

PRESQUE ISLE ACADEMY II

Audited Financial Statements and
Other Supplementary Financial Information

Year Ended June 30, 2007

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name PRESQUE ISLE ACADEMY II	County CHEBOYGAN
Fiscal Year End JUNE 30, 2007	Opinion Date OCTOBER 3, 2007	Date Audit Report Submitted to State NOVEMBER 8, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below.** (See instructions for further detail.)
- All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - The local unit has adopted a budget for all required funds.
 - A public hearing on the budget was held in accordance with State statute.
 - The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - The local unit only holds deposits/investments that comply with statutory requirements.
 - The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - The local unit is free of repeated comments from previous years.
 - The audit opinion is UNQUALIFIED.
 - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - The board or council approves all invoices prior to payment as required by charter or statute.
 - To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) STRALEY, ILSLEY & LAMP P.C.		Telephone Number (989) 356-4531	
Street Address 2106 US 23 SOUTH		City ALPENA	State MI
		Zip 49707	
Authorizing CPA Signature 		Printed Name MARK L. SANDULA	License Number A 263243

**ANNUAL FINANCIAL REPORT
OF
PRESQUE ISLE ACADEMY II**

**21045 M-68 Highway
P. O. Box 731
Onaway, Michigan 49765
(989) 733-6708**

Year Ended June 30, 2007

BOARD OF DIRECTORS

Kammie Dennis, Onaway

Lori Budnick, Rogers City

Mitch James, Onaway

Marma Beatty, Onaway

Mark Schuler, Hawks

Eric Muller, Rogers City

INDEPENDENT AUDITORS..... Straley, Ilsley & Lamp P.C.

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Certified Public Accountants

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DONALD C. LEVREN

RETIRED
GORDON A. NETHERCUT, C.P.A.
CARL F. REITZ, C.P.A.
WARREN W. YOUNG, C.P.A.

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Presque Isle Academy II
Onaway, Michigan

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Presque Isle Academy II**, 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 3, 2007, on our consideration of the **Presque Isle Academy II's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Required Supplemental Information

The Management's discussion and analysis and the required supplementary information identified in the table of contents 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.

Individual Fund Financial Statements and Other Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the **Presque Isle Academy II's** basic financial statements. The additional information identified in the table of contents as individual fund financial statements and other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has 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.

Straley, Irlsey & Lamp P.C.

October 3, 2007

Presque Isle Academy II Management's Discussion and Analysis

The following is management's discussion and analysis of the financial position and results of operations for the fiscal year ended June 30, 2007. Please read it in conjunction with the financial statements and related footnotes, which follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Presque Isle Academy II financially as a whole. The *Government-Wide Financial Statements* provide information about the activities of the whole Charter School, presenting both an aggregate view of the Charter School's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Charter School's governmental funds. The annual report is arranged as follows:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-Wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary information for General Fund

Other Supplemental Information

Individual Fund Statements

Reporting the Charter School as a Whole – Government-wide Financial Statements

The statement of net assets and the statement of activities, which appear first in the Charter School's financial statements, report information about the Charter School as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The statement of net assets includes all of the Charter 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.

These two statements report the Charter School's net assets and how they have changed. Net assets – the difference between assets and liabilities, as reported in the statement of net assets - is one way to measure the Charter School's financial health, or position. Over time, increases or decreases in the Charter School's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Charter School's operating results. However, the Charter

Presque Isle Academy II Management's Discussion and Analysis

School's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the Presque Isle Academy II.

The statement of net assets and statement of activities report the governmental activities for the Charter School, which encompass all of the Charter School's services, including instruction, support services, and inter-district transfers. State aid finances these activities.

Reporting the Charter School's Most Significant Funds – Fund Financial Statements

The Charter School's fund financial statements provide detailed information about the most significant funds – not the Charter School as a whole. The governmental funds of the Charter School use the following accounting approach:

Governmental Funds – All of the Charter School's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash.

The governmental fund statements provide a detailed short-term view of the operations of the Charter School and the services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Charter School's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

The Charter School as a Whole

Recall that the statement of net assets provides the perspective of the Charter School as a whole. Table 1 provides a summary of the Charter School's net assets as of June 30, 2007 and 2006:

<u>TABLE 1</u>	<u>2007</u>	<u>2006</u>
ASSETS		
Current and Other Assets	\$ 291,467	\$ 208,517
Property and Equipment	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 291,467</u>	<u>\$ 208,517</u>
NET ASSETS		
Invested in property and equipment – net of related debt	\$ -	\$ -
Unrestricted	<u>291,467</u>	<u>208,517</u>
Total Net Assets	<u>\$ 291,467</u>	<u>\$ 208,517</u>

Presque Isle Academy II Management's Discussion and Analysis

The above analysis focuses on the net assets. The change in net assets (see Table 2) of the Charter School's governmental activities is discussed below. The Charter School's net assets were \$291,467 at June 30, 2007.

The \$291,467 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The unrestricted net assets balance enables the Charter School to meet working capital and cash flow requirements as well as provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Charter School as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2007 as compared to 2006.

TABLE 2	<u>2007</u>	<u>2006</u>
Revenue		
Program revenue:		
Charges for services	\$ -	\$ 2,119
Operating grants	20,277	19,231
General revenue:		
State Aid	490,281	476,023
Miscellaneous	<u>4,541</u>	<u>1,233</u>
Total revenue	<u>\$ 515,099</u>	<u>\$ 498,606</u>
Functions/Program Expenses		
Instruction	\$ 191,827	\$ 269,954
Support services	238,223	149,300
Interdistrict transfers	-	459
Prior period adjustments	<u>2,099</u>	<u>-</u>
Total expenses	<u>432,149</u>	<u>419,713</u>
Increase (Decrease) in Net Assets	<u>\$ 82,950</u>	<u>\$ 78,893</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$432,149. The majority of activities were funded from \$490,281 in state aid.

The Charter School experienced an increase in net assets of \$82,950.

As discussed above, the net cost shows the financial burden that was placed on the State and the Charter School's taxpayers by each of these functions. Since unrestricted State aid constitutes all of the Charter School operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the Charter School and balance those needs with State-prescribed available unrestricted resources.

Presque Isle Academy II Management's Discussion and Analysis

The Charter School's Funds

As we noted earlier, the Charter School uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Charter School is being accountable and provide more insight into the Charter School's overall financial health. As the Charter School completed this year, the governmental funds reported a combined fund balance of \$291,467 which is an increase of \$82,950 from last year.

The General Fund fund balance available to fund general operations costs for administrative and support services remains stable at \$291,467.

General Fund Budgetary Highlights

Over the course of the year, the Charter School revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted June 25, 2007. (A schedule showing the Charter School's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements).

As stated previously, all activities were primarily funded from \$490,281 in state aid. It is common to receive notification of state aid awards subsequent to the adoption of the original budget. Awards may vary significantly from original estimates.

Economic Factors and Next Year's Budgets and Rates

Our Board of Education and administration consider many factors when setting the Charter School's 2007-08 fiscal year budget. The 2007-08 fiscal year budget was adopted in June 2007 based on state revenue estimates available at that time. Charter School funding is heavily dependent on the State's ability to fund local Charter School operations. Once final pupil counts and added cost calculations are made, State law requires the Charter School to amend the budget if actual resources are not sufficient to fund original appropriations.

Since the Charter School's revenue is heavily dependent on State funding and the economic health of the State's School Aid fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to Charter Schools. The state periodically holds a revenue estimating conference to estimate revenues. Based on recent conference reports and subsequent preliminary data it appears the State will maintain most of it's funding at 2006-2007 State Aid allocation levels, with the exception of a possible 1% increase in the per pupil foundation allowance.

Contacting the Charter School's Financial Management

This financial report is designed to provide the Charter School's citizens, taxpayers, customers, investors, and creditors with a general overview of the Charter School's finances and to demonstrate the Charter School's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Manager, Amy Karsten at 6065 Learning Lane, Indian River, Michigan 49749, (231)238-9394.

BASIC FINANCIAL STATEMENTS

Presque Isle Academy II

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Governmental Activities</u>
ASSETS	
CURRENT ASSETS	
Due from other governmental units	\$ 291,467
TOTAL ASSETS	<u>291,467</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	<u>-</u>
TOTAL LIABILITIES	<u>-</u>
NET ASSETS	
Investment in capital assets, net of related debt	-
Unrestricted	
Designated	-
Undesignated	<u>291,467</u>
TOTAL NET ASSETS	<u><u>\$ 291,467</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Presque Isle Academy II

STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES

Year ended June 30, 2006

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
FUNCTION / PROGRAMS				
Instruction	\$ 191,827	\$ -	\$ 20,277	\$ (171,550)
Supporting services	238,223	-	-	(238,223)
Prior period adjustment	2,099	-	-	(2,099)
	<u>432,149</u>	<u>-</u>	<u>20,277</u>	<u>(411,872)</u>
Total Governmental Activities				
General Revenues				
State aid				490,281
Miscellaneous revenues				<u>4,541</u>
Total General Revenues				<u>494,822</u>
Change in Net Assets				82,950
Net Assets - beginning of the year - as restated				<u>208,517</u>
Net Assets - end of the year				<u>\$ 291,467</u>

The accompanying notes to financial statements are an integral part of this statement.

Presque Isle Academy II

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2007

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Due from other governmental units	\$ 291,467	\$ 291,467
Total assets	<u>\$ 291,467</u>	<u>\$ 291,467</u>
LIABILITIES AND FUND BALANCES		
Accounts payable	<u>\$ -</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>
Fund Equity		
Fund balances		
Undesignated	<u>291,467</u>	<u>291,467</u>
	<u>291,467</u>	<u>291,467</u>
Total liabilities and fund balances	<u>\$ 291,467</u>	<u>\$ 291,467</u>

The accompanying notes to financial statements are an integral part of this statement.

Presque Isle Academy II
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES**

June 30, 2007

Total Governmental Fund Balances	<u>\$ 291,467</u>
Total Net Assets - Governmental Activities	<u><u>\$ 291,467</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Presque Isle Academy II

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS**

Year ended June 30, 2007

	General Fund	Total Governmental Funds
REVENUES		
Local sources	\$ 4,541	\$ 4,541
State sources	490,281	490,281
Federal sources	20,277	20,277
	<hr/>	<hr/>
Total revenues	515,099	515,099
	<hr/>	<hr/>
EXPENDITURES		
Current		
Instruction	191,827	191,827
Supporting services	238,223	238,223
Prior period adjustment	2,099	2,099
	<hr/>	<hr/>
Total expenditures	432,149	432,149
	<hr/>	<hr/>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	82,950	82,950
	<hr/>	<hr/>
FUND BALANCES , beginning of the year	208,517	208,517
	<hr/>	<hr/>
FUND BALANCES , end of the year	<u>\$ 291,467</u>	<u>\$ 291,467</u>

The accompanying notes to financial statements are an integral part of this statement.

Presque Isle Academy II

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year ended June 30, 2007

Total net change in fund balances - governmental funds	<u>\$ 82,950</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 82,950</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SIGNIFICANT ACCOUNTING POLICIES.

The financial statements of **Presque Isle Academy II** ("Charter School") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Charter School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the Charter School's accounting policies are described below:

A. Description of Operations and Reporting Entity.

Description of Operations. **Presque Isle Academy II** was established by the Onaway, Posen and Rogers City School Districts as a Charter School Academy under guidelines established by the State of Michigan. The Academy operates under a seven-member Board of Education and provides alternative secondary education services to students deemed to be at risk of dropping out or being dismissed from local school districts.

Reporting Entity. A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Charter School consists of all funds, departments, boards and agencies that are not legally separate from the Charter School. For Presque Isle Academy II, this includes general operations, and student and supportive service activities of the Charter School.

Component units are legally separate organizations for which the Charter School is financially accountable. Component units may also include organizations that are fiscally dependent on the Charter School in that the Charter School approves their budget, the issuance of their debt, or the levying of taxes. The Charter School has no component units.

B. Fund Accounting.

Fund Accounting. The Charter School uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Charter School functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Charter School are grouped into the categories governmental, proprietary and fiduciary.

Governmental Funds. Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Charter School's major governmental funds:

General Fund. This fund is used to record the general operations of the Charter School pertaining to education and those transactions not accounted for in another fund. Included are all transactions related to the approved current operating budget.

Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

The expenditures are classified in accordance with the latest revised edition of the *Accounting Manual for Michigan Charter Schools* (Bulletin 1022, as revised) issued by the Michigan Department of Education as follows:

Instruction - Instruction includes the activities dealing directly with the teaching of pupils or the interaction between teacher and pupils. Teaching may be provided for pupils in a school classroom; in another location, such as in a home or hospital; and other learning situations, such as those involving co-curricular activities. It may also be provided through some other approved medium, such as television, radio, telephone, and correspondence. Included here are the activities of aides, assistants of any type, and supplies and machines which assist directly in the instruction process.

Supporting Services - Supporting services are those services which provide administrative, technical (such as guidance and health), and logistical support to facilitate and enhance instruction and, to a lesser degree, community services. Supporting services exist as adjuncts for the fulfillment of the objectives of instruction, rather than as entities within themselves.

C. Basis of Presentation.

Government-wide Financial Statements. The statement of net assets and the statement of activities display information about the Charter School as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The financial activities of Presque Isle Academy II are all considered governmental and do not reflect any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Charter School's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Charter School, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Charter School.

Fund Financial Statements. Fund financial statements report detailed information about the Charter School. 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.

Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues. Exchange and Non-exchange Transactions -Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Charter School, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the Charter School receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Charter School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Charter School on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Expenses/Expenditures. On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Vacation and sick leave. Charter School policy does not provide for payments of unused sick or vacation pay, therefore, no provision has been recorded.

Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

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, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits 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. Bonds and 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 the 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 Charter School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Encumbrances. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation is not employed by the Charter School. Commitments outstanding at year end are charged against the subsequent year's appropriation once received and approved.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Reclassification. Certain items reported in the June 30, 2006, financial statements may have been reclassified to conform with the presentation for the current year.

NOTE 2--LEGAL COMPLIANCE.

Budgets and Budgetary Accounting. Prior to adoption of the budgets, the school administration prepares and submits their proposed operating budgets commencing the following July 1. Prior to July 1 the budget is adopted by the Board of Education. Budgeted amounts are as originally adopted or as amended by the Board of Education. Unused appropriations at June 30 are not carried forward to the following year.

The provisions of the Uniform Budgeting and Accounting Act, P.A. 621 became effective in July 1981. The Act provides major revenue categories and expenditure functions that constitute minimal levels. The Presque Isle Academy II's budget was legally enacted on a functional level. Detail at the activity level is presented in the General Fund Statement of Revenues, Expenditures and Fund Balances for the benefit of management.

Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

NOTE 3--RELATED PARTIES.

Cheboygan – Otsego – Presque Isle Educational Service District

The Cheboygan – Otsego – Presque Isle Educational Service District (COP) acts as the fiscal agent for the Academy. COP staff is responsible for administering the financial activities of the Academy. This includes maintaining general ledger accounting records, preparing budgets, collecting revenues and paying disbursements on behalf of the Academy. The financial statement caption “Due from other governmental units” represents the Academy’s share of COP’s pooled cash and cash equivalents at June 30, 2007. All personnel services incurred by the Academy are through outside contracted labor agreements. For the year ended June 30, 2007, \$226,912 was paid to COP for contracted labor and \$22,600 for oversight and fiscal services.

NOTE 4--RISK MANAGEMENT.

The Academy is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Academy is covered under commercial insurance for all risks of loss. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

NOTE 5—LEASES.

The Academy leases the school building which it occupies for the sum of \$2,200 per month. The lease is a five year lease which expires July 31, 2010.

NOTE 6--SCHOOL FUNDING.

With the passage of Senate Bill 1 in August, 1993, and the subsequent approval of Proposal “A” by Michigan voters, the so-called Bursely funding formula was replaced by a system of base foundation grants per pupil in each local school district and charter school in Michigan. The basic foundation allowance is determined annually by the Legislature of the State of Michigan. The Presque Isle Academy II received a basic foundation allowance of \$7,085 per pupil based on pupil membership counts taken in February and September of 2006 for the school year ending June 30, 2007. Future adjustments to the base grant will be based on a revenue index, with districts below the statewide \$5,000 base amount receiving greater increases. Most categorical aid, including social security (FICA) and state retirement contributions, was rolled into the base foundation amount, except for special education, special education transportation, adult education, early childhood education and vocational education funding.

NOTE 7--CONTINGENCIES, CLAIMS AND LITIGATION.

There are currently no known legal actions pending against the Charter School that would require recording a liability. It is the policy of Presque Isle Academy II to record a liability for any contingency, claim or lawsuit when the loss is probable and an amount can be reasonably estimated.

REQUIRED SUPPLEMENTARY INFORMATION

Presque Isle Academy II

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

Year ended June 30, 2007

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local sources	\$ -	\$ 4,477	\$ 4,541	\$ 64
State sources	465,000	488,183	490,281	2,098
Federal sources	-	20,277	20,277	-
Total revenues	<u>465,000</u>	<u>512,937</u>	<u>515,099</u>	<u>2,162</u>
EXPENDITURES				
Current:				
Instruction	206,586	192,403	191,827	576
Supporting services	267,762	240,738	238,223	2,515
Prior period adjustment	-	-	2,099	(2,099)
Total expenditures	<u>474,348</u>	<u>433,141</u>	<u>432,149</u>	<u>992</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(9,348)	79,796	82,950	3,154
FUND BALANCES , beginning of the year	<u>163,774</u>	<u>208,517</u>	<u>208,517</u>	<u>-</u>
FUND BALANCES , end of the year	<u>\$ 154,426</u>	<u>\$ 288,313</u>	<u>\$ 291,467</u>	<u>\$ 3,154</u>

INDIVIDUAL FUND STATEMENTS

Presque Isle Academy II

**GENERAL FUND
BALANCE SHEET**

	June 30	
	<u>2007</u>	<u>2006</u>
ASSETS		
Due from other governmental units	\$ 291,467	\$ 208,517
Total assets	<u>\$ 291,467</u>	<u>\$ 208,517</u>
LIABILITIES AND EQUITIES		
Accounts payable	\$ -	\$ -
Fund Balances		
Unreserved		
Undesignated	291,467	208,517
Total fund balances	<u>291,467</u>	<u>208,517</u>
Total liabilities and fund equities	<u>\$ 291,467</u>	<u>\$ 208,517</u>

Presque Isle Academy II

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year Ended June 30,		
	2007 Final Budget	2007 Actual	2006 Actual
REVENUES			
LOCAL SOURCES			
Miscellaneous local revenue	\$ 4,477	\$ 4,541	\$ 1,233
	<u>4,477</u>	<u>4,541</u>	<u>1,233</u>
STATE SOURCES			
State Aid:			
Foundation grant	472,360	477,332	465,532
At Risk	15,823	12,949	10,491
Advanced learning	-	-	-
	<u>488,183</u>	<u>490,281</u>	<u>476,023</u>
FEDERAL SOURCES			
Small Rural School Achievement Program	20,223	20,223	19,231
Homeless grant	54	54	-
	<u>20,277</u>	<u>20,277</u>	<u>19,231</u>
INTERDISTRICT SOURCES			
Interdistrict revenue	-	-	2,119
	<u>-</u>	<u>-</u>	<u>2,119</u>
 Total revenues	 <u>512,937</u>	 <u>515,099</u>	 <u>498,606</u>
INSTRUCTION			
High School (7-12)			
Purchased services	178,611	178,089	248,200
Supplies and materials	8,785	8,731	14,243
Miscellaneous	870	870	124
Dues and fees	63	63	-
Capital outlay	4,074	4,074	7,387
	<u>192,403</u>	<u>191,827</u>	<u>269,954</u>
 Total instruction	 <u>192,403</u>	 <u>191,827</u>	 <u>269,954</u>
SUPPORT SERVICES			
INSTRUCTIONAL STAFF			
Improvement of Instruction			
Purchased services	251	251	2,763
	<u>251</u>	<u>251</u>	<u>2,763</u>

Presque Isle Academy II

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year Ended June 30,		
	2007 Final Budget	2007 Actual	2006 Actual
EXPENDITURES (Continued)			
GENERAL ADMINISTRATION			
Board of Education			
Purchased services	\$ 99,220	\$ 98,150	\$ 3,340
	<u>99,220</u>	<u>98,150</u>	<u>3,340</u>
SCHOOL ADMINISTRATION			
Other School Administration			
Purchased services	40,973	40,876	38,329
Supplies and materials	350	375	982
Miscellaneous	2,335	2,252	1,989
	<u>43,658</u>	<u>43,503</u>	<u>41,300</u>
BUSINESS			
Payments To Other School Districts			
Transportation	23,000	22,600	21,994
	<u>23,000</u>	<u>22,600</u>	<u>21,994</u>
OPERATIONS AND MAINTENANCE			
Operations and Maintenance			
Purchased services	50,397	50,526	51,745
Supplies and materials	8,600	8,441	13,299
Miscellaneous	64	64	177
	<u>59,061</u>	<u>59,031</u>	<u>65,221</u>
PUPIL TRANSPORTATION			
Purchased services	4,270	4,270	4,682
Supplies and materials	1,050	956	1,208
	<u>5,320</u>	<u>5,226</u>	<u>5,890</u>
TECHNOLOGY			
Purchased services	10,228	9,462	8,792
	<u>10,228</u>	<u>9,462</u>	<u>8,792</u>
Total support services	<u>240,738</u>	<u>238,223</u>	<u>149,300</u>
INTERDISTRICT TRANSFERS			
Transfer to other school districts	-	-	459
Prior period adjustment	-	2,099	-
Total expenditures	<u>433,141</u>	<u>432,149</u>	<u>419,713</u>

Presque Isle Academy II

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year Ended June 30,		
	<u>2007 Final Budget</u>	<u>2007 Actual</u>	<u>2006 Actual</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 79,796	\$ 82,950	\$ 78,893
FUND BALANCES , beginning of the year	<u>208,517</u>	<u>208,517</u>	<u>129,624</u>
FUND BALANCES , end of the year	<u>\$ 288,313</u>	<u>\$ 291,467</u>	<u>\$ 208,517</u>



Certified Public Accountants

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DONALD C. LEVREN

RETIRED
CORDON A. NEJHERCUT, C.P.A.
CARL E. REIZ, C.P.A.
WARREN W. YOUNG, C.P.A.

To the Board of Education
Presque Isle Academy II
Onaway, Michigan

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. We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Presque Isle Academy II**, as of and for the year ended June 30, 2007, which collectively comprise the **Presque Isle Academy II's** basic financial statements and have issued our report thereon dated October 3, 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 **Presque Isle Academy II'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 **Presque Isle Academy II's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Presque Isle Academy II'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 **Presque Isle Academy II'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 **Presque Isle Academy II's** financial statements that is more than inconsequential will not be prevented or detected by the **Presque Isle Academy II'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 **Presque Isle Academy II'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 and Other Matters

As part of obtaining reasonable assurance about whether the **Presque Isle Academy II'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*.

We noted certain matters that we reported to management of the **Presque Isle Academy II's** in a separate letter dated October 3, 2007.

This report is intended solely for the information and use of management, the audit committee, the Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties

Straley, Isley : Lamp P.C.

October 3, 2007



Certified Public Accountants

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DONALD C. LEVREN

November 8, 2007

RETIRED
GORDON A. NETHERCUT, C.P.A.
CARL E. REITZ, C.P.A.
WARREN W. YOUNG, C.P.A.

To the Board of Education
Presque Isle Academy II
Onaway, Michigan

We have audited the financial statements of Presque Isle Academy II for the year ended June 30, 2007, and have issued our report thereon dated October 3, 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 April 14, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Presque Isle Academy II'. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Presque Isle Academy II' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Presque Isle Academy II are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Management's estimate of the depreciation expense is based on management's assumptions about the useful lives of its fixed assets. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the governmental unit's financial reporting process (that is, cause future financial statement to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the governmental unit, either individually or in the aggregate, indicate matters that could have a significant effect on the governmental unit's financial reporting process.

Disagreements with Management

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

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 general purpose 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.

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

Reportable Conditions

Reportable conditions involve matters coming to our attention, under standards established by the American Institute of Certified Public Accountants, relating to significant deficiencies in the design or operations of the internal control structure that, in our judgment, could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose of financial statements. We discovered no reportable conditions that should be communicated to management. Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable conditions.

Other Matters

1. **Recent Pronouncements.** The Governmental Accounting Standards Board (GASB), in its continuing process of updating the accounting principles that all governmental units must adhere to, has issued the following recent pronouncements that will have an impact on the way the Presque Isle Academy II maintains its financial records:

- A. **GASB Statement No. 45 - Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions.** This statement will require governmental units to record the cost of benefits (such as health insurance, life insurance, etc) in the periods when the related services are received by the employer if these benefits are not provided for through a pension plan. This will require the District to accrue and report an actuarially computed liability for any future post employment benefit other than pensions. The requirements of this statement are effective for financial statements of the District for the year ended June 30, 2008.

- B. **GASB Statement No. 43 - Financial Reporting for Post employment Benefit Plans Other Than Pension Plans.** This statement establishes uniform reporting standards for other post employment benefit plans. The financial statements focus on reporting current financial information about plan net assets and required note disclosures include a brief plan description, a summary of significant accounting policies, and information about contributions and legally required reserves. The requirements of this statement are effective for financial statements of the District for the year ended June 30, 2008.

2. **Issues Likely to Impact Schools.**

- A. **Michigan Department of Education changes enforcement of Budgeting Act.** The Michigan Department of Education (MDE) has indicated it will aggressively pursue violations of the Uniform Budgeting and Accounting Act by school districts beginning with the retroactive enforcement to the 2004-05 fiscal year. For that year, the Department is only focusing on the General Fund and will only act upon *Total Expenditures* violations that exceed 1% of the Total Expenditures budget and *Total Other Financing Uses* violations that exceed 1% of the Total Other Financing Uses budget.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (overspending your budget),
- Ending the fiscal year with a deficit (negative fund balance), and
- Adopting a budget that, when implemented, would put the district in a deficit.

Also, based on their interpretation of Section 17(2) of the Act, the MDE is currently considering that a violation of the Act also includes the situation where a district did not achieve their full revenue budget and, at the same time, depleted the district fund balance beyond what had been approved by their school board.

To date, the Presque Isle Academy II has not made any material violations of the Budget Act, but the MDE is recommending that all school districts should amend their budgets for the 2006-07 fiscal year and beyond to comply with this new interpretation.

Districts should:

- Review and adjust their budgets to ensure that: your actual revenues will exceed their revenue budgets, including other financing sources
- Their actual expenditures will not exceed your functional level budgets, including other financing uses
- Ensure that the district does not budget a negative fund balance

We wish to thank the staff of Presque Isle Academy II for their assistance during the audit.

This report is intended solely for the information and use of Presque Isle Academy II Board of Education, Michigan Department of Education, Management, and others within the governmental unit and is not intended to be and should not be used by anyone other than these specified parties.

Straley, Irlby ; Lamp P.C.