

CONCORD ACADEMY-BOYNE

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)
for the year ended June 30, 2008

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September 10, 2008

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Concord Academy-Boyne:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Concord Academy-Boyne (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 Concord Academy-Boyne'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 *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 Concord Academy-Boyne, 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.

Board of Directors
Concord Academy-Boyne

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2008, on our consideration of Concord Academy-Boyne's internal control over financial reporting and 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 important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 25, 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.

Smolinski & Christman, P.C.



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Concord Academy-Boyer's (the 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 experienced a decrease in net assets of \$84,480, from \$967,831 to \$883,351.
- Revenues decreased by 2.6 percent, from \$1,557,651 to \$1,517,610, while expenses increased by 9.5 percent, from \$1,450,669 to \$1,602,090.
- Blended enrollment used for state aid purposes was 194.64 in June, 2008 compared to 197.56 in June, 2007.

Overview of the Financial Statements

This annual report consists of three parts:

1. Management's discussion and analysis (this section).
2. Basic financial statements.
 - a. Academy-wide financial statements.
 - i. Statement of Net Assets.
 - ii. Statement of Activities.
 - b. Fund financial statements.
 - i. Governmental funds statements.
 - ii. Fiduciary funds statements.
3. Required supplementary information.

The two Academy-wide financial statements provide short-term and long-term information about the Academy's overall financial status.

The fund financial statements 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 education were financed in the short-term as well as what remains for future spending.

Fiduciary funds statements provide information about the financial relationships in which the Academy acts solely as an agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year.

Major Features of the Academy-Wide and Fund Financial Statements

The table below summarizes 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.



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

Academy-wide statements

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

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

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

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:

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

The Academy has two kinds of funds:

Governmental fund - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in



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

Fiduciary funds - The Academy is the fiduciary for assets that belong to others, such as the student activities funds. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and used by those to whom the assets belong. We exclude these activities from the Academy-wide financial statements because the Academy cannot use these assets to finance its operations.

Financial analysis of the Academy as a whole

The Academy's combined net assets were less on June 30, 2008 than they were the year before, decreasing by \$84,480 to \$883,351. Unrestricted State aid revenue increased by less than 1 percent to \$1,452,326. This is due to enrollment and per pupil State Aid both remaining essentially flat. The total cost of instruction increased by 9.9 percent to \$907,395. This is due in part, to an increase in contracted teaching and administrative services (additions to staff, year-end bonuses, and retirement plan contributions) as well as the purchase of several laptop computers for staff and classroom use.

A summary of the Academy's net assets as of June 30 is as follows:

	<u>2008</u>	<u>2007</u>
Current assets	\$ 847,827	\$ 746,985
Capital assets, net	2,316,884	2,360,737
Other noncurrent assets	<u>484,320</u>	<u>606,349</u>
Total assets	<u>\$3,649,031</u>	<u>\$3,714,071</u>
Current liabilities	\$ 198,098	\$ 149,775
Noncurrent liabilities	<u>2,567,582</u>	<u>2,596,465</u>
Total liabilities	<u>\$2,765,680</u>	<u>\$2,746,240</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 272,371	\$ 346,583
Restricted for debt service	62,791	19,847
Restricted for capital improvements	-	177,420
Restricted for facility maintenance	1,300	-
Unrestricted and undesignated	<u>546,889</u>	<u>423,981</u>
Total net assets	<u>\$ 883,351</u>	<u>\$ 967,831</u>

A summary of the Academy's changes in net assets as of June 30 is as follows:

	<u>2008</u>	<u>2007</u>
Revenues:		
Program revenues, State and Federal categorical grants	\$ 31,877	\$ 47,183
General revenues:		
State aid - unrestricted	1,452,326	1,449,780
Interest	17,564	20,915
Rent	-	13,550
Miscellaneous	<u>15,843</u>	<u>26,223</u>
Total revenues	1,517,610	1,557,651
Expenses:		
Instruction	907,395	817,251
Support services	435,610	409,465
Interest on long-term debt	166,638	136,053
Unallocated depreciation	83,306	80,576
Unallocated amortization	<u>9,141</u>	<u>7,324</u>
Total expenses	<u>1,602,090</u>	<u>1,450,669</u>
Change in net assets	<u>\$ (84,480)</u>	<u>\$ 106,982</u>



Financial analysis of the Academy's funds

The Academy's stable financial position is the result of cost reduction measures and a significant debt restructuring accomplished in June, 2007. Because enrollment remained virtually unchanged from the prior year and the State had only a minimal increase in per pupil funding, unrestricted State aid revenue was also virtually unchanged from the prior year. This is also true of General Fund balance, which means that expenditures generally matched revenues. In fact, it was a conscious decision of management to deploy, to the extent of available resources, the savings from debt restructuring to reward employees for admirable service during prior lean years. State aid foundation allowance included in revenue from state sources accounts for most of the Academy's general fund revenue (96 percent). A current vs. prior year comparison of the Academy's funds will demonstrate management's continued diligence in controlling costs to match revenues.

	<u>06/30/2007</u>	<u>06/30/2008</u>	<u>% Increase (Decrease)</u>
General Fund Balance	\$ 997,520	\$ 998,741	<1%
General Fund Revenues	\$1,557,651	\$1,517,608	(2.6%)
General Fund Expenditures	\$1,731,229	\$1,516,387	(12.4%)
Cost of Instruction	\$ 817,251	\$ 940,082	13.1%
Support Services Expenses	\$ 421,267	\$ 435,973	3.4%

General fund budgetary highlights

Over the course of the year, the Academy revised the annual operating budget. These budget amendments fall into several categories:

- A revenue decrease from local sources because rental of school property did not occur.
- A modest revenue decrease from state sources because State Aid was less than originally anticipated due to a modest reduction in enrollment compared to the prior year.
- Computers and supplies were more than originally anticipated as a result of funds being available to purchase these items.
- Tuition at other schools was more than anticipated due to overwhelmingly positive response to dual enrollment classes offered on our campus through Lake Superior State University.
- Revising for debt service and transfers between funds.

While the Academy's final budget for the General Fund anticipated revenues would exceed expenditures by \$30,611, the actual results for the year showed revenues over expenditures of \$1,221. Actual revenues were \$12,618 higher than budgeted. This is mainly due to the fact that interest income was not budgeted.

Amounts were budgeted for transfers among funds, however no such transfers were necessary during the year ended June 30, 2008. This resulted in an unfavorable budget variance of \$82,411.

Capital asset and debt administration

By June 30, 2008, the Academy had invested \$2,316,884 in capital assets net of accumulated depreciation. These assets are land, software development in progress, construction in progress, land improvements, buildings and improvements, outdoor equipment, computers and other equipment, and library materials. Accumulated depreciation on these assets was \$683,065 as of June 30, 2008. Outstanding long-term debt incurred to invest in these assets was \$2,567,582 as of June 30, 2008. No principal was due on the series 2007 bonds during the year ended June 30, 2008. Amortization of \$10,117 reduced the balance of the deferred amount on refunding liability. The Academy's fiscal year 2009 initial budget anticipates no spending for capital projects.



The Academy's capital assets at June 30 are as follows:

	<u>2008</u>	<u>2007</u>
Land	\$ 32,000	\$ 32,000
Software development in progress	2,500	-
Construction in progress	6,000	6,000
Land improvements	20,000	20,000
Buildings and improvements	2,806,456	2,802,210
Outdoor equipment	20,418	20,418
Computers and other equipment	96,820	64,113
Library materials	<u>15,755</u>	<u>15,755</u>
Total capital assets	2,999,949	2,960,496
Less accumulated depreciation	<u>(683,065)</u>	<u>(599,759)</u>
Total capital assets, net	<u>\$2,316,884</u>	<u>\$2,360,737</u>

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.

- State aid funding from the State of Michigan represents 96 percent of the total Academy general fund revenue. Due to the economic climate in the State of Michigan, fluctuations in the foundation allowance are possible.
- Requirements of the No Child Left Behind Act could make it difficult for a small school such as ours to employ highly-qualified teachers for every subject.
- Student enrollment, because of per pupil state aid, is the driving force for the majority of our revenue. The Academy has taken measures to retain and increase enrollment. Meanwhile, our local competitors have all constructed new facilities to attract students, and the rising price of gasoline has made it more costly, and in some cases unaffordable, for some families to attend the Academy. Therefore, the Academy is planning a mileage assistance program for the 2008/09 school year. The Academy's goal is to increase enrollment until it reaches capacity (260 students).

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 office at 00401 E. Dietz Road, Boyne City, Michigan 49712.



CONCORD ACADEMY - BOYNE
STATEMENT OF NET ASSETS
June 30, 2008

	<u>Governmental Activities</u>
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 410,883
Restricted investments	168,621
Receivables:	
State of Michigan	264,323
Federal government	4,000
Total current assets	<u>847,827</u>
NONCURRENT ASSETS:	
Restricted investments	283,231
Capital assets not being depreciated	40,500
Capital assets being depreciated, net	2,276,384
Unamortized debt issuance costs	201,089
Total noncurrent assets	<u>2,801,204</u>
Total assets	<u><u>\$ 3,649,031</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 6,952
Accrued interest	25,781
Accrued contracted services	117,435
Accrued expenditures	7,930
Current portion of long-term debt	40,000
Total current liabilities	<u>198,098</u>
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term debt	2,760,000
Deferred amount on refunding, net	(192,418)
Total noncurrent liabilities	<u>2,567,582</u>
Total liabilities	2,765,680
NET ASSETS:	
Invested in capital assets, net of related debt	272,371
Restricted for debt service	62,791
Restricted for facility maintenance	1,300
Unrestricted and undesignated	546,889
Total net assets	<u>883,351</u>
Total liabilities and net assets	<u><u>\$ 3,649,031</u></u>

The accompanying notes are a part of the financial statements.



CONCORD ACADEMY - BOYNE
STATEMENT OF ACTIVITIES
for the year ended June 30, 2008

		Program Revenue		Governmental Activities
	Expenses	Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
GOVERNMENTAL ACTIVITIES:				
Instruction, basic programs	\$ 907,395	\$ -	\$ 31,877	\$ (875,518)
Support services	435,610	-	-	(435,610)
Interest on long-term debt	166,638	-	-	(166,638)
Unallocated depreciation	83,306	-	-	(83,306)
Unallocated amortization	9,141	-	-	(9,141)
Total governmental activities	\$ 1,602,090	\$ -	\$ 31,877	(1,570,213)
GENERAL REVENUES:				
State of Michigan school aid unrestricted				1,452,326
Interest income				17,564
Miscellaneous				15,843
Total general revenues				1,485,733
CHANGE IN NET ASSETS				(84,480)
NET ASSETS, beginning of year				967,831
NET ASSETS, end of year				\$ 883,351

The accompanying notes are a part of the financial statements.



CONCORD ACADEMY - BOYNE
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2008

	General Fund
ASSETS	
Cash and cash equivalents	\$ 410,883
Investments, reserved	451,852
Receivables:	
State of Michigan	264,323
Federal government	4,000
Total assets	\$ 1,131,058
LIABILITIES AND FUND BALANCES	
LIABILITIES:	
Accounts payable	\$ 6,952
Accrued contracted services	117,435
Accrued expenditures	7,930
Total liabilities	132,317
FUND BALANCES:	
Reserved for debt service	283,231
Reserved for capital improvements	167,321
Reserved for facility maintenance	1,300
Unreserved and undesignated	546,889
Total fund balances	998,741
Total liabilities and fund balances	\$ 1,131,058

The accompanying notes are a part of the financial statements.



CONCORD ACADEMY - BOYNE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2008

Total governmental fund balances	\$ 998,741
Amounts reported for governmental activities in the statement of net assets are different because:	
Net capital assets used in governmental activities are not financial resources and are not reported in the funds	2,316,884
Unamortized debt issuance costs are not financial resources and are not reported in the funds	201,089
Deferred amounts on refunding bonds are not financial resources and are not reported in the funds	192,418
Long-term debt is not due and payable in the current period and is not reported in the funds	(2,800,000)
Accrued interest is not recorded as a liability in governmental funds, it is recorded when paid	<u>(25,781)</u>
Net assets of governmental activities	<u><u>\$ 883,351</u></u>

The accompanying notes are a part of the financial statements.



CONCORD ACADEMY - BOYNE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
for the year ended June 30, 2008

	General Fund
REVENUES:	
Local sources	\$ 33,405
State sources	1,454,934
Federal sources	29,269
Total revenues	1,517,608
EXPENDITURES:	
Instruction, basic programs	940,082
Support services:	
General administration	253,056
School administration	2,125
Business services	76,584
Operation and maintenance of plant	104,208
Total support services	435,973
Debt service:	
Interest	133,931
Escrow agent fees	6,401
Total debt service	140,332
Total expenditures	1,516,387
NET CHANGE IN FUND BALANCES	1,221
FUND BALANCE, beginning of year	997,520
FUND BALANCE, end of year	\$ 998,741

The accompanying notes are a part of the financial statements.



CONCORD ACADEMY - BOYNE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
for the year ended June 30, 2008

Net changes in fund balances total governmental funds	\$	1,221
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation:</p>		
Depreciation expense		(83,306)
Capital outlay		39,453
<p>Governmental funds report debt issuance costs as expenditures in the year incurred. In the statement of activities, these costs are allocated over the life of the long-term debt as amortization</p>		
		(9,141)
<p>Interest from amortization of deferred amounts on refunding bonds is not reported in the funds because deferred amounts on refunding bonds are not financial resources</p>		
		(11,117)
<p>Accrued interest on bonds payable is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:</p>		
Accrued interest payable, beginning of year		4,191
Accrued interest payable, end of year		(25,781)
		(21,590)
Change in net assets of governmental activities	\$	(84,480)

The accompanying notes are a part of the financial statements.



CONCORD ACADEMY - BOYNE
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2008

		<u>Agency Fund Student Activities</u>
	ASSETS	
Cash		\$ 26,866
	LIABILITIES	
Due to student groups		\$ 26,866

The accompanying notes are a part of the financial statements.



CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The basic financial statements of Concord Academy-Boyne, (the 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.

Reporting Entity

Public School Academies were formed pursuant to the Michigan School Code of 1976 as amended by Act Number 416 of the Public Acts of 1994; Act Number 416 became effective March 30, 1995. The Academy filed Articles of Incorporation as a non-profit corporation September 1, 1995.

The Academy has a five year agreement with Lake Superior State University (LSSU) to organize and administer the Academy (expires June 30, 2010). LSSU is paid 3 percent of state aid payments for oversight services. 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.

In evaluating how to define the Academy, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statements No. 14 and No. 39.

Based upon the application of these criteria, the basic financial statements of the Academy contain all the funds controlled by the Academy's Board of Directors as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the Academy nor is the Academy a component unit of another entity.

Academy-Wide And Fund Financial Statements

The Academy-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. The Academy-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 and other unrestricted items are not included as program revenues but instead as *general revenues*.



CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Academy-Wide And Fund Financial Statements (Continued)

In the Academy-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.

The Academy first utilizes restricted resources to finance qualifying activities.

The Academy-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 (certain intergovernmental revenues 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 sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

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

Governmental Funds - Governmental funds are those funds through which most school 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 fund:

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.



CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Academy-Wide And Fund Financial Statements (Continued)

Fiduciary funds account for assets held by the Academy as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the Academy holds for student and parent activity groups in an agency capacity.

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The Academy-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. 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.

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 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.



CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Measurement Focus, Basis of Accounting and Basis of Presentation (Continued):

State Revenue (Continued)

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 State of Michigan.

The Academy also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for those programs be used for its specific purpose.

Other Accounting Policies

Cash and Cash Equivalents and Investments

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 intend 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.

Receivables

An allowance for uncollectible amounts was not considered necessary at June 30, 2008 because all receivables are considered collectible.



CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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 fixed assets.

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

Buildings and additions	40 years
Furniture and other equipment	5 - 20 years

The Academy's capitalization policy is to capitalize individual amounts exceeding \$1,000.

Long-term Obligations

In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Certificates of participation and bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the certificates of participation and bonds using the straight line method over the term of the related debt. Amortization of debt issuance costs for the year ended June 30, 2008 amounted to \$9,141.

The deferred amount on refunding (\$192,418) was incurred during the year ended June 30, 2007 and is the difference between the reacquisition price of the new debt (the amount placed in escrow) and the carrying amount of the old debt. This amount is being amortized as an element of interest expense over the life of the refunded debt based on the original principal maturities of the old debt. Amortization of the deferred amount on refunding for the year ended June 30, 2008 amounted to \$11,117.

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.

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.



CONCORD ACADEMY-BOYNE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2008

NOTE B - BUDGETING:

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the general fund. All annual appropriations lapse at fiscal year end.

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. Public hearings are conducted to obtain comments from the public.
3. Prior to July 1, the budget is legally adopted by enactment of a General Appropriations Act pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). 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, for the general fund are noted in the required supplementary information section.
4. 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 of Directors.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30, 2008. The Academy does not consider these amendments to be significant.

NOTE C - DEPOSITS AND RESTRICTED INVESTMENTS:

As of June 30, 2008, the Academy had the following investments:

Investment Type	<u>Fair Value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's Rating</u>	<u>%</u>
First American Treasury Obligations Fund - class D	<u>\$451,852</u>	<u>0.13</u>	AAAm	<u>100%</u>
Portfolio weighted average maturity		<u>0.13</u>		

1 day maturity equals 0.13, one year equals 1.00



CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE C - DEPOSITS AND RESTRICTED INVESTMENTS (Continued):

The Academy invests certain funds in external pooled investment funds which consist of treasury obligations held by trustee. Per the treasury obligation reports as of June 30, 2008, the fair value of the Academy's investments is the same as the value of the pool shares. The above investments are restricted as follows:

Debt Service Reserve Accounts - The balance in these accounts will be used to make principal and interest payments on the bonds if monies in the Bond Principal Fund or Bond Interest Fund are insufficient to make such payments when due. All monies remaining at maturity may be used to pay the principal and interest due on the bonds. The earnings on these accounts will be used to reduce the annual debt service payments.	\$197,996
Principal/Interest/Miscellaneous Accounts - Include amounts withheld from the Academy's monthly foundation grant and reserved for debt service.	85,235
Project Fund Account - The balance in this account is to be used for capital improvements to the Academy's facilities.	167,321
Repair and Replacement Fund Account - The balance in this account is to be used to pay the cost of extraordinary maintenance and replacements which may be required to keep the facility in sound condition.	<u>1,300</u>
Total held by trustee	<u>\$451,852</u>

Interest Rate Risk

The Academy does not have specific investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2008, the Academy had \$451,852 at fair market value invested in a money market fund. The average maturity of this fund is less than one year.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a formal deposit policy for custodial credit risk. At June 30, 2008, the bank balance was \$447,904 of which \$336,315 was uninsured and uncollateralized.



CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE C - DEPOSITS AND RESTRICTED INVESTMENTS (Continued):

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy does not have a formal investment policy for custodial credit risk. However, all of the investments are in the name of the Academy and are held in trust accounts with the financial institution from which they were purchased.

NOTE D - CAPITAL ASSETS:

The following is a summary of the changes in the various fixed asset class categories for the year ended June 30, 2008:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 32,000	\$ -	\$ -	\$ 32,000
Software development in progress	-	2,500	-	2,500
Construction in progress	<u>6,000</u>	<u>-</u>	<u>-</u>	<u>6,000</u>
Total capital assets not being depreciated	38,000	2,500	-	40,500
Capital assets being depreciated:				
Land improvements	20,000	-	-	20,000
Buildings and improvements	2,802,210	4,246	-	2,806,456
Outdoor equipment	20,418	-	-	20,418
Computers and other equipment	64,113	32,707	-	96,820
Library materials	<u>15,755</u>	<u>-</u>	<u>-</u>	<u>15,755</u>
Total capital assets being depreciated	2,922,496	36,953	-	2,959,449
Less accumulated depreciation	<u>599,759</u>	<u>83,306</u>	<u>-</u>	<u>683,065</u>
Total capital assets being depreciated, net	<u>2,322,737</u>	<u>(46,353)</u>	<u>-</u>	<u>2,276,384</u>
Total capital assets, net	<u>\$2,360,737</u>	<u>\$ (43,853)</u>	<u>\$ -</u>	<u>\$2,316,884</u>

Depreciation for the fiscal year ended June 30, 2008 totaled \$83,306. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE E - PAYABLES:

The accounts payable balance at June 30, 2008 is composed of amounts due to the following types of entities:

Vendors	\$ 5,143
Contracted personnel expenses	65
Local public school	<u>1,744</u>
	<u>\$ 6,952</u>



CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE F - LONG-TERM DEBT:

The following is a summary of long-term debt activity for the year ended June 30, 2008:

	Series 2007 Bonds Payable (Due 11/1/2022)	Series 2007 Bonds Payable (Due 11/1/2036)	<u>Total</u>
Long-term debt, July 1, 2007	\$ 845,000	\$1,955,000	\$2,800,000
Additions	-	-	-
Retirements	<u>-</u>	<u>-</u>	<u>-</u>
Balance, June 30, 2008	845,000	1,955,000	2,800,000
Less current portion	<u>(40,000)</u>	<u>-</u>	<u>(40,000)</u>
Total due after one year	<u>\$ 805,000</u>	<u>\$1,955,000</u>	<u>\$2,760,000</u>

Long-term debt at June 30, 2008, consists of the following:

Bonds payable (series 2007), payable in annual installments ranging from \$40,000 to \$80,000 through November, 2022, with semi-annual interest payments at 5.45 percent. Secured by the full faith and credit obligation pledge of the Academy, all monies in specified funds of the Trustee, all proceeds of those funds, and all real and personal property of the Academy.	\$ 845,000
Bonds payable (series 2007), payable in annual installments beginning November, 2023, ranging from \$85,000 to \$375,000 through November, 2036, with semi-annual interest payments at 5.60 percent. Secured by the full faith and credit obligation pledge of the Academy, all monies in specified funds of the Trustee, all proceeds of those funds, and all real and personal property of the Academy.	<u>1,955,000</u>
Total	<u>\$2,800,000</u>

Total principal and interest maturities on the long-term debt outstanding as of June 30, 2008, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 40,000	\$ 154,443	\$ 194,443
2010	40,000	152,263	192,263
2011	40,000	150,083	190,083
2012	45,000	147,766	192,766
2013	45,000	145,314	190,314
2014 through 2018	275,000	684,604	959,604
2019 through 2023	360,000	598,358	958,358
2024 through 2028	475,000	483,700	958,700
2029 through 2033	635,000	329,140	964,140
2034 through 2039	<u>845,000</u>	<u>113,820</u>	<u>958,820</u>
Total	<u>\$2,800,000</u>	<u>\$2,959,491</u>	<u>\$5,759,491</u>



CONCORD ACADEMY-BOYNE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE F - LONG-TERM DEBT (Continued):

Total interest expense related to the bonds payable for the year ended June 30, 2008 was \$155,521.

Bonds maturing in the year 2018 and thereafter may be redeemed early beginning November 1, 2017 at par plus accrued interest.

NOTE G - CONTRACTED SERVICES:

The Academy contracted with Lakeshore Educational Management, Inc. (Lakeshore) to provide teaching, administrative and custodial services for the Academy. The payments to Lakeshore cover expenses associated with the teachers, administrative and custodial personnel, including wages, payroll taxes, and benefits. Lakeshore charged a \$750 semi-monthly administration fee. Total expense for the year ended June 30, 2008 under the contracts was \$1,053,826, including \$18,000 in administrative fees.

NOTE H - RISK MANAGEMENT:

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

The Academy carries commercial insurance for the various risks of loss.

NOTE I - DEFEASED DEBT:

On June 21, 2007, the Academy issued \$2,595,000 refunding bonds with interest rates ranging between 5.45 percent and 5.60 percent. The bonds were issued to advance refund series 1998 and series 2003 certificates of participation totaling \$2,380,000 with interest rates ranging from 7.0 percent to 8.125 percent. The Academy also issued \$205,000 of new debt as part of this transaction. The bonds were issued at par value. The net proceeds from the issuance of the refunding bonds, along with other resources, were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for debt service on the refunded certificates of participation and redemption of the certificates in October, 2008. As a result, the series 1998 and series 2003 certificates are considered defeased, and the Academy has removed the liability from its accounts. The outstanding principal of the defeased certificates of participation is \$2,270,000 at June 30, 2008.

As a result of the advanced refunding, the Academy increased its total debt service requirements by approximately \$1,747,000. This resulted in an economic loss (difference between the present values of the debt service payments on the old and new debt) of approximately \$40,000. The Academy pursued the refunding to address current cash flow needs and received permission from the Michigan Department of Treasury to allow the refunding despite the net economic loss.



REQUIRED SUPPLEMENTARY INFORMATION



CONCORD ACADEMY - BOYNE
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 for the year ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget - Favorable (Unfavorable)</u>
REVENUES:				
Local sources	\$ 41,000	\$ 18,390	\$ 33,405	\$ 15,015
State sources	1,477,000	1,456,100	1,454,934	(1,166)
Federal sources	30,000	30,500	29,269	(1,231)
Total revenues	<u>1,548,000</u>	<u>1,504,990</u>	<u>1,517,608</u>	<u>12,618</u>
EXPENDITURES:				
Instruction, basic programs	923,300	1,012,100	940,082	72,018
Support services:				
General administration	272,190	270,940	253,056	17,884
School administration	3,100	17,150	2,125	15,025
Business services	82,300	75,800	76,584	(784)
Operation and maintenance of plant	95,000	100,750	104,208	(3,458)
Total support services	<u>452,590</u>	<u>464,640</u>	<u>435,973</u>	<u>28,667</u>
Debt service:				
Principal	-	80,000	-	80,000
Interest	-	50	133,931	(133,881)
Escrow agent fees	-	-	6,401	(6,401)
Total debt service	<u>-</u>	<u>80,050</u>	<u>140,332</u>	<u>(60,282)</u>
Total expenditures	<u>1,375,890</u>	<u>1,556,790</u>	<u>1,516,387</u>	<u>40,403</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	172,110	(51,800)	1,221	53,021
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	109,261	-	(109,261)
Operating transfers out	(170,000)	(26,850)	-	26,850
Total other financing sources (uses)	<u>(170,000)</u>	<u>82,411</u>	<u>-</u>	<u>(82,411)</u>
NET CHANGE IN FUND BALANCES	<u>\$ 2,110</u>	<u>\$ 30,611</u>	1,221	<u>\$ (29,390)</u>
 FUND BALANCE, beginning of year			<u>997,520</u>	
FUND BALANCE, end of year			<u>\$ 998,741</u>	



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September 10, 2008

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

To the Board of Directors of
Concord Academy-Boyne:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Concord Academy-Boyne (the Academy) as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the Academy and have issued our report thereon dated September 10, 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 the Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. These deficiencies are referenced as 2008-1 and 2008-2.

Finding 2008-1: Management does not have the internal expertise to prepare financial statements in accordance with accounting principles generally accepted in the United States of America.

Response: Due principally to the negative impact on cash funds available to the Academy, the hiring of accounting personnel capable of preparing the Academy's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

The Academy's response to the findings identified in our audit is described above. We did not audit the Academy's response and, accordingly, we express no opinion on it.

Finding 2008-2: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

Response: This condition is generally inherent in organizations the size of the Academy. Management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the Academy's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Board of Directors assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

The Academy's response to the findings identified in our audit is described above. We did not audit the Academy's response and, accordingly, we express no opinion on it.

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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 2008-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 other matters that we reported to the management of the Academy in a separate letter dated September 10, 2008.



Board of Directors
Concord Academy-Boyne

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

Smolinski & Christman, P.C.

