

Month //, 2011

To the Board of Education
Lakeview Community Schools
Lakeview, Michigan

We have audited the financial statements of the governmental activities, the general fund, and the aggregate remaining fund information of *Lakeview Community Schools* (the “District”) for the year ended June 30, 2011, and have issued our report thereon dated Month//, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated July 12, 2011, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District’s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District’s compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District’s compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on July 25, 2011.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. Other than the adoption of GASB Statement No. 54, which is described in Note 10 to the financial statements, no other new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements may be affected by unusual transactions, including nonrecurring transactions. The following significant unusual accounting transaction occurred during the year:

- During 2011, the remaining balance of the District's 2001 Building and Site Bonds were in-substance defeased through the issuance of advance refunding bonds. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, the difference between the amount placed in escrow to repay the refunded bonds and the carrying amount of the refunded bonds is being deferred and amortized as a component of interest expense over the remaining life of the refunded bonds.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated **Month //, 2011**.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

This information is intended solely for the use of the governing body and management of Lakeview Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Lakeview Community Schools

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2011

In planning and performing our audit of the financial statements of Lakeview Community Schools (the "District") as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

A deficiency in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the District's report on Single Audit Act Compliance.

Other Matters

Written Policies and Procedures over Administration of Federal Awards

The Michigan Department of Education (MDE) has interpreted certain Federal guidance to indicate that an entity is required to have written policies and procedures over the administration of Federal awards as a precursor to receiving such funds. As such, MDE has recently notified all Michigan School Districts that these written policies and procedures should be prepared if not already available. The Board of Education of Lakeview Community Schools had already formally adopted several components of the required policies prior to the communication from MDE, and management had been following appropriate practices for those remaining areas not yet formally documented. The District is currently working to draft comprehensive policies and procedures manual to meet MDE's requirements, which is expected to be completed prior to the commencement of the academic year.

Lakeview Community Schools

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2011

Internal Controls over Equipment and Real Property Management

In accordance with the OMB Circular A-133 Compliance Supplement, certain requirements are specified for a grantee that purchases capital assets with Federal funds. These requirements include, among other things, a complete physical inventory and reconciliation to the accounting records at least once every two years and maintenance of a detail ledger of capital assets purchased with Federal funds (and the related Federal funding percentage). Lakeview Community Schools has not historically used Federal grants for the purchase of capital assets. We noted that the District purchased a capital item using Federal funds in the current year and the requirements related to equipment and real property management were not complied with in full. Since the Federal award involved was not a major program for our single audit testing, this is not required to be reported as a finding in the report on Single Audit Act Compliance. However, we encourage management to review the applicable requirements to ensure compliance in future fiscal years.

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Lakeview Community Schools
Attachment B - Schedule of Adjustments Passed (SOAP)
For the June 30, 2011 Audit

In accordance with the provisions of SAS 107, *Audit Risk and Materiality*, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. Also in accordance with SAS 107, we are providing this schedule to both management and the audit committee to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

Effect of Passed Adjustment - Over(Under)Statement				
Assets	Liabilities	Beginning Equity	Revenue	Expenses/ Expenditures
General fund/governmental activities				
Effect of recognizing at-risk revenue in excess of actual expenditures in the prior year (corrected in fiscal year 2011)				
\$	- \$	- \$	12,224 \$	(12,224) \$
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