

**THREE OAKS PUBLIC SCHOOL ACADEMY**

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

**YEAR ENDED JUNE 30, 2018**

## CONTENTS

	<u>Page</u>
<b>Independent auditor's report</b> .....	3 - 5
<b>Management's Discussion and Analysis</b> .....	6 - 11
<b>Basic financial statements</b> .....	12
Government-wide financial statements	
Statement of net position.....	13
Statement of activities.....	14
Fund financial statements	
Balance sheet - governmental funds .....	15
Statement of revenues, expenditures and changes in fund balances - governmental funds.....	16
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	17
Notes to financial statements.....	18 - 30
<b>Required supplementary information</b> .....	31
Budgetary comparison schedule - general fund .....	32
<b>Additional supplementary information</b> .....	33
Nonmajor governmental fund types	
Combining balance sheet .....	34
Combining statement of revenues, expenditures and changes in fund balances .....	35
Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i> .....	36 - 37

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Three Oaks Public School Academy

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Three Oaks Public School Academy, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise Three Oaks Public School 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 audit 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 Three Oaks Public School Academy as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary 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 Governmental Accounting 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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 Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Three Oaks Public School Academy's basic financial statements. The additional supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The additional supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2018 on our consideration of Three Oaks Public School Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Three Oaks Public School Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Three Oaks Public School Academy's internal control over financial reporting and compliance.

*Manes Costeiran PC*

September 25, 2018

## MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Three Oaks Public School Academy (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, 2018. Please read it in conjunction with the Academy’s financial statements, which immediately follow this section.

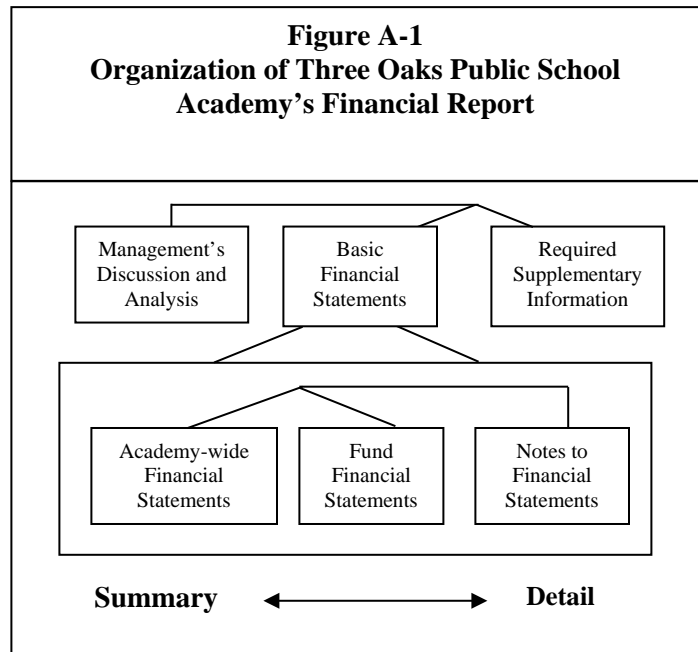
### Financial Highlights

- The Academy had a decrease in the fund balance in the general fund of \$218,470 compared to a budgeted decrease of \$260,643. This gives the Academy a fund balance in the general fund of \$917,845.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are Academy-wide *financial statements* that provide both short-term and long-term information about the Academy’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy’s operations in more detail than the Academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about financial relationships in which the Academy acts solely as a trustee or 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. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-2 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.

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

	Academy-wide 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 scholarship programs and student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	*Statement of fiduciary assets and liabilities
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, Three Oaks Public School Academy 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 position 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 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 or decreases in the Academy's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

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

### **Fund financial statements**

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

- Some funds are required by state law and by bond covenants.
- The Academy establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like school lunch).

The Academy has one kind of fund:

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

### **Financial analysis of the Academy as a whole**

Net position - the Academy's combined net position of \$2,232,705 decreased by \$7,729 during the year. See Figures A-3 and A-4.

The total revenues decreased by 4% to \$3,907,622. This is mainly due to the decrease in state funding as a result of lower enrollment. The state aid foundation allowance included in revenue from state sources accounts for approximately 67% of the Academy's revenue.

The total cost of instruction decreased by 1% to \$1,638,059. Total support service increased by 4% to \$1,850,472 due to an increase in the special education population within the Academy.



**Academy governmental activities**

<b>Figure A-3</b>		
<b>Three Oaks Public School Academy's Net Position</b>		
	2018	2017
Current and other assets	\$ 1,899,868	\$ 2,052,856
Capital assets	1,146,757	1,087,013
Total assets	<u>3,046,625</u>	<u>3,139,869</u>
Other liabilities	410,090	455,733
Long-term liabilities	403,830	443,702
Total liabilities	<u>813,920</u>	<u>899,435</u>
Net position:		
Net investment in capital assets	742,927	643,311
Restricted:		
Food service	46,689	97,677
Unrestricted	1,443,089	1,499,446
Total net position	<u>\$ 2,232,705</u>	<u>\$ 2,240,434</u>

<b>Figure A-4</b>		
<b>Changes in Three Oaks Public School Academy's Net Position</b>		
	2018	2017
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 1,170,655	\$ 1,036,322
General revenues:		
State aid - unrestricted	2,633,153	2,941,625
Other	103,814	107,370
Total revenues	<u>3,907,622</u>	<u>4,085,317</u>
Expenses:		
Instruction	1,638,059	1,658,343
Support services	1,850,472	1,783,633
Community service	3,379	-
Food service	318,463	285,612
Interest and fees on long-term debt	15,112	16,496
Unallocated depreciation	89,866	88,014
Total expenses	<u>3,915,351</u>	<u>3,832,098</u>
Change in net position	<u>\$ (7,729)</u>	<u>\$ 253,219</u>

**Financial analysis of the Academy's funds**

The Academy's general fund balance decreased by \$218,470 to \$917,845. Instruction expenses increased by \$8,701 and support service expenses increased by \$84,354.

## General fund budgetary highlights

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

The Academy's final budget for the general fund anticipated expenditures would exceed revenues and other financing sources by \$260,643. The actual results for the year showed expenditures over revenues of \$218,470.

Actual revenues were \$12,040 more than budgeted.

Actual expenditures were \$30,133 less than budget, due primarily to the unspent state and federal grants and savings in operations and maintenance and instruction.

## Capital asset and debt administration

### Capital assets

By the end of the year ended June 30, 2018, the Academy had invested \$1,146,757 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents an increase of \$59,744 from the beginning of the year. Total depreciation expense for the year was \$89,866. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

	2018			2017
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 15,000	\$ -	\$ 15,000	\$ 15,000
Furniture and equipment	592,273	425,310	166,963	159,159
Buildings	998,999	64,827	934,172	906,538
Leasehold improvements	54,740	24,118	30,622	6,316
Total	\$ 1,661,012	\$ 514,255	\$ 1,146,757	\$ 1,087,013

### Long-term debt

The Academy entered into a capital financing bond payable totaling \$496,000 during 2016 with interest of 3.54% per annum. Principal and interest on the bond will be paid from State School Aid received by the Academy. The proceeds of the bond were used to finance the acquisition of a school building previously leased by the Academy. See Note 6 for more information.

### **Factors bearing on the Academy's future**

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

- The Academy has adopted a general fund budget for 2018/2019 in which revenues exceed expenditures by \$4,439.

### **Contacting the Academy's financial management**

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, MIChoice, LLC at 5251 Clyde Park Avenue SW, Wyoming, Michigan, 49509, phone (616) 785-8440.

**BASIC FINANCIAL STATEMENTS**

**THREE OAKS PUBLIC SCHOOL ACADEMY  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

	<u>Governmental activities</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 764,771
Receivables:	
Accounts receivable	17,219
Intergovernmental receivable	979,959
Prepays	137,919
Capital assets, not being depreciated	15,000
Capital assets, net of accumulated depreciation	<u>1,131,757</u>
<b>TOTAL ASSETS</b>	<u>3,046,625</u>
 <b>LIABILITIES:</b>	
Accounts payable	128,642
Unearned revenue	33,676
Accrued salaries and related items	229,596
Accrued expenditures	18,176
Noncurrent liabilities:	
Due within one year	40,306
Due in more than one year	<u>363,524</u>
<b>TOTAL LIABILITIES</b>	<u>813,920</u>
 <b>NET POSITION:</b>	
Net investment in capital assets	742,927
Restricted for food service	46,689
Unrestricted	<u>1,443,089</u>
<b>TOTAL NET POSITION</b>	<u>\$ 2,232,705</u>

**THREE OAKS PUBLIC SCHOOL ACADEMY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2018**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net position</u>
Governmental activities:				
Instruction	\$ 1,638,059	\$ -	\$ 730,443	\$ (907,616)
Support services	1,850,472	-	165,437	(1,685,035)
Community services	3,379	-	7,300	3,921
Food services	318,463	-	267,475	(50,988)
Interest and fees	15,112	-	-	(15,112)
Depreciation (unallocated)	89,866	-	-	(89,866)
Total governmental activities	<u>\$ 3,915,351</u>	<u>\$ -</u>	<u>\$ 1,170,655</u>	<u>(2,744,696)</u>
General revenues:				
State sources - unrestricted				2,633,153
Incoming transfer from Muskegon ISD				72,703
Other				31,111
Total general revenues				<u>2,736,967</u>
<b>CHANGE IN NET POSITION</b>				(7,729)
<b>NET POSITION, beginning of year</b>				<u>2,240,434</u>
<b>NET POSITION, end of year</b>				<u>\$ 2,232,705</u>

**THREE OAKS PUBLIC SCHOOL ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018**

	<b>General fund</b>	<b>Capital projects fund</b>	<b>Total nonmajor funds</b>	<b>Total governmental funds</b>
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 764,771	\$ -	\$ -	\$ 764,771
Accounts receivable	17,219	-	-	17,219
Intergovernmental receivables	965,611	-	14,348	979,959
Due from other funds	-	556,160	47,697	603,857
Prepays	137,919	-	-	137,919
<b>TOTAL ASSETS</b>	<b>\$ 1,885,520</b>	<b>\$ 556,160</b>	<b>\$ 62,045</b>	<b>\$ 2,503,725</b>
<b>LIABILITIES:</b>				
Accounts payable	\$ 82,370	\$ 30,916	\$ 15,356	\$ 128,642
Due to other funds	603,857	-	-	603,857
Unearned revenue	33,676	-	-	33,676
Accrued salaries and related items	229,596	-	-	229,596
Accrued expenditures	18,176	-	-	18,176
<b>TOTAL LIABILITIES</b>	<b>967,675</b>	<b>30,916</b>	<b>15,356</b>	<b>1,013,947</b>
<b>FUND BALANCES:</b>				
Nonspendable:				
Prepays	137,919	-	-	137,919
Restricted:				
Food service	-	-	46,689	46,689
Assigned for capital projects	-	525,244	-	525,244
Unassigned	779,926	-	-	779,926
<b>TOTAL FUND BALANCES</b>	<b>917,845</b>	<b>525,244</b>	<b>46,689</b>	<b>1,489,778</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,885,520</b>	<b>\$ 556,160</b>	<b>\$ 62,045</b>	<b>\$ 2,503,725</b>
<b>Total governmental fund balances</b>				<b>\$ 1,489,778</b>
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds:				
The cost of the capital assets is			\$ 1,661,012	
Accumulated depreciation is			(514,255)	
				1,146,757
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Capital financing bond payable				(403,830)
<b>Net position of governmental activities</b>				<b>\$ 2,232,705</b>

See notes to financial statements.

**THREE OAKS PUBLIC SCHOOL ACADEMY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2018**

	<b>General fund</b>	<b>Capital projects fund</b>	<b>Total nonmajor funds</b>	<b>Total governmental funds</b>
<b>REVENUES:</b>				
Local sources	\$ 38,411	\$ -	\$ -	\$ 38,411
State sources	3,085,671	-	1,564	3,087,235
Federal sources	443,362	-	265,911	709,273
Incoming transfers	72,703	-	-	72,703
Total revenues	<u>3,640,147</u>	<u>-</u>	<u>267,475</u>	<u>3,907,622</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	1,200,298	-	-	1,200,298
Added needs	481,969	-	-	481,969
Total instruction	<u>1,682,267</u>	<u>-</u>	<u>-</u>	<u>1,682,267</u>
Support services:				
Pupil	367,306	-	-	367,306
Instructional staff	107,427	-	-	107,427
General administration	458,303	-	-	458,303
School administration	331,897	-	-	331,897
Operation and maintenance	286,805	-	-	286,805
Pupil transportation	264,957	-	-	264,957
Central support services	50,451	-	-	50,451
Other support services	841	-	-	841
Total support services	<u>1,867,987</u>	<u>-</u>	<u>-</u>	<u>1,867,987</u>
Community service	3,379	-	-	3,379
Food service	-	-	318,463	318,463
Capital outlay	-	87,887	-	87,887
Debt service:				
Principal	-	-	39,872	39,872
Interest	-	-	15,112	15,112
Total debt service	<u>-</u>	<u>-</u>	<u>54,984</u>	<u>54,984</u>
Total expenditures	<u>3,553,633</u>	<u>87,887</u>	<u>373,447</u>	<u>4,014,967</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>86,514</u>	<u>(87,887)</u>	<u>(105,972)</u>	<u>(107,345)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	250,000	54,984	304,984
Transfers out	(304,984)	-	-	(304,984)
Total other financing sources (uses)	<u>(304,984)</u>	<u>250,000</u>	<u>54,984</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(218,470)</u>	<u>162,113</u>	<u>(50,988)</u>	<u>(107,345)</u>
<b>FUND BALANCES:</b>				
Beginning of year	1,136,315	363,131	97,677	1,597,123
End of year	<u>\$ 917,845</u>	<u>\$ 525,244</u>	<u>\$ 46,689</u>	<u>\$ 1,489,778</u>

See notes to financial statements.



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

<b>Net change in fund balances total governmental funds</b>	<b>\$ (107,345)</b>
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p style="padding-left: 20px;">Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation:</p>	
Capital outlay	149,610
Depreciation expense	(89,866)
<p>Proceeds and repayments of principal on long-term debts are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities):</p>	
Principal repayment	39,872
<b>Change in net position of governmental activities</b>	<b>\$ (7,729)</b>

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Academy. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by intergovernmental revenues.

**B. Reporting Entity**

The Three Oaks Public School Academy (the “Academy”) is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Bay Mills Community College is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 2021. The Academy’s Board of Directors is approved by the authorizing body and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The Academy receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. In addition, the Academy’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

**C. Basis of Presentation - Government-wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**D. Basis of Presentation - Fund Financial Statements**

The fund financial statements provide information about the Academy’s funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

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

**D. Basis of Presentation - Fund Financial Statements (Concluded)**

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.

The *capital projects* fund accounts for the acquisition of fixed assets or construction of major capital projects.

The Academy reports the following nonmajor governmental funds:

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

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt.

**E. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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 expenses. 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.

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

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

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

**E. Measurement Focus and Basis of Accounting (Concluded)**

The 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 generally 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

State and Federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

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 public school academies based on information supplied by the Academies. For the current year ended, the foundation allowance was based on pupil membership counts.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property 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 to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the Academy.

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

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

**F. Budgetary Information**

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The Academy does not utilize encumbrance accounting.

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

1. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. Transfers may be made for 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.
4. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2018. The Academy does not consider these amendments to be significant.

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

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

**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

1. Cash and cash equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of 3 months or less from the date of acquisition.

2. Investments

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. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

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

3. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

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

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

**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)**

4. Capital assets

Capital assets, as summarized below, are reported in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than \$5,000 and a useful life in excess of 1 year. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

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

Land and construction in progress, if any, are not depreciated. Capital assets of the Academy are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Lives
Furniture and equipment	4 - 15
Leasehold improvements	4 - 10
Buildings	30

5. Deferred outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Academy has no items that qualify for reporting in this category.

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

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

**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)**

6. Deferred inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Academy has no items that qualify for reporting in this category.

7. Net position flow assumption

Sometimes the Academy will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

8. Fund balance flow assumptions

Sometimes the Academy will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Academy itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).



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

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

**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Concluded)**

9. Fund balance policies (Concluded)

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Academy's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the Academy that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Academy for specific purposes but do not meet the criteria to be classified as committed. Intent can be expressed by the Board of Directors or by an official or body to which the board of directors delegates authority. The Board of Directors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**H. Revenues and Expenditures/Expenses**

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. Unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

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

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

**H. Revenues and Expenditures/Expenses (Concluded)**

2. Long-term obligations (Concluded)

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

**NOTE 2 - CASH DEPOSITS - CREDIT RISK**

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2018, \$558,624 of the Academy's bank balance of \$808,624 was exposed to custodial credit risk because it was not covered by federal depository insurance and was not collateralized.

**NOTE 3 - INTERGOVERNMENTAL RECEIVABLES**

Intergovernmental receivables at June 30, 2018 consist of the following:

Governmental units:	
State aid	\$ 552,871
Federal revenue	353,602
Other	<u>73,486</u>
	<u><u>\$ 979,959</u></u>

Amounts due from governmental units include amounts due from federal, state and local sources for various projects and programs.

Because of the Academy's favorable collection experience, no allowance for doubtful accounts has been recorded.

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

**NOTE 4 - CAPITAL ASSETS**

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

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Capital assets, being depreciated:				
Furniture and equipment	530,550	61,723	-	592,273
Buildings	938,083	60,916	-	998,999
Leasehold improvements	27,769	26,971	-	54,740
	<u>1,496,402</u>	<u>149,610</u>	<u>-</u>	<u>1,646,012</u>
Accumulated depreciation:				
Furniture and equipment	371,391	53,919	-	425,310
Buildings	31,545	33,282	-	64,827
Leasehold improvements	21,453	2,665	-	24,118
	<u>424,389</u>	<u>89,866</u>	<u>-</u>	<u>514,255</u>
Net capital assets being depreciated	<u>1,072,013</u>	<u>59,744</u>	<u>-</u>	<u>1,131,757</u>
Net governmental capital assets	<u>\$ 1,087,013</u>	<u>\$ 59,744</u>	<u>\$ -</u>	<u>\$ 1,146,757</u>

Depreciation for the fiscal year ended June 30, 2018 amounted to \$89,866. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

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

**NOTE 5 - LONG-TERM DEBT**

The following is a summary of long-term debt activity for the Academy for the year ended June 30, 2018.

	Capital financing bond
Balance, July 1, 2017	\$ 443,702
Repayments	(39,872)
Balance, June 30, 2018	403,830
Less due within one year	40,306
Due in more than one year	\$ 363,524

Long-term debt at June 30, 2018 consists of the following:

2016 Capital financing bond payable with monthly installments of \$4,999 with interest at 3.54% through February 2021. The bond is secured by the related property.	\$ 403,830
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Interest expense on all outstanding debt for the fiscal year ended June 30, 2018 was \$15,112.

The annual requirements to amortize long-term debt outstanding as of June 30, 2018, including interest of \$33,150 are as follows:

Year ending June 30,	Principal	Interest	Total
2019	\$ 41,206	\$ 13,678	\$ 54,884
2020	42,892	12,192	55,084
2021	319,732	7,280	327,012
	\$ 403,830	\$ 33,150	\$ 436,980

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

**NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivable and payable balances at June 30, 2018 are as follows:

Receivable fund		Payable fund	
Special revenue fund	\$ 47,697	General fund	\$ 603,857
Capital projects fund	556,160		
Total	\$ 603,857	Total	\$ 603,857

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

**NOTE 7 - TRANSFERS**

Transfers between the governmental funds were as follows:

Transfers out		Transfers in	
General fund	\$ 304,984	Debt service fund	\$ 54,984
		Capital projects fund	250,000
	\$ 304,984		\$ 304,984

Transfers were made to the debt service fund to pay for principal and interest payments on capital financing bonds and to the capital projects fund to pay for capital expenditures.

**NOTE 8 - OVERSIGHT FEES**

The Academy pays an administrative oversight fee of 3% of its state school aid to the Bay Mills Community College, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2018 the Academy incurred expense of approximately \$90,300 for oversight fees.

**NOTE 9 - MANAGEMENT AGREEMENT**

The Academy had entered into an eight year (through June 2021) management agreement with MIChoice, LLC (MIChoice) for operations of the Academy. MIChoice was launched under the guidance of Choice Schools Associates and shares multiple resources with Choice Schools Associates. Under the terms of the management agreement, MIChoice's compensation for operating the Academy was approximately \$352,600 for the fiscal 2018.

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

**NOTE 10 - PURCHASED SERVICES**

The Academy leases all employee services from MIChoice. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of MIChoice. The amount due to MIChoice at June 30, 2018 was approximately \$43,500.

**NOTE 11 - RISK MANAGEMENT**

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

**NOTE 12 - SUBSEQUENT EVENTS**

The Academy borrowed \$500,000 under a state aid anticipation note in August 2018 at 3.44% to be repaid monthly from September 2018 through August 2019.

**NOTE 13 - UPCOMING ACCOUNTING PRONOUNCEMENTS**

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for the Academy's 2020 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Academies with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the Academy's 2021 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

**REQUIRED SUPPLEMENTARY INFORMATION**

**THREE OAKS PUBLIC SCHOOL ACADEMY  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2018**

	Original budget	Final budget	Actual	Variance with final budget
<b>REVENUES:</b>				
Local sources	\$ 49,744	\$ 37,211	\$ 38,411	\$ 1,200
State sources	3,393,496	3,097,879	3,085,671	(12,208)
Federal sources	451,972	440,517	443,362	2,845
Incoming transfers	27,500	52,500	72,703	20,203
Total revenues	<u>3,922,712</u>	<u>3,628,107</u>	<u>3,640,147</u>	<u>12,040</u>
<b>EXPENDITURES:</b>				
Instruction:				
Basic programs	1,400,984	1,211,271	1,200,298	10,973
Added needs	505,779	483,326	481,969	1,357
Total instruction	<u>1,906,763</u>	<u>1,694,597</u>	<u>1,682,267</u>	<u>12,330</u>
Support services:				
Pupil	346,720	356,195	367,306	(11,111)
Instructional staff	122,528	114,825	107,427	7,398
General administration	501,386	460,151	458,303	1,848
School administration	344,898	333,868	331,897	1,971
Operation and maintenance	303,648	302,775	286,805	15,970
Pupil transportation	271,230	272,519	264,957	7,562
Central support services	60,775	44,604	50,451	(5,847)
Other support services	1,650	850	841	9
Total support services	<u>1,952,835</u>	<u>1,885,787</u>	<u>1,867,987</u>	<u>17,800</u>
Community service activities	<u>-</u>	<u>3,382</u>	<u>3,379</u>	<u>3</u>
Total expenditures	<u>3,859,598</u>	<u>3,583,766</u>	<u>3,553,633</u>	<u>30,133</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	63,114	44,341	86,514	42,173
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (out)	<u>(54,984)</u>	<u>(304,984)</u>	<u>(304,984)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 8,130</u>	<u>\$ (260,643)</u>	<u>(218,470)</u>	<u>\$ 42,173</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>1,136,315</u>	
End of year			<u>\$ 917,845</u>	



**ADDITIONAL SUPPLEMENTARY INFORMATION**

**THREE OAKS PUBLIC SCHOOL ACADEMY  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
YEAR ENDED JUNE 30, 2018**

	<b>Special revenue (food service)</b>	<b>Total nonmajor funds</b>
<b>ASSETS:</b>		
Intergovernmental receivables	\$ 14,348	\$ 14,348
Due from other funds	47,697	47,697
<b>TOTAL ASSETS</b>	\$ 62,045	\$ 62,045
<b>LIABILITIES:</b>		
Accounts payable	\$ 15,356	\$ 15,356
<b>FUND BALANCES:</b>		
Restricted:		
Food service	46,689	46,689
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	\$ 62,045	\$ 62,045

**THREE OAKS PUBLIC SCHOOL ACADEMY  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
YEAR ENDED JUNE 30, 2018**

	<u>Debt service fund</u>	<u>Special revenues (food service)</u>	<u>Total nonmajor funds</u>
<b>REVENUES:</b>			
State sources	\$ -	\$ 1,564	\$ 1,564
Federal sources	-	265,911	265,911
Total revenues	<u>-</u>	<u>267,475</u>	<u>267,475</u>
<b>EXPENDITURES:</b>			
Current:			
Food service	-	318,463	318,463
Debt service:			
Principal retirement	39,872	-	39,872
Interest and fiscal charges	15,112	-	15,112
Total expenditures	<u>54,984</u>	<u>318,463</u>	<u>373,447</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(54,984)	(50,988)	(105,972)
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	54,984	-	54,984
<b>NET CHANGE IN FUND BALANCES</b>	-	(50,988)	(50,988)
<b>FUND BALANCES:</b>			
Beginning of year	-	97,677	97,677
End of year	<u>\$ -</u>	<u>\$ 46,689</u>	<u>\$ 46,689</u>

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

To the Board of Directors  
Three Oaks Public School Academy

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Three Oaks Public School Academy as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Three Oaks Public School Academy’s basic financial statements and have issued our report thereon dated September 25, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Three Oaks Public School Academy’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Three Oaks Public School Academy’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Three Oaks Public School Academy’s internal control.

*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 a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Three Oaks Public School Academy's financial statements are free from 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Manes Costeiran PC*

September 25, 2018

September 25, 2018

To the Board of Directors  
Three Oaks Public School Academy

We have audited the financial statements of Three Oaks Public School Academy for the year ended June 30, 2018, and have issued our report thereon dated September 25, 2018. 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 Government Auditing Standards

As stated in our engagement letter, 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 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.

As part of our audit, we considered the internal control of Three Oaks Public School Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Three Oaks Public School Academy's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to the President of the Board of Directors.

## Significant Audit Findings

### *1. 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 Three Oaks Public School Academy are described in Note 1 to the financial statements. 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. The most sensitive estimates affecting the financial statements were:

Management's determination of the estimated life span of the capital assets:

We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

We did not identify any sensitive disclosures.

### *2. Difficulties Encountered in Performing the Audit*

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

### *3. 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. Management has corrected all such misstatements. 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.

4. *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.

5. *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 25, 2018.

6. *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 Three Oaks Public School 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.

7. *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 Three Oaks Public School Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. *Other Matters*

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.



We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

A separate management letter was not issued.

This information is intended solely for the use of the Board of Directors and management of Three Oaks Public School Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Maney Costeiron PC*