

**LAKESIDE
CHARTER SCHOOL ACADEMY**

**Financial Report
with Supplemental Information
June 30, 2018**

LAKESIDE CHARTER SCHOOL ACADEMY

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Wilkerson & Associate P.C.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Lakeside Charter School Academy

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lakeside Charter School Academy, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Lakeside Charter School Academy as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles accepted in the United States of America.

Members: A.I.C.P.A. and M.I.C.P.A.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Government Auditing Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2018, on our consideration of Lakeside Charter School Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering Lakeside Charter School Academy's internal control over financial reporting and compliance.

Wilkerson & Associate PC

September 15, 2018

**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***

Independent Auditor's Report

To the Board of Directors of
Lakeside Charter School Academy

We have audited the financial statements of Lakeside Charter School Academy as of and for the year ended June 30, 2018, and have issued our report thereon dated September 15, 2018. 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

Lakeside Charter School Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Lakeside Charter School'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 Lakeside Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lakeside Charter School's internal control over financial reporting.

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 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.

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 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Members: A.I.C.P.A. and M.I.C.P.A.

To the Board of Directors of
Lakeside Charter School Academy

Compliance and Other Matters

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

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

Wilkerson & Associate PC

September 15, 2018

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

This section of Lakeside Charter School Academy's (the "Academy") annual financial report presents discussion and analysis of the Academy's financial performance during the year ending June 30, 2018. It should be read in conjunction with the Academy's financial statements, which immediately follow this section.

Financial Highlights:

- This was the Academy's fourth operational year and despite the challenges faced by most early-stage schools, the Academy ended the year with a strong, positive net position of \$769,753 and a fund balance of \$752,541.
- At year end, the Academy had no outstanding long-term debt.

The financial report is only one measure of our Academy's viability. Our goal is to provide services to students, not to generate profits as commercial entities do. Consideration should also be given to other non-financial factors, including those listed below.

The Academy:

- Operated year-round within a residential treatment setting.
- Served nearly three times as many students throughout the year than what shows on the state aid membership report.
- Provided highly individualized instruction to each student.
- Earned revenue on approximately 125 students compared to 116 in the previous year.
- Incorporated data-driven analysis to inform continuous school improvement processes.
- Had a much higher population of students with special needs than most other schools.
- Collaborated with other social serving agencies and governmental entities around needs and matters specific to our special population.
- Served the highest number of youth ever since its first operational year.
- Graduated 19 students with a high school diploma and 5 with a GED (compared to 10 and 5 in the previous year, respectively).
- Added a second site in a different county, which included successfully transferring the charter contract to a new state-wide authorizing entity.

Academy Wide Financial Statements

The Academy wide financial statements provide information about the activities of the Academy as a whole, presenting both an aggregate view of the Academy’s finances and a long term view of those finances. Academy-wide statements are presented on a full accrual basis, which is the primary accounting method used in private industry. The statement of net position includes all of the Academy’s assets and liabilities. The statement of activities reports all of the Academy’s current year’s revenues and expenses by type of activity.

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

- Over time, increases and decreases in the Academy’s net position 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.

Fund Financial Statements

The fund financial statements provide more detailed information about the Academy’s funds, focusing on its most significant or “major” funds, not the Academy as a whole. It provides information as to the amount of financial resources that can be spent in the near future to finance programs. It also provides information about the Academy’s most significant funds – the General fund (the principal operating fund), which at this time is the only fund for the Academy. Fund financial statements are presented on a modified accrual basis. Only those assets that are measurable and currently available are reported. Liabilities are recognized to the extent that they can be paid using current financial resources.

Lakeside Charter School Academy as a Whole

Table 1, the Statement of Net Position, provides information about the Academy as a whole. Net position at year-end was \$769,753. The Academy had investments in capital assets, net of accumulated depreciation of \$17,212 in mostly technology devices and some sports equipment. The \$752,541 in unrestricted net assets represents the cumulative operating results at year ending June 30, 2018 and all prior years.

Table 1 - Summary of Lakeside Charter School's Net Position

	<u>2018</u>	<u>2017</u>
Current Assets	\$ 921,042	\$ 683,386
Capital Assets (net of accumulate depreciation)	17,212	6,583
Total Assets	938,254	689,969
Current Liabilities	168,501	161,525
Net Postion:		
Invested in Capital Assets	17,212	6,583
Unrestricted	752,541	521,861
Total Net Postion	\$ 769,753	\$ 528,444

Table 2 summarizes governmental activities and the change in net position over the previous year. A positive change in net position can be an indicator of overall financial health. The Academy's net position increased over the previous year by \$241,309 due to management carefully monitoring and managing expenses against revenues, while experiencing an increase in overall revenue.

Table 2 - Summary of the Statement of Activities

	<u>2018</u>	<u>2017</u>
Revenues		
Program Revenues		
Operating Grants and Contributions	\$ 303,998	\$ 278,619
General Revenues		
State Aid - forumla grants	1,150,595	1,059,297
Other Revenue (local)	1,086	69,695
Total Revenues	1,455,679	1,407,611
Expenses		
Instruction	617,778	626,768
Support Services	587,850	525,817
Community Services	4,027	5,068
Depreciation Expense	4,715	1,646
Total Expenses	1,214,370	1,159,299
Change in Net Position	\$ 241,309	\$ 248,312

Considering the Academy’s state aid foundation allowance, as of July 20, 2018, management expected total state aid to approximate \$1,206,942 for the year ended June 20, 2018. However, on August 20, 2018, the state deducted (in error) 7.34 FTEs and all related state aid revenue of \$56,347 based on the intermediate school district’s staff assignment audit, which had actually concluded in the Academy’s favor. This revenue will be restored in the subsequent year as a prior year adjustment, increasing next year’s overall revenue by the same amount.

Table 3 shows a summary of the Academy’s capital assets.

Table 3 - Summary of Capital Assets

	<u>Accumulated Costs</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value June 30, 2018</u>	<u>Net Book Value June 30, 2017</u>
Furniture, Fixtures & Equipment	\$ 539	\$ 215	\$ 323	\$ 431
Computer Equipment	<u>23,034</u>	<u>6,145</u>	<u>16,889</u>	<u>6,152</u>
Total Capital Assets	<u>\$ 23,573</u>	<u>\$ 6,360</u>	<u>\$ 17,212</u>	<u>\$ 6,583</u>

The Academy’s investment in capital assets increased by \$10,629 over the previous year, mostly for new technology equipment to better serve the learning needs of students.

Debt

At June 30, 2018, the Academy had no outstanding long-term debt and \$22,239 in short-term debt related to its 2018 state aid note loan, which was retired on August 20, 2018.

General Fund Budget Highlights

State law requires that school districts periodically amend their budgets to ensure that expenditures do not exceed appropriations. During the year, the Academy revised its budget in response to and in anticipation of changing operating conditions. The Academy had one budget amendment during the year that was approved by the Lakeside Charter School Board. A schedule showing the Academy’s original budget, final budget, and actual results for the General Fund is provided in the required supplemental information section of the financial statements.

Economic Factors Affecting Next Year's Budgets

The Academy's administration and the Academy Board consider many factors in the budget process. One of the most important factors affecting the budget is student enrollment. Approximately 80% of the Academy's revenue is derived from the state of Michigan's student enrollment-based funding formula. The foundation allowance was \$7,631 per pupil for the 2017-2018 school year. In the event the foundation allowance is decreased, management and the Board will amend the budget accordingly.

Contacting the Academy's Financial Management Team

This financial report is designed to provide our stakeholders 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, please contact the Academy's central administration at:

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c/o Sequel Youth Services | Attention: Steve Laidecker
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(ph) 269.381.4760 (fx) 269.381.5332
www.LakesideCharterSchool.com

LAKESIDE CHARTER SCHOOL ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2018

Federal	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 614,837
Other receivables	
State	151,809
Federal	154,396
Capital Assets (net accumulated depreciation)	<u>17,212</u>
Total assets	938,254
Liabilities	
Accounts payable	108,200
Notes payable	22,239
Accrued management fees	33,240
Accrued authorizer fees	4,027
Accrued interest	<u>796</u>
Total liabilities	168,501
Net Position	
Invested in capital assets (net of related debt)	17,212
Unrestricted	<u>752,541</u>
Total net position	<u><u>\$ 769,753</u></u>

See accompanying notes to financial statements

**LAKESIDE CHARTER SCHOOL ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

ASSETS

	General Fund
Cash and cash equivalents	\$ 614,837
Due from other governmental units	306,205
	\$ 921,042
Total assets	\$ 921,042

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable	\$ 108,200
Notes payable	22,239
Accrued management fees	33,240
Accrued authorizer fees	4,027
Accrued interest	796
Total liabilities	168,501

Fund Balances

Unrestricted fund balance:

Unassigned fund balance	752,541
Total fund balances	752,541
Total liabilities and fund balances	\$ 921,042

See accompanying notes to financial statements

**LAKESIDE CHARTER SCHOOL ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Fund Balances - Governmental Funds		\$	752,541
Deferred revenue			-
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p> <p style="padding-left: 40px;">Capital assets used in governmental activities are not financial resources and, therefore, not reported as assets in governmental funds</p>			
Cost of capital assets			23,573
Accumulated depreciation		(6,360)	17,212
		<u> </u>	<u> </u>
Total Net Position - Governmental Activities		\$	<u>769,753</u>

**LAKESIDE CHARTER SCHOOL ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Total General Fund
Revenues	
Local sources	\$ 1,086
State sources	1,150,595
Federal sources	303,998
	1,455,679
 Expenditures	
Current	
Instructional services	633,122
Supporting services:	
Pupil support services	37,307
Instructional support services	99,157
General administration services	117,257
School administration services	114,406
Business services	92,662
Central support services	127,061
Community services	4,027
	1,224,999
 Total expenditures	 1,224,999
 Excess (Deficiency) of Revenues Over Expenditures	 230,679
 Other Financing Sources (Uses)	
Operating transfers - in	-
Operating transfers - out	-
	-
 Total other financing sources (uses)	 -
 Net Change in Fund Balances	 230,679
 Fund Balances - July 1, 2017	 521,861
 Fund Balances - June 30, 2018	 \$ 752,541

See accompanying notes to financial statements

**LAKESIDE CHARTER SCHOOL ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Total Net Change in Fund Balances - Governmental Funds \$ 230,679

Amounts reported for governmental activities in the statement of activities are different because: -

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period:

Depreciation expense	(4,715)	
Capital outlays (site improvements, equipment and furniture expenditures)	15,344	10,629
	<u>15,344</u>	<u>10,629</u>

Change in Net Positions of Governmental Activities \$ 241,309

See accompanying notes to financial statements

LAKESIDE CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lakeside Charter School Academy (the “Academy”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

A. Reporting Entity

Lakeside Charter School Academy is a strict discipline academy as part of the Michigan Public School System under Act No. 23 of the Public Acts of 1999 and is subject to the leadership and general supervision of the State Board of Education. Kalamazoo Regional Educational Service Agency (KRESA) is the authorizing body of the Academy and has contracted with the Academy confirming the status of the strict discipline academy. The contract with KRESA expires June 30, 2019. The Academy’s school board is approved by KRESA and is authorized to manage the property and affairs of the Academy. The Academy does not include any other component unit within its financial statements as defined in Governmental Accounting Standards Board Statement Nos. 14 and 39.

The contract with KRESA requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. KRESA is the fiscal agent for the Academy and is responsible for overseeing the Academy’s compliance with the contract and all applicable laws. The Academy pays KRESA three percent of the state school aid payments received by the Academy as administrative fees. The total administrative fees for the year ended June 30, 2018 to KRESA approximated \$31,595.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the Academy’s reporting entity, and which organizations are legally separate, component units of the Academy. Based on application of the criteria, the entity does not contain component units.

LAKESIDE CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

B. District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. Substantially all interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational and capital requirements of a particular function.

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

District-Wide Statements

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

LAKESIDE CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The effect of the interfund activity has been substantially eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted State aid.

Fund-Based Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue 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 required under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

LAKESIDE CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law.

The Academy also receives revenue from the State to administer certain categorical educational programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received which are not expected to be expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

The Academy reports the following major governmental fund:

General Fund

The General Fund is used to record the general operation of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget. The Academy has only one fund, the General Fund.

LAKESIDE CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

D. Assets, Liabilities, and Net Assets or Equity

Deposits, Cash Equivalents, and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of twelve months or less when acquired.

The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Academy evaluates each financial institution it deposits Academy funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk are used as depositories.

The Academy is authorized by Michigan Compiled Laws, Section 129.91 to invest surplus monies in federally insured United States banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is also authorized to invest in bonds and notes, certain commercial paper, U.S. Government repurchase agreements, bankers' acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The Academy utilizes this definition for determining what items to record as capital assets for purposes of reporting and recording depreciation over more than one reporting period. In addition, the Academy records technology and sports equipment with a useful life of 3 or more years as a capital asset regardless of cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

**LAKESIDE CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Capital Assets (Continued)

Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have any infrastructure-type assets.

Buildings, leasehold improvements, vehicles and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20 – 50 years
Leasehold Improvements	15 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 20 years
Computer and technology equipment	3 – 10 years

MPSERS Liability

The Academy contracted with Sequel Youth and Family Services (the “Management Company) to provide all staffing personnel during the year under audit. Consequently, all staffing cost is treated as purchased services in these financial statements. The Academy has no obligation to fund the Michigan Public School Employees Retirement System for the year ended June 30, 2018.

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. There was no deferred revenue to report for the year ended June 30, 2018.

LAKESIDE CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Long-Term Obligations

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

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations 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.

Comparative Data

Comparative data is not included in the Academy's financial statements.

District-wide financial statements (statement of net assets and statement of activities), prepared using the full accrual accounting method for all of the Academy's activities, have been provided.

Capital assets of \$17,212 (net of accumulated depreciation of \$6,360) are currently recorded in the governmental activities column of the statement of net assets.

The fund financial statements focus on major funds rather than fund types.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**LAKESIDE CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Budgetary Data

The Academy is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (the Uniform Budgetary Act). The following is a summary of the requirements of the Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced.
3. The budgets must be amended when necessary.
4. Public hearings must be held before budget adoptions.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures must be authorized by a budget before being incurred.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Academy formally adopted its General Fund budget by function for the fiscal year ended June 30, 2018. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Unexpended appropriations lapse at year end and encumbrances are not included as expenditures. No encumbrances were outstanding in the General Fund at June 30, 2018. During the current year, the budget was amended in a legally permissible manner.

LAKESIDE CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY
(continued)**

The combined statement of revenues, expenditures and changes in fund balances – all governmental fund types – is presented in conformity with generally accepted accounting principles. The combined statement of revenues, expenditures and changes in fund balances, including budget and actual amounts, is presented on the same basis of accounting used in preparing the adopted budget.

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority. The Academy has designated one bank for the deposit of its funds and has not implemented any other formal investment policy.

The Academy's cash and investments are subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank 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 evaluates its depositories and only those with an acceptable risk level are used for the Academy's deposits. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

**LAKESIDE CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

At year end, the Academy's deposits and investments were reported in the basic financial statements as cash and cash equivalents of \$614,837.

The deposits of the Academy were reflected in the accounts of the financial institution on June 30, 2018 totaling \$618,314.53.

NOTE 4 - CAPITAL ASSETS

Capital assets activity of the Academy's governmental activities was as follows:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Disposals & Adjustments</u>	<u>Balance June 30, 2018</u>
Assets being depreciated				
Equipment, furniture & fixtures	\$ 539	\$ -	\$ -	\$ 539
Technology & computer equipment	7,690	15,344	-	23,034
Subtotal	8,229	15,344	-	23,573
Accumulated depreciation				
Equipment, furniture & fixtures	108	108	-	215
Technology & computer equipment	1,538	4,607	-	6,145
Subtotal	1,646	4,715	-	6,360
Net capital assets being depreciated	6,583	10,629	-	17,212
Net capital assets	<u>\$ 6,583</u>	<u>\$ 10,629</u>	<u>\$ -</u>	<u>\$ 17,212</u>

LAKESIDE CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 - CAPITAL ASSETS (Continued)

Depreciation expense was not charged to specific activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

Governmental Activities	
Instruction Basic Programs	\$ -
Unallocated	<u>4,715</u>
Total Governmental Activities	<u><u>\$ 4,715</u></u>

NOTE 5 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employees' injuries (workers compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

NOTE 6 - MANAGEMENT AGREEMENT

The Academy renewed its management agreement with Sequel Youth and Family Services (the "Management Company"), a for-profit corporation on July 1, 2016. The Management Company is responsible for all management, operation, administration, and education at the Academy. All Academy personnel are provided by the Management Company as well. The total management fee expensed by the Academy for the year ended June 30, 2018 approximated \$157,162.

The management agreement extends to June 30, 2019, in parallel through the term of the charter contract with KRESA. Further, it allows for both parties to mutually agree to a reduction in the management fee for any period in order to avoid a deficit fund balance at year-end, and/or to avoid expenses in excess of amounts budgeted for major functions. For the year ended June 30, 2018 there was no need to reduce the fee.

LAKESIDE CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 - OPERATING LEASE

On July 1, 2016, the Academy extended its operating lease agreement with Lakeside for Children (“LFC”) for the use of its school facilities at a nominal fee of \$1 per year, through June 30, 2019. Under the agreement, LFC is responsible for all utilities, taxes, insurance, and maintenance.

NOTE 8 - SUBSEQUENT EVENTS

The Academy transferred its charter from KRESA to Central Michigan University effective July 1, 2018 and updated all related contracts at the same time to reflect the new authorizing entity and required updated policies and/or charter contract provisions.

On September 6, 2018 the Academy executed a loan to borrow \$360,000 in the form of a State Aid Note through the Michigan Finance Authority. The note bears an interest rate of 5.30 % (percent), maturing on August 20, 2019.

REQUIRED SUPPLEMENTAL INFORMATION

**LAKESIDE CHARTER SCHOOL ACADEMY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual (GAAP Basis)	Variance Over/(Under)
	Original	Final		Final to Actual
Revenues				
Local revenues	13,315	1,086	1,086	-
State program revenues	1,045,320	1,206,985	1,150,595	(56,390)
Federal program revenues	270,260	304,877	303,998	(879)
Total revenues	<u>1,328,895</u>	<u>1,512,948</u>	<u>1,455,679</u>	<u>(57,269)</u>
Expenditures				
Current				
Instructional services	785,091	802,113	633,122	(168,991)
Supporting services				
Pupil support services	28,882	45,750	37,307	(8,443)
Instructional staff services	131,826	130,397	99,157	(31,240)
General administration services	86,749	135,836	117,257	(18,579)
School administration services	128,525	135,225	114,406	(20,819)
Business services	97,374	103,136	92,662	(10,474)
Operations and maintenance	-	10,000	-	(10,000)
Central support services	116,572	161,004	127,061	(33,943)
Community activities	5,260	10,000	4,027	(5,973)
Total expenditures	<u>1,380,279</u>	<u>1,533,461</u>	<u>1,224,999</u>	<u>(308,462)</u>
Excess (Deficiency) of Revenues				
Over Expenditures	(51,384)	(20,513)	230,679	251,193
Other Financing Sources (Uses)				
Operating transfers - in	-	-	-	-
Operating transfers - out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(51,384)	(20,513)	230,679	251,193
Fund Balance - July 1, 2017	<u>277,366</u>	<u>521,861</u>	<u>521,861</u>	<u>-</u>
Fund Balance - June 30, 2018	<u><u>225,982</u></u>	<u><u>501,348</u></u>	<u><u>752,541</u></u>	<u><u>251,193</u></u>

See accompanying notes to financial statements.

LAKESIDE CHARTER SCHOOL ACADEMY
REPORT TO THE BOARD OF DIRECTORS

JUNE 30, 2018

Wilkerson & Associate P.C.

CERTIFIED PUBLIC ACCOUNTANTS

3 PARKLANE BLVD. SUITE 612
DEARBORN, MICHIGAN 48126
313-982-4340 FAX 313-982-4342

LARRY WILKERSON, C.P.A.
THOMAS E. WILKERSON, C.P.A.

To the Board of Directors of
Lakeside Charter School Academy

We have recently completed our audit of the basic financial statements of Lakeside Charter School Academy (the "Academy") as of and for the year ended June 30, 2018. In addition to our audit report, we are providing the following required audit communication, recommendations, and informational items which impact the Academy:

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Results of Audit	2-5
Recommendations	6
Informational Items	6-7

We are grateful for the opportunity to be of service to Lakeside Charter School Academy. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Wilkerson & Associate PC

September 15, 2018

Members: A.I.C.P.A. and M.I.C.P.A.

To the Board of Directors
Lakeside Charter School Academy
September 15, 2018

Results of the Audit

We have audited the financial statements of Lakeside Charter School Academy (the “Academy”) as of and for the year ended June 30, 2018 and have issued our report thereon dated September 15, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 2, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Academy. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the Academy’s financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the Academy’s compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated September 15, 2018 regarding our consideration of the Academy’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

To the Board of Directors
Lakeside Charter School Academy
September 15, 2018

We are also obligated to communicate certain matters related to our audit of those responsible for the governance of the Academy, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters during the preliminary audit phase.

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 Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2018.

We noted no transactions entered into by the Academy 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. There were no significant estimates included in this year's financial statements.

To the Board of Directors
Lakeside Charter School Academy
September 15, 2018

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statements disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive disclosures included in the financial statements.

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. There were no such misstatements identified.

Disagreements with Management

For the purpose 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 statement 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 management representation letter dated as of the date of the audit report.

Management Consultants 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 consultant involves application of an accounting principle to the Academy'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.

To the Board of Directors
Lakeside Charter School Academy
September 15, 2018

Other Audit Findings or Issues

In the normal course of our professional association with the Academy, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Academy, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Academy's auditors.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the Academy's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such information is properly stated. However, we read the management's discussion and analysis and budgetary comparison schedule and nothing came to our attention that caused us to believe that such information, or its manner of presentation is materially inconsistent with the information or manner of its presentation in the financial statements.

In addition to the comments and recommendations in this letter, our observations and comments regarding the Academy's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the 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*.

This information is intended solely for the use of the board of directors and management of Lakeside Charter School Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Wilkerson & Associate PC

Larry D. Wilkerson, CPA

To the Board of Directors
Lakeside Charter School Academy
September 15, 2018

Recommendations

LAKESIDE CHARTER SCHOOL ACADEMY RECOMMENDATIONS

As a result of auditing standards required to be implemented last year, the audit continues to require a strong emphasis to be placed on the Academy's internal control systems. The primary goal of internal controls is to provide a reasonable (as opposed to absolute) protection to the Academy and its assets and financial information. During this year's audit process, we noted no items that required management to make changes; therefore, no recommendations are made for this year.

Informational Items

LAKESIDE CHARTER SCHOOL ACADEMY

Cybersecurity and data backup best practices

The Academy's data is critically important. There are thousands of ways data can be compromised. It is vitally important that all employees and staff have proper knowledge on what is safe to click on and what is not. It is equally important that a proper data backup solution is in place in the event a Academy's information is targeted by malware or a fraudulent email attack. A School's vital information is always a moment away from being compromised. Encouraging and educating all staff to pay attention to what they click on and what they do is the first step in keeping information safe.

Having a proper data backup solution in place can mean the difference between a Academy's surviving a cyber-attack or losing valuable data and time. Every School should know the answer to two questions when looking at data backup solutions.

To the Board of Directors
Lakeside Charter School Academy
September 15, 2018

1. Does your School understand the difference between a backup and disaster recovery?

Management often assumes that simply backing up files is “good enough”. Backing up files is something all Schools should do. However, it’s important to remember that restoring files and emails is one thing, but recovering and restoring all School’s data in the event of a disaster is another.

2. How long can my School survive a network outage?

Many Schools assume that they are properly backing up their network but often are those backups tested. Internally managed backups are more susceptible to lack of testing. Management often believes they have successful backups but in the moment of a disaster, they find out that their last successful backup was months ago. Test backups often to make sure files can be recovered when needed.