

THREE OAKS PUBLIC SCHOOL ACADEMY

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

YEAR ENDED JUNE 30, 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Three Oaks Public School Academy
Muskegon, Michigan

September 26, 2007

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Three Oaks Public School Academy (the Academy), as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Three Oaks Public School Academy'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 Three Oaks Public School Academy 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.

To the Board of Directors
Three Oaks Public School Academy
Muskegon, Michigan

September 26, 2007

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2007, on our consideration of Three Oaks Public School Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through x and 19, 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.

Maner, Costerisan + Ellis, P.C.

Certified Public Accountants

MANAGEMENT’S DISCUSSION AND ANALYSIS

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

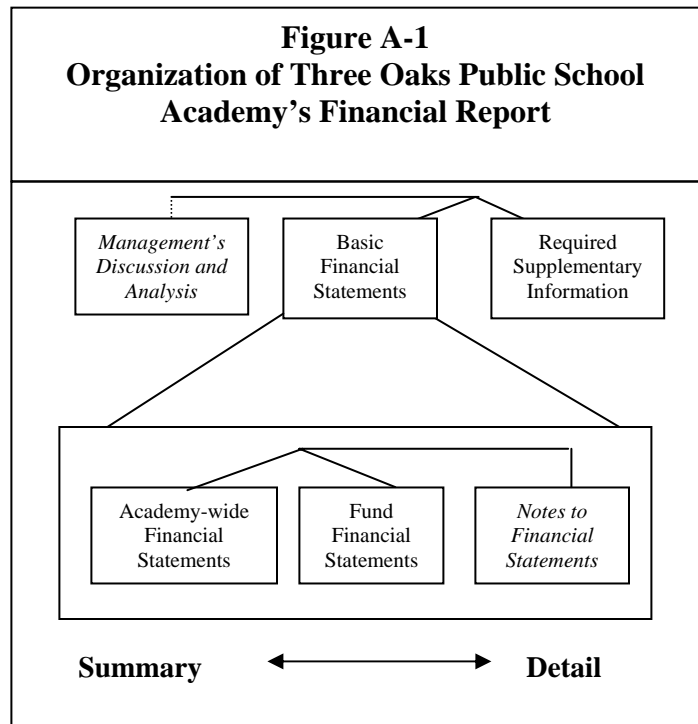
Financial Highlights

- The Academy had an increase in the fund balance in the general fund of \$62,923 compared to a budgeted figure of \$5,833. This gives the Academy a general fund balance of \$236,570.
- The Academy retired \$17,987 in long-term debt during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



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

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

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

	Academy-wide statements	Governmental funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial 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
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

Academy-wide statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets - the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

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

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

Fund financial statements

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

- Governmental funds - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Financial analysis of the Academy as a whole

Net assets - the Academy's combined net assets of \$262,063 improved by \$70,454 during the year. See Figures A-3 and A-4.

The total revenues increased by 16% to \$1,358,915. This is mainly due to the addition of the Michigan School Readiness Program and the addition of Medicaid funding. However, the state aid foundation allowance included in revenue from state sources accounts for approximately 72% of the Academy's revenue.

The total cost of instruction increased by 30% to \$602,146. Total support service increased by 13% to \$622,476. Both increases are primarily due to the addition of the Michigan School Readiness Program and the 10 grade program.

Academy governmental activities

Figure A-3		
Three Oaks Public School Academy's Net Assets		
	<u>2007</u>	<u>2006</u>
Current assets	\$ 405,406	\$ 378,478
Capital assets, net	37,034	47,490
Total assets	<u>442,440</u>	<u>425,968</u>
Current liabilities	180,377	222,956
Long-term liabilities		11,403
Total liabilities	<u>180,377</u>	<u>234,359</u>
Net assets:		
Invested in capital assets, net of related debt	25,493	17,962
Unrestricted	<u>236,570</u>	<u>173,647</u>
Total net assets	<u>\$ 262,063</u>	<u>\$ 191,609</u>

Figure A-4		
Changes in Three Oaks Public School Academy's Net Assets		
	<u>2007</u>	<u>2006</u>
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 334,143	\$ 266,050
Charges for services	<u>1,791</u>	<u>2,755</u>
General revenues:		
State aid - unrestricted	977,293	989,372
Other	<u>45,688</u>	<u>42,482</u>
Total general revenues	<u>1,022,981</u>	<u>1,031,854</u>
Loss on disposition of asset		(133,687)
Total revenues	<u>1,358,915</u>	<u>1,166,972</u>
Expenses:		
Instruction	602,146	459,892
Support services	622,476	547,795
Community service	323	12,969
Food service	40,829	31,597
Interest on long-term debt	2,139	9,307
Unallocated depreciation	<u>20,548</u>	<u>15,511</u>
Total expenses	<u>1,288,461</u>	<u>1,077,071</u>
Change in net assets	<u>\$ 70,454</u>	<u>\$ 89,901</u>

Financial analysis of the Academy's funds

The Academy's fund balance increased by \$62,923 to \$236,570. Principal and interest payments on long-term debt of \$20,126 were made from the general fund. Instruction expenses increased by \$142,254 and support service expenses increased by 74,686.

General fund budgetary highlights

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

While the Academy's final budget for the general fund anticipated revenues would just barely exceed expenditures and other financing uses by \$5,833, the actual results for the year showed revenues over expenditures of \$62,923.

Actual revenues were \$11,097 more than budgeted, due primarily to additional federal aid received.

Actual expenditures were \$32,840 under budget, due primarily to lower basic instruction and pupil support services.

Capital asset and debt administration

Capital assets

By the end of the year ended June 30, 2007, the Academy had invested \$37,034 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a decrease of \$10,456 from the beginning of the year. Total depreciation expense for the year was \$20,548. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

	2007			2006
	Cost	Accumulated depreciation	Net book value	Net book value
Furniture and equipment	\$ 88,755	\$ 61,603	\$ 27,152	\$ 47,490
Leasehold improvements	10,092	210	9,882	
Total	<u>\$ 98,847</u>	<u>\$ 61,813</u>	<u>\$ 37,034</u>	<u>\$ 47,490</u>

Long-term debt

The Academy repaid principal on long-term debt of \$17,987 during 2007. See Note 6 for more information.

Factors bearing on the Academy's future

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

- The Academy has decided to remove its high school program and serve only Pre-K through 8th grade beginning the 2007/2008 year. Both management and the Academy Board of Directors feel this will enhance the educational program and allow for greater growth in those grades.
- Changes to the foundation allowance for the next year have yet to be determined. Due to State budget issues and possible future cuts the Academy has budgeted a reduction in foundation allowance of \$60 to \$7,325 per pupil.
- The Academy has adopted a balanced budget for 2008.

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

Contacting the Academy's financial management

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

**THREE OAKS PUBLIC SCHOOL ACADEMY
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	<u>Governmental activities</u>
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 52,836
Due from other governmental units	291,965
Prepaid expenses	60,605
TOTAL CURRENT ASSETS	<u>405,406</u>
NONCURRENT ASSETS:	
Capital assets	98,847
Less accumulated depreciation	<u>(61,813)</u>
TOTAL NONCURRENT ASSETS	<u>37,034</u>
TOTAL ASSETS	<u><u>\$ 442,440</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 15,061
Deferred revenue	3,909
Accrued salaries and related items	81,418
State aid note payable	68,448
Current portion of note payable	11,541
TOTAL CURRENT LIABILITIES	<u>180,377</u>
NET ASSETS:	
Invested in capital assets, net of related debt	25,493
Unrestricted	<u>236,570</u>
TOTAL NET ASSETS	<u>262,063</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 442,440</u></u>

**THREE OAKS PUBLIC SCHOOL ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Net (expense)</u>
		<u>services</u>	<u>grants</u>	<u>revenue and</u>
				<u>changes in</u>
				<u>net assets</u>
Governmental activities:				
Instruction	\$ 602,146	\$	\$ 277,576	\$ (324,570)
Support services	622,476		15,544	(606,932)
Community service	323			(323)
Food service	40,829	1,791	41,023	1,985
Interest and fees	2,139			(2,139)
Depreciation (unallocated)	20,548			(20,548)
	<u>\$ 1,288,461</u>	<u>\$ 1,791</u>	<u>\$ 334,143</u>	<u>(952,527)</u>
Total governmental activities				
General revenues:				
State sources				977,293
Incoming transfer from Muskegon ISD				35,536
Other				10,152
				<u>1,022,981</u>
Total general revenues				
CHANGE IN NET ASSETS				70,454
NET ASSETS, beginning of year				<u>191,609</u>
NET ASSETS, end of year				<u>\$ 262,063</u>

**THREE OAKS PUBLIC SCHOOL ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	General fund	Non-major governmental (special revenue) fund	Total governmental funds
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 42,401	\$ 10,435	\$ 52,836
Receivables:			
Due from other governmental units	286,561	5,404	291,965
Due from other fund	15,839		15,839
Prepaid expenses	60,605		60,605
TOTAL ASSETS	\$ 405,406	\$ 15,839	\$ 421,245
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 15,061	\$	\$ 15,061
Due to other fund		15,839	15,839
Deferred revenue	3,909		3,909
Accrued salaries and related items	81,418		81,418
State aid note payable	68,448		68,448
TOTAL LIABILITIES	168,836	15,839	184,675
FUND BALANCES:			
Reserved for prepaid expenditures	60,605		60,605
Unreserved, undesignated	175,965		175,965
TOTAL FUND BALANCES	236,570		236,570
TOTAL LIABILITIES AND FUND BALANCES	\$ 405,406	\$ 15,839	\$ 421,245
Total governmental fund balances			\$ 236,570
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		\$ 98,847	
Accumulated depreciation is		(61,813)	37,034
Current liabilities that are due and payable in the current period and are not reported in the funds:			
Note payable			(11,541)
Net assets of governmental activities			\$ 262,063

See notes to financial statements.

THREE OAKS PUBLIC SCHOOL ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General fund	Non-major governmental (special revenue) fund	Total governmental funds
REVENUES:			
Local sources:			
Food sales	\$	\$ 1,791	\$ 1,791
Other local revenue	10,152		10,152
Total local sources	10,152	1,791	11,943
State sources	1,152,430	1,410	1,153,840
Federal sources	117,983	39,613	157,596
Incoming transfers	35,536		35,536
Total revenues	1,316,101	42,814	1,358,915
EXPENDITURES:			
Current:			
Instruction:			
Basic programs	379,602		379,602
Added needs	222,544		222,544
Total instruction	602,146		602,146
Support services:			
Pupil	43,957		43,957
Instructional staff	29,166		29,166
General administration	188,422		188,422
School administration	122,136		122,136
Business services	8,913		8,913
Operation and maintenance	219,852		219,852
Pupil transportation	3,033		3,033
Central support services	17,089		17,089
Total support services	632,568		632,568
Community service	323		323
Food service		40,829	40,829
Debt service:			
Principal	17,987		17,987
Interest	2,139		2,139
Total debt service	20,126		20,126
Total expenditures	1,255,163	40,829	1,295,992
EXCESS OF REVENUES OVER EXPENDITURES	60,938	1,985	62,923
OTHER FINANCING SOURCES (USES):			
Operating transfers to other funds		(1,985)	(1,985)
Operating transfers from other funds	1,985		1,985
Total other financing sources (uses)	1,985	(1,985)	
NET CHANGE IN FUND BALANCES	62,923		62,923
FUND BALANCES:			
Beginning of year	173,647		173,647
End of year	\$ 236,570	\$	\$ 236,570

See notes to financial statements.

**THREE OAKS PUBLIC SCHOOL ACADEMY
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**

Net change in fund balances total governmental funds	\$ 62,923
<p>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 these costs are allocated over their estimated useful lives as depreciation.</p>	
Capital outlay	10,092
Depreciation expense	(20,548)
<p>Proceeds and repayments of principal on long-term debts are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities).</p>	
Principal repayment	<u>17,987</u>
Change in net assets of governmental activities	<u><u>\$ 70,454</u></u>

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Three Oaks Public School Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

A. Reporting Entity

The Three Oaks Public School Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Bay Mills Community College is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 2011. The Academy's Board of Directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. The Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Concluded)

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The Academy reports the following major governmental funds:

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

Other Non-major fund

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service activity in the special revenue fund.

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Modified Accrual Method

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 Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period when received within 60 days of year end. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

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

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

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits accounts.

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, are shown net of an allowance for uncollectibles.

3. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

The Academy's capitalization policy is to capitalize individual amounts exceeding \$5,000.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Furniture and equipment	4 - 15 years
Leasehold improvements	4 years

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

4. Long-term obligation

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets.

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

5. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America 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.

6. Fund balance

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

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

1. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. The Chief Administrative Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The Academy does not consider these amendments to be significant.

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - CASH DEPOSITS - CREDIT RISK

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2007, \$39,453 of the Academy's bank balance of approximately \$139,453 was exposed to custodial credit risk because it was not covered by federal depository insurance and was not collateralized.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Governmental activities:				
Furniture and equipment	\$ 88,755	\$	\$	\$ 88,755
Leasehold improvements		10,092		10,092
	<u>88,755</u>	<u>10,092</u>		<u>98,847</u>
Accumulated depreciation:				
Furniture and equipment	41,265	20,338		61,603
Leasehold improvements		210		210
	<u>41,265</u>	<u>20,548</u>		<u>61,813</u>
Net governmental capital assets	<u>\$ 47,490</u>	<u>\$ (10,456)</u>	<u>\$</u>	<u>\$ 37,034</u>

Depreciation for the fiscal year ended June 30, 2007 amounted to \$20,548. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - NOTE PAYABLE

At June 30, 2007, the Academy has an amount outstanding from its state aid anticipation note dated August 31, 2006. The note, which has an interest rate of 5.500%, matures August 30, 2007. The note was secured by future state school aid payments.

Balance June 30, 2006	Additions	Payments	Balance June 30, 2007
\$	\$ 270,000	\$ (201,552)	\$ 68,448

NOTE 6 - LONG-TERM DEBT

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2007:

Long-term debt, July 1, 2006	<u>Note payable</u> \$ 29,528
Deductions:	
Principal payments	<u>(17,987)</u>
Balance, June 30, 2007	11,541
Less current portion	<u>(11,541)</u>
Total due after one year	<u>\$</u> <u> </u>

Long-term debt currently outstanding is as follows:

Note payable with monthly installments of \$1,666 through January 10, 2008 with an interest rate of 8.75%. The loan is unsecured.	<u>\$ 11,541</u>
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**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term debts outstanding, including estimated interest of \$327 are as follows:

Year ending June 30,	Principal	Interest	Total
2008	<u>\$ 11,541</u>	<u>\$ 327</u>	<u>\$ 11,868</u>

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2007 are as follows:

Receivable fund	Payable fund
General fund <u>\$ 15,839</u>	Special revenue fund <u>\$ 15,839</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 8 - INTERFUND TRANSFERS

Operating transfers out	Operating transfers in
Special revenue fund <u>\$ 1,985</u>	General fund <u>\$ 1,985</u>

Operating transfers were made to the general fund from the school lunch fund to partially reimburse the general fund for current year indirect costs paid by the general fund for administrative staff salaries and benefits, maintenance costs, and other indirect costs.

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid to the Bay Mills Community College, 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 Academy'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 Academy incurred expense of approximately \$35,000 for oversight fees.

NOTE 10 - MANAGEMENT AGREEMENT

The Academy had entered into a five year (through June 2008) management agreement with Choice Schools Associates, LLC (Choice Schools) for operations of the Academy. Under the terms of the management agreement, Choice Schools' compensation for operating the Academy was \$127,122 for the fiscal year 2007.

NOTE 11 - PURCHASED SERVICES

The Academy leases all employee services from Choice Schools. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Choice Schools. The amount due to Choice Schools Associates at June 30, 2007 was \$3,767.

NOTE 12 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. To minimize the risk, the Academy carries commercial insurance.

**THREE OAKS PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 - BUILDING LEASE

The Academy leases a building for the use of classrooms under a non-cancelable operating lease through July 2012. The monthly lease payments were based on the February and September 2006 pupil count for the current fiscal year. The building lease expense for the year ended June 30, 2007 was approximately \$84,000.

Future minimum rental payments are as follows:

Year ending June 30	
2008	\$ 81,814
2009	81,814
2010	81,814
2011	81,814
2012	<u>6,818</u>
	<u>\$ 334,074</u>

REQUIRED SUPPLEMENTARY INFORMATION

**THREE OAKS PUBLIC SCHOOL ACADEMY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2007**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local	\$ 6,150	\$ 9,660	\$ 10,152	\$ 492
State sources	1,034,926	1,155,903	1,152,430	(3,473)
Federal sources	72,342	105,382	117,983	12,601
Incoming transfers	30,587	34,059	35,536	1,477
Total revenues	<u>1,144,005</u>	<u>1,305,004</u>	<u>1,316,101</u>	<u>11,097</u>
EXPENDITURES:				
Instruction:				
Basic programs	341,992	400,825	379,602	21,223
Added needs	134,234	224,861	222,544	2,317
Total instruction	<u>476,226</u>	<u>625,686</u>	<u>602,146</u>	<u>23,540</u>
Support services:				
Pupil	72,447	50,661	43,957	6,704
Instructional staff	26,467	27,453	29,166	(1,713)
General administration	153,729	189,944	188,422	1,522
School administration	128,810	122,371	122,136	235
Business	8,700	10,613	8,913	1,700
Operation and maintenance	171,292	219,410	219,852	(442)
Pupil transportation	2,000	2,750	3,033	(283)
Central support services	10,000	19,000	17,089	1,911
Total support services	<u>573,445</u>	<u>642,202</u>	<u>632,568</u>	<u>9,634</u>
Community service activities	<u>24,886</u>	<u>128</u>	<u>323</u>	<u>(195)</u>
Debt service:				
Principal	18,141	18,141	17,987	154
Interest	1,846	1,846	2,139	(293)
Total debt service	<u>19,987</u>	<u>19,987</u>	<u>20,126</u>	<u>(139)</u>
Total expenditures	<u>1,094,544</u>	<u>1,288,003</u>	<u>1,255,163</u>	<u>32,840</u>
EXCESS OF REVENUES OVER EXPENDITURES	49,461	17,001	60,938	43,937
OTHER FINANCING SOURCES (USES):				
Operating transfers (out)	<u>(11,168)</u>	<u>(11,168)</u>	1,985	<u>13,153</u>
NET CHANGE IN FUND BALANCE	<u>\$ 38,293</u>	<u>\$ 5,833</u>	62,923	<u>\$ 57,090</u>
FUND BALANCE:				
Beginning of year			<u>173,647</u>	
End of year			<u>\$ 236,570</u>	



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Three Oaks Public School Academy
Muskegon, Michigan

September 26, 2007

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Three Oaks Public School Academy as of and for the year ended June 30, 2007, which collectively comprise Three Oaks Public School Academy's basic financial statements of the Academy and have issued our report thereon dated September 26, 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 Three Oak's Public School Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy'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 Academy'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 Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control.

To the Board of Directors
Three Oaks Public School Academy
Muskegon, Michigan

September 26, 2007

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

This report is intended for the information and use of the Board of Directors, management, U.S. Department of Education and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costerisan + Ellis, P.C.

Certified Public Accountants