

MID-MICHIGAN LEADERSHIP ACADEMY

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

YEAR ENDED JUNE 30, 2008

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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
James A. McNeeley

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mid-Michigan Leadership Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mid-Michigan Leadership Academy (the Academy), as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mid-Michigan Leadership Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mid-Michigan Leadership Academy as of June 30, 2008, 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 9, 2008, on our consideration of Mid-Michigan Leadership 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 xi and 20, 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.

October 9, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Mid-Michigan Leadership 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, 2008. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

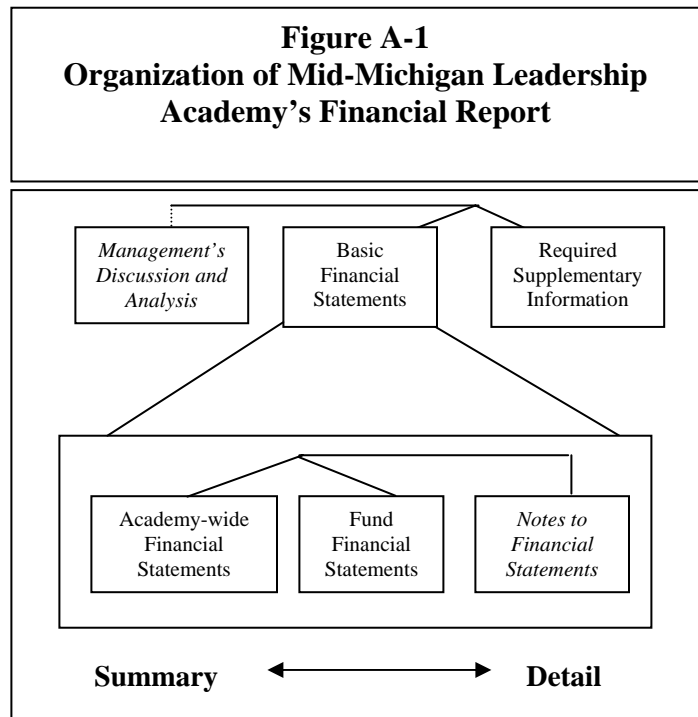
Financial Highlights

- The Academy had a increase in the fund balance in the general fund of \$5,878 compared to a budgeted increase of \$9,951. This gives the Academy a general fund balance of \$156,222.
- The Academy retired \$677,636 in long-term debt during the year. This includes the refinancing of \$626,392 of previously issued long-term debt.
- The Academy has almost completely recovered from its property acquisition transition experienced during the 2006-2007 school year.
- The Academy has fully recovered from its personnel management transition experienced during the last two school years. This transition facilitated the movement of staff and faculty from employees of the Academy to a leased employee arrangement that has had numerous benefits. Those benefits include a movement away from MESSA (the Michigan Education Association (MEA) sponsored health care program) to a High Deductible Health Saving Account with Blue Cross/Blue Shield of Michigan which resulted in significant savings due to cost containment. Other benefits included a movement from the Michigan Public School Employees Retirement System (MPSERS) to a defined contribution 401K which resulted in a net savings of more than 8% of salaries, or approximately \$80,000 in this last year. A final benefit of the transition has been the elimination of the labor organization affiliated with the MEA/NEA. This movement provided another mechanism for cost containment as salaries are no longer based solely on longevity or education. Each of these cost benefits has been fully realized (for the first time) during the 2007-2008 school year.
- The Academy has fully recovered from its financial management transition experienced during the last two school years. This transition facilitated the movement of services from an on-site independent contractor with an employee assistant, to a remotely-located management group, to the current arrangement with an on-site business manager and financial management provided by the Ingham Intermediate School District. This transition has not only increased the level of internal controls and oversight, it has exponentially increased the financial management resources and capabilities available to the Academy. It will also save the Academy a minimum of \$30,000 in the upcoming years.

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 \$354,575 improved by \$27,761 during the year. See Figures A-3 and A-4.

The total revenues increased by 5.5% to \$2,195,656. This is mainly due to the increase in funding from the Michigan School Readiness Program. However, the state aid foundation allowance included in revenue from state sources accounts for approximately 59% of the Academy's revenue.

The total cost of instruction decreased by 8.0% to \$880,457. Total support service increased by 3.0% to \$1,082,361. The decrease in instructional costs was directly related to the change in the employee-employer relationship which led to an overall cost savings of 8.0% of instructional salaries. The increase in support services was directly attributable to the hiring of an employee to manage internal business & financial management functions and a slight increase in unplanned infrastructure maintenance costs.

Academy governmental activities

Figure A-3		
Mid-Michigan Leadership Academy's Net Assets		
	2008	2007
Current assets	\$ 361,268	\$ 627,929
Other noncurrent assets	9,182	-
Capital assets, net	806,397	825,647
Total assets	1,176,847	1,453,576
Current liabilities	262,146	1,126,762
Long-term liabilities	560,126	
Total liabilities	822,272	1,126,762
Net assets:		
Invested in capital assets, net of related debt	189,171	183,177
Unrestricted	165,404	143,637
Total net assets	\$ 354,575	\$ 326,814

Figure A-4		
Changes in Mid-Michigan Leadership Academy's Net Assets		
	2008	2007
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 583,449	\$ 704,761
Charges for services	22,683	29,884
General revenues:		
State aid - unrestricted	1,377,121	1,286,359
Incoming transfer from Ingham ISD	165,436	22,117
Other	46,967	32,486
Total general revenues	1,589,524	1,340,962
Total revenues	2,195,656	2,075,607
Expenses:		
Instruction	880,457	954,818
Support services	1,082,361	1,050,687
Community service	10,448	5,931
Food service	94,000	84,774
Interest on long-term debt	43,164	34,610
Unallocated depreciation	57,465	74,235
Total expenses	2,167,895	2,205,055
Change in net assets	\$ 27,761	\$ (129,448)

Financial analysis of the Academy's funds

The Academy's fund balance in the general fund increased by \$5,878 to \$156,222. Principal and interest payments on long-term debt of \$720,800 were made from the general fund. Instruction expenses decreased by \$74,361 and support service expenses increased by \$40,358.

A review of the Academy-wide statements should include an understanding that cost savings encountered as a result of the personnel and financial management changes provided the Academy with the opportunity to expand its programs by providing full-time, highly qualified teachers for Art and Physical Education.

Those savings also permitted all staff and faculty, including everybody except the Superintendent to receive an annual salary increase of 3.0%. Also provided for the first year were mid-year performance bonuses which ranged from \$200 to \$1,000.

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.

The Academy's final budget for the general fund anticipated revenues would exceed expenditures by \$9,151, the actual results for the year showed revenues over expenditures of \$5,878.

Actual revenues were \$23,033 less than budgeted, due primarily to less than expected incoming transfers.

Actual expenditures were \$25,369 less than budgeted, due primarily to savings in operations and maintenance.

Capital asset and debt administration

Capital assets

By the end of the year ended June 30, 2008, the Academy had invested \$806,397 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a decrease of \$19,250 from the beginning of the year. Total depreciation expense for the year was \$57,465. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

	2008			2007
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 211,000	\$ -	\$ 211,000	\$ 211,000
Building and improvements	559,542	53,290	506,252	486,830
Technology and equipment	249,852	210,687	39,165	68,284
Furniture and fixtures	122,279	72,299	49,980	59,533
Total	<u>\$ 1,142,673</u>	<u>\$ 336,276</u>	<u>\$ 806,397</u>	<u>\$ 825,647</u>

Long-term debt

The Academy repaid principal on long-term debt of \$677,636 during 2008. This includes the refinancing of \$626,392 of previously issued long-term debt. 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.

- An increase of \$75 to \$7,550 per pupil foundation allowance has been budgeted the 2009 fiscal year. The actual increase is \$105 to \$7,580 per pupil.
- The Academy has adopted a balanced budget for 2009. The Academy's current budget for the 2008-2009 school year is posted on the Academy's web site: www.michlead.org.
- It should also be noted that the Academy changed auditing firms for the 2007-2008 school year and beyond. This has provided the Academy with a "fresh set of eyes" to conduct this year's financial audit. In the opinion of the Superintendent, the last auditing firm had been providing that service for six years and had become less than fully engaged. While it was clearly true that last year's audit (2006-2007 iteration) was a significant challenge due in large part to a less than fully competent financial management accountant (documented as material weaknesses), the level of support provided by the auditing firm, the rejection of the original financial report by the State of Michigan, and the subsequent late submission of a revised and reissued opinion all contributed to a failure to meet state reporting requirements. As it is to be expected, a new auditor with new expectations has identified a list of management functions where improvements can be made. The administration and staff have either corrected or are now fully engaged in the process of correcting these deficiencies.
- 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 at 730 W. Maple, Lansing, Michigan, 48906, phone (517) 485-5379.

BASIC FINANCIAL STATEMENTS

**MID-MICHIGAN LEADERSHIP ACADEMY
STATEMENT OF NET ASSETS
JUNE 30, 2008**

	<u>Governmental activities</u>
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 63,663
Receivables	3,814
Due from other governmental units	<u>293,791</u>
TOTAL CURRENT ASSETS	<u>361,268</u>
NONCURRENT ASSETS:	
Debt issuance costs, net of amortization	9,182
Capital assets	1,142,673
Less accumulated depreciation	<u>(336,276)</u>
TOTAL NONCURRENT ASSETS	<u>815,579</u>
TOTAL ASSETS	<u><u>\$ 1,176,847</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 25,820
Accrued personnel costs and related items	152,747
State aid note payable	26,479
Current portion of bonds payable	<u>57,100</u>
TOTAL CURRENT LIABILITIES	<u>262,146</u>
NONCURRENT LIABILITIES:	
Noncurrent portion of bonds payable	<u>560,126</u>
TOTAL LIABILITIES	<u>822,272</u>
NET ASSETS:	
Invested in capital assets, net of related debt	189,171
Unrestricted	<u>165,404</u>
TOTAL NET ASSETS	<u>354,575</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,176,847</u></u>

See notes to financial statements.

**MID-MICHIGAN LEADERSHIP ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net assets</u>
Governmental activities:				
Instruction	\$ 880,457	\$ -	\$ 487,569	\$ (392,888)
Support services	1,082,361	-	4,895	(1,077,466)
Community service	10,448	18,570	-	8,122
Food service	94,000	4,113	90,985	1,098
Interest and fees	43,164	-	-	(43,164)
Depreciation (unallocated)	57,465	-	-	(57,465)
Total governmental activities	<u>\$ 2,167,895</u>	<u>\$ 22,683</u>	<u>\$ 583,449</u>	<u>(1,561,763)</u>
General revenues:				
State sources				1,377,121
Incoming transfer from Ingham ISD				165,436
Other				46,967
Total general revenues				<u>1,589,524</u>
CHANGE IN NET ASSETS				27,761
NET ASSETS, beginning of year				<u>326,814</u>
NET ASSETS, end of year				<u>\$ 354,575</u>

**MID-MICHIGAN LEADERSHIP ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	General fund	Non-major governmental (special revenue) fund	Total governmental funds
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 63,149	\$ 514	\$ 63,663
Receivables:			
Due from other governmental units	293,791	-	293,791
Due from other funds		273	273
Other	3,814	-	3,814
	\$ 360,754	\$ 787	\$ 361,541
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 25,033	\$ 787	\$ 25,820
Due to other funds	273		273
Accrued personnel costs and related items	152,747	-	152,747
State aid note payable	26,479	-	26,479
	204,532	787	205,319
FUND BALANCES:			
Unreserved, undesignated	156,222	-	156,222
	\$ 360,754	\$ 787	\$ 361,541
Total governmental fund balances			\$ 156,222
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		\$ 1,142,673	
Accumulated depreciation is		(336,276)	806,397
Debt issuance costs		9,498	
Accumulated amortization		(316)	9,182
Long-term liabilities are not due and payable in the current period and are not reported in the funds:			
Bond payable			(617,226)
Net assets of governmental activities			\$ 354,575

MID-MICHIGAN LEADERSHIP ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General fund	Non-major governmental (special revenue) fund	Total governmental funds
REVENUES:			
Local sources:			
Food sales	\$ -	\$ 4,113	\$ 4,113
Other local revenue	74,031	-	74,031
Total local sources	74,031	4,113	78,144
State sources	1,599,965	2,226	1,602,191
Federal sources	281,763	88,759	370,522
Incoming transfers	153,293	-	153,293
Total revenues	2,109,052	95,098	2,204,150
EXPENDITURES:			
Current:			
Instruction:			
Basic programs	662,205	-	662,205
Added needs	218,252	-	218,252
Total instruction	880,457	-	880,457
Support services:			
Pupil	191,118	-	191,118
Instructional staff	59,140	-	59,140
General administration	193,943	-	193,943
School administration	110,728	-	110,728
Business services	123,990	-	123,990
Operation and maintenance	278,755	-	278,755
Pupil transportation	66,695	-	66,695
Central support services	57,676	-	57,676
Total support services	1,082,045	-	1,082,045
Community service	10,448	-	10,448
Food service	-	94,000	94,000
Capital outlay	47,089	-	47,089
Debt service:			
Principal	677,636	-	677,636
Interest	43,164	-	43,164
Bond issuance costs	9,498	-	9,498
Total debt service	730,298	-	730,298
Total expenditures	2,750,337	94,000	2,844,337
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(641,285)	1,098	(640,187)

See notes to financial statements.

**MID-MICHIGAN LEADERSHIP ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008**

	General fund	Non-major governmental (special revenue) fund	Total governmental funds
OTHER FINANCING SOURCES (USES):			
Proceeds from sale of capital assets	\$ 380	\$ -	\$ 380
Proceeds from long-term debt	652,392	-	652,392
Operating transfers from other funds	-	5,609	5,609
Operating transfers to other funds	(5,609)	-	(5,609)
Total other financing sources (uses)	<u>647,163</u>	<u>5,609</u>	<u>652,772</u>
NET CHANGE IN FUND BALANCES	5,878	6,707	12,585
FUND BALANCES:			
Beginning of year	<u>150,344</u>	<u>(6,707)</u>	<u>143,637</u>
End of year	<u>\$ 156,222</u>	<u>\$ -</u>	<u>\$ 156,222</u>

**MID-MICHIGAN LEADERSHIP 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, 2008**

Net change in fund balances total governmental funds \$ 12,585

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.

Depreciation expense	(57,465)
Proceeds from the sale of capital assets	(380)
Loss on disposal of capital assets	(8,494)
Capital outlay	47,089

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).

Proceeds from issuance of bonds	(652,392)
Principal repayment	677,636
Debt issuance costs	9,498
Amortization of bond issuance costs	(316)

Change in net assets of governmental activities \$ 27,761

**MID-MICHIGAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Mid-Michigan Leadership 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 Mid-Michigan Leadership Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Central Michigan University 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.

**MID-MICHIGAN LEADERSHIP 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.

**MID-MICHIGAN LEADERSHIP 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. 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, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

**MID-MICHIGAN LEADERSHIP 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 2007 to August 2008. 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.

**MID-MICHIGAN LEADERSHIP 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, if any.

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 \$1,000.

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

Buildings and improvements	20 years
Furniture and fixtures	5 - 20 years
Technology and equipment	5 - 20 years

**MID-MICHIGAN LEADERSHIP 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.

**MID-MICHIGAN LEADERSHIP 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 Superintendent 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 Superintendent 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, 2008. The Academy does not consider these amendments to be significant.

**MID-MICHIGAN LEADERSHIP 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, 2008, none of the Academy's bank balance of \$83,501 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, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets not being depreciated - land	\$ 211,000	\$ -	\$ -	\$ 211,000
Capital assets, being depreciated:				
Buildings and improvements	512,453	47,089	-	559,542
Technology and equipment	354,010	-	104,158	249,852
Furniture and fixtures	129,721	-	7,442	122,279
Depreciable capital assets	<u>996,184</u>	<u>47,089</u>	<u>111,600</u>	<u>931,673</u>
Accumulated depreciation:				
Buildings and improvements	25,623	27,667	-	53,290
Technology and equipment	285,726	23,912	98,951	210,687
Furniture and fixtures	70,188	5,886	3,775	72,299
Total accumulated depreciation	<u>381,537</u>	<u>57,465</u>	<u>102,726</u>	<u>336,276</u>
Net assets being depreciated	<u>614,647</u>	<u>(10,376)</u>	<u>8,874</u>	<u>595,397</u>
Net capital assets	<u>\$ 825,647</u>	<u>\$ (10,376)</u>	<u>\$ 8,874</u>	<u>\$ 806,397</u>

Depreciation for the fiscal year ended June 30, 2008 amounted to \$57,465. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Certain reclassifications of the July 1, 2007 balances of capital assets and accumulated depreciation have been made to conform with the current year presentation.

**MID-MICHIGAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - NOTE PAYABLE

At June 30, 2008, the Academy has an amount outstanding from its state aid anticipation note dated August 10, 2007. The note, which has an interest rate of 5.0%, matures July 30, 2008. The note was secured by future state school aid payments.

Balance July 1, 2007	Additions	Payments	Balance June 30, 2008
\$ 101,256	\$ 258,100	\$ (332,877)	\$ 26,479

NOTE 6 - LONG-TERM DEBT

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2008:

Long-term debt, July 1, 2007	\$ 642,470
Additions:	
Proceeds from issuance of bonds payable	626,392
Proceeds from issuance of notes payable	26,000
Deductions:	
Principal payoff of existing notes payable	(668,470)
Principal payments on bonds payable	(9,166)
Balance, June 30, 2008	617,226
Less current portion	(57,100)
	\$ 560,126

Long-term obligations at June 30, 2008 consist of the following:

Bonds payable with monthly installments of \$7,781 with interest at 6.05% through December 2016. However, the bank has the ability to call the bonds in April 2013. The bonds are secured by a mortgage on the related property.	\$ 617,226
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**MID-MICHIGAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term debts outstanding, including estimated interest of \$147,642 are as follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 57,100	\$ 36,278	\$ 93,378
2010	60,703	32,675	93,378
2011	64,533	28,845	93,378
2012	68,538	24,840	93,378
2013	366,352	17,346	383,698
	<u>\$ 617,226</u>	<u>\$ 139,984</u>	<u>\$ 757,210</u>

The bonds are subject to a debt service covenant calculated at the end of each fiscal year. The Academy is in compliance with this covenant.

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2008 are as follows:

Receivable fund	Payable fund
Special revenue fund <u>\$ 273</u>	General fund <u>\$ 273</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
General fund <u>\$ 5,609</u>	Special revenue fund <u>\$ 5,609</u>

Operating transfers were made from the general fund to the school lunch fund to cover operating expenses.

**MID-MICHIGAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid to Central Michigan University, 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, 2008, the Academy incurred expense of approximately \$48,000 for oversight fees.

NOTE 10 - LEASED EMPLOYEES

The Academy leases all of its employees from a professional employment organization (PEO). Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of the PEO. The Academy contributes 4% of the annual compensation each pay period to the PEO retirement plan resulting in retirement expense of approximately \$40,000 in 2008.

NOTE 11 - 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.

NOTE 12 – SUBSEQUENT EVENT

In July 2008 the Academy borrowed \$263,000 under a state aid anticipation note from the Michigan Public Educational Facilities Authority. The note is to be repaid in monthly principal and interest installments of \$27,124 from October 2008 through July 2009.

REQUIRED SUPPLEMENTARY INFORMATION

**MID-MICHIGAN LEADERSHIP ACADEMY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2008**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local	\$ 57,702	\$ 70,948	\$ 74,031	\$ 3,083
State sources	1,552,688	1,595,974	1,599,965	3,991
Federal sources	373,288	274,460	281,763	7,303
Incoming transfers	129,389	190,703	153,293	(37,410)
Total revenues	<u>2,113,067</u>	<u>2,132,085</u>	<u>2,109,052</u>	<u>(23,033)</u>
EXPENDITURES:				
Instruction:				
Basic programs	610,138	661,806	662,205	(399)
Added needs	273,966	205,842	218,252	(12,410)
Total instruction	<u>884,104</u>	<u>867,648</u>	<u>880,457</u>	<u>(12,809)</u>
Support services:				
Pupil	183,451	186,840	191,118	(4,278)
Instructional staff	121,184	57,184	59,140	(1,956)
General administration	137,184	186,608	193,943	(7,335)
School administration	103,864	109,127	110,728	(1,601)
Business services	109,295	130,208	123,990	6,218
Operation and maintenance	219,703	325,620	278,755	46,865
Pupil transportation	71,508	73,888	66,695	7,193
Central support services	59,089	63,960	57,676	6,284
Total support services	<u>1,005,278</u>	<u>1,133,435</u>	<u>1,082,045</u>	<u>51,390</u>
Community service activities	10,087	10,971	10,448	523
Capital outlay	6,800	33,262	47,089	(13,827)
Debt service:				
Principal	51,067	677,892	677,636	256
Interest	43,000	43,000	43,164	(164)
Bond issuance costs		9,498	9,498	-
Total debt service	<u>94,067</u>	<u>730,390</u>	<u>730,298</u>	<u>92</u>
Total expenditures	<u>2,000,336</u>	<u>2,775,706</u>	<u>2,750,337</u>	<u>25,369</u>
EXCESS (DEFICIENCY) OF REVENUES OVER UNDER) EXPENDITURES	112,731	(643,621)	(641,285)	2,336
OTHER FINANCING SOURCES (USES):				
Proceeds from the sale of capital assets	8,218	380	380	-
Proceeds from long-term debt		652,392	652,392	-
Operating transfers (out)			(5,609)	(5,609)
Total other financing sources	<u>8,218</u>	<u>652,772</u>	<u>647,163</u>	<u>(5,609)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 120,949</u>	<u>\$ 9,151</u>	<u>5,878</u>	<u>\$ (3,273)</u>
FUND BALANCE:				
Beginning of year			<u>150,344</u>	
End of year			<u>\$ 156,222</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
Mid-Michigan Leadership Academy

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mid-Michigan Leadership Academy as of and for the year ended June 30, 2008, which collectively comprise Mid-Michigan Leadership Academy's basic financial statements and have issued our report thereon dated October 9, 2008. 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 Mid-Michigan Leadership 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.

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 Mid-Michigan Leadership 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*.

We noted certain matters that we reported to management of Mid-Michigan Leadership Academy in a separate letter dated October 9, 2008.

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.

October 9, 2008