	<u>\$ (1,266,609)</u>	57,944	<u>\$ 1,324,553</u>
FUND BALANCE – JULY 1, 2006			<u>1,266,609</u>	
FUND BALANCE – JUNE 30, 2007			<u>\$1,324,553</u>	

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

OTHER SUPPLEMENTAL INFORMATION

**CHATFIELD SCHOOL
GENERAL FUND SCHEDULE OF REVENUE – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
LOCAL SOURCES				
Interest from Investments	\$ 10,000	\$ 13,600	\$ 15,443	\$ 1,843
Donations	24,000	15,600	16,172	572
Custody & Care of Children	62,000	70,500	80,878	10,378
Earth Education	24,500	28,000	28,999	999
Other Local Sources	12,000	8,000	9,627	1,627
Cafeteria	8,000	8,000	7,713	(287)
TOTAL LOCAL SOURCES	140,500	143,700	158,832	15,132
STATE SOURCES	2,077,450	2,090,975	2,094,599	3,624
FEDERAL SOURCES	26,250	175,090	193,739	18,649
OTHER FINANCING SOURCES				
Operating Transfers	-	-	-	-
TOTAL REVENUE	<u>\$ 2,244,200</u>	<u>\$ 2,409,765</u>	<u>\$ 2,447,170</u>	<u>\$ 37,405</u>

NOTE: The budget information presented above reflects greater detail than the amended budget adopted.

**CHATFIELD SCHOOL
GENERAL FUND SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
INSTRUCTION				
BASIC PROGRAMS				
Elementary				
Purchased Services	\$ 1,229,975	\$ 1,194,975	\$ 1,190,943	\$ 4,032
Supplies & Materials	59,800	71,800	69,445	2,355
Capital Outlay	28,600	10,800	8,928	1,872
Other Expenses	14,000	13,300	12,771	529
Total Elementary	<u>1,332,375</u>	<u>1,290,875</u>	<u>1,282,087</u>	<u>8,788</u>
TOTAL BASIC PROGRAMS	1,332,375	1,290,875	1,282,087	8,788
ADDED NEEDS				
Special Education				
Purchased Services	32,315	69,640	67,028	2,612
Supplies & Materials	1,500	1,600	1,490	110
Total Special Education	<u>33,815</u>	<u>71,240</u>	<u>68,518</u>	<u>2,722</u>
Enrichment Services				
Purchased Services	-	36,640	36,036	604
Total Enrichment Services	<u>-</u>	<u>36,640</u>	<u>36,036</u>	<u>604</u>
TOTAL ADDED NEEDS	<u>33,815</u>	<u>107,880</u>	<u>104,554</u>	<u>3,326</u>
TOTAL INSTRUCTION	<u>1,366,190</u>	<u>1,398,755</u>	<u>1,386,641</u>	<u>12,114</u>
SUPPORT SERVICES				
PUPIL				
Purchased Services	72,510	45,420	44,537	883
Supplies & Materials	1,500	1,600	1,550	50
TOTAL PUPIL	<u>74,010</u>	<u>47,020</u>	<u>46,087</u>	<u>933</u>
INSTRUCTIONAL				
Purchased Services	23,000	68,936	67,704	1,232
Supplies & Materials	4,500	42,146	49,734	(7,588)
TOTAL INSTRUCTIONAL	<u>27,500</u>	<u>111,082</u>	<u>117,438</u>	<u>(6,356)</u>
BOARD OF EDUCATION				
Purchased Services	15,500	17,700	13,795	3,905
Other Expenses	60,000	60,000	62,009	(2,009)
TOTAL BOARD OF EDUCATION	<u>75,500</u>	<u>77,700</u>	<u>75,804</u>	<u>1,896</u>
EXECUTIVE ADMINISTRATION				
Purchased Services	46,855	43,000	42,862	138
TOTAL EXECUTIVE ADMINISTRATION	<u>46,855</u>	<u>43,000</u>	<u>42,862</u>	<u>138</u>

NOTE: The budget information presented above reflects greater detail than the amended budget adopted.

**CHATFIELD SCHOOL
GENERAL FUND SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
SUPPORT SERVICES (Continued)				
SCHOOL ADMINISTRATION				
Purchased Services	\$ 131,520	\$ 135,000	\$ 143,016	\$ (8,016)
Supplies & Materials	26,000	27,000	24,105	2,895
Capital Outlay	2,000	-	-	-
Other Expenses	7,000	20,500	15,995	4,505
TOTAL SCHOOL ADMINISTRATION	166,520	182,500	183,116	(616)
FISCAL SERVICES				
Purchased Services	21,585	24,300	22,693	1,607
Supplies & Materials	1,500	1,500	759	741
Capital Outlay	500	-	-	-
Other Expenses	1,000	4,500	3,616	884
TOTAL FISCAL SERVICES	24,585	30,300	27,068	3,232
OPERATION & MAINTENANCE				
Purchased Services	169,275	187,775	168,343	19,432
Supplies & Materials	68,500	71,300	71,644	(344)
Capital Outlay	44,000	3,500	1,131	2,369
TOTAL OPERATION & MAINTENANCE	281,775	262,575	241,118	21,457
CENTRAL SUPPORT SERVICES				
Purchased Services	20,530	74,871	83,403	(8,532)
TOTAL CENTRAL SUPPORT SERVICES	20,530	74,871	83,403	(8,532)
TOTAL SUPPORT SERVICES	717,275	829,048	816,896	12,152
COMMUNITY SERVICES				
Purchased Services	109,500	118,500	115,202	3,298
Supplies & Materials	24,800	20,800	18,369	2,431
Capital Outlay	3,500	-	-	-
Other Expenses	485	985	657	328
TOTAL COMMUNITY SERVICES	138,285	140,285	134,228	6,057
TOTAL EXPENDITURES AND OTHER USES	<u>\$ 2,221,750</u>	<u>\$ 2,368,088</u>	<u>\$ 2,337,765</u>	<u>\$ 30,323</u>

NOTE: The budget information presented above reflects greater detail than the amended budget adopted.

**CHATFIELD SCHOOL
TRUST AND AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2007**

	<u>BALANCE</u> <u>JULY 1, 2006</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2007</u>
<u>ASSETS</u>				
CASH	<u>\$ 13,216</u>	<u>\$ 116,837</u>	<u>\$ 114,550</u>	<u>\$ 15,503</u>
 <u>LIABILITIES</u>				
DUE TO STUDENT/ OTHER GROUPS	<u>\$ 13,216</u>	<u>\$ 116,837</u>	<u>\$ 114,550</u>	<u>\$ 15,503</u>

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

Board of Education
Chatfield School
Lapeer, Michigan 48446

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chatfield School, as of and for the year ended June 30, 2007, which collectively comprise Chatfield School's basic financial statements, and have issued our report thereon dated October 11, 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 Chatfield 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 Chatfield School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Chatfield 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 Chatfield School'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 Chatfield School's financial statements that is more than inconsequential will not be prevented or detected by Chatfield School'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 Chatfield School's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in 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 and Other Matters

As part of obtaining reasonable assurance about whether Chatfield School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not

an objective of our audit 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*.

We noted certain matters that we reported to management of Chatfield School, in a separate letter dated October 11, 2007.

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

Brown & Kent, P. C.

Certified Public Accountants

October 11, 2007



BROWN & KENT, P.C.

Certified Public Accountants

951 S. Main St. • Suite 3 • Lapeer, MI • 48446 • (810) 664-4470 • Fax (810) 664-3601

To the Board of Education
The Chatfield School
231 Lake Drive
Lapeer, MI 48446

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chatfield School (the School) 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 Chatfield School'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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 we consider to be material weaknesses. We did not identify any deficiencies in internal control that we consider to be control deficiencies or material weaknesses, as defined above.

The following comments relate to some of the School's accounting, financial and administrative policies and procedures that we observed during the course of our audit. These matters are not considered control deficiencies or material weaknesses as defined by professional standards. This letter does not affect our report dated October 11, 2007 on the financial statements of Chatfield Schools.

INTERNAL FUNDS ACTIVITY – One of the fiscal responsibilities of the School is to monitor the internal funds activity, keeping track of receipts and disbursements per activity. We would like to see the footnote disclosure detail out every activity in the internal funds showing beginning balance of each activity, receipts, disbursements, and ending balance of each activity. Many of the activities are segregated now, but we recommend every activity is tracked.

This communication is intended solely for the information and use of management, Board of Education, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the Board for the opportunity to serve as auditors for the Chatfield School. We would also like to thank the executive director and staff for the courtesy and assistance provided to us during our audit. Please contact us, if you have any questions regarding these or any other matters.

Brown & Kent, P.C.

Certified Public Accountants

October 11, 2007



BROWN & KENT, P.C.

Certified Public Accountants

951 S. Main St. • Suite 3 • Lapeer, MI • 48446 • (810) 664-4470 • Fax (810) 664-3601

October 11, 2007

To The Board of Education
The Chatfield School
231 Lake Drive
Lapeer, MI 48446

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chatfield School for the year ended June 30, 2007, and have issued our report thereon dated October 11, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 10, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Chatfield School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 11, 2007.

Management Consultations with Other Independent Accountants

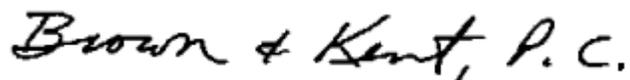
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Board of Education and management of Chatfield School and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



BROWN & KENT, P.C.
Certified Public Accountants