

**Three Lakes Academy**

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**Financial Report  
with Supplementary Information**

**June 30, 2013**

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**Independent Auditor's Report**

Members of the Board of Education  
Three Lakes Academy  
Curtis, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Three Lakes Academy, as of and for the year ended June 30, 2013, 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.

Board of Education  
Three Lakes Academy

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 Lakes Academy, as of June 30, 2013, and the respective changes in financial position 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 budgetary comparison information on pages 3 through 8 and pages 27 through 28 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2013 on our consideration of the Three Lakes Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Three Lakes Academy's internal control over financial reporting and compliance.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**  
**Kincheloe, Michigan**

September 26, 2013

## **Management's Discussion and Analysis**

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Three Lakes Academy is a K-7 Academy located in Mackinac County, Michigan. This Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Three Lakes Academy management's discussion and analysis of the financial results for the year ended June 30, 2013.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

U.S. generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Government-wide Financial Statements and Fund Financial Statements.

#### **Fund Financial Statements:**

For the most part, the fund financial statements are comparable to general purpose financial statements. The primary difference is that the Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported. The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the Academy's major instruction and instructional support activities are reported in the General Fund. Additional governmental activities are reported in their relevant Special Revenue Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

#### **Government-wide Financial Statements:**

The Government-wide financial statements are maintained using the "full accrual" basis. They report all of the Academy's assets and liabilities, both short and long term, regardless if they are "currently available" or not. Capital assets and long-term obligations of the Academy are reported in the Statement of Net Position of the Government-wide financial statements.

**FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE****Summary of Net Position:**

The following summarizes the net position for the years ended June 30, 2012 and 2013:

**Net Position Summary**

	<u>2012</u>	<u>2013</u>
Assets		
Current assets	\$ 240,329	\$ 230,384
Capital assets	189,346	169,112
Total assets	<u>\$ 429,675</u>	<u>\$ 399,496</u>
Liabilities		
Current liabilities	\$ 65,145	\$ 77,428
Noncurrent liabilities	3,954	17,366
Total liabilities	<u>\$ 69,099</u>	<u>\$ 94,794</u>
Net position		
Net investment in capital assets	\$ 189,346	\$ 169,112
Unrestricted	171,230	135,590
Total net position	<u>\$ 360,576</u>	<u>\$ 304,702</u>

**FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS**

During the year ended June 30, 2013, the Academy's net position decreased by \$55,874. This was the fourth year of operation for the Academy.

**A. Results of Operations:**

For the years ended June 30, 2012 and 2013, the Academy wide results of operations were:

	<b>2012</b>		<b>2013</b>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
<b>General revenue:</b>				
State of Michigan aid - unrestricted	\$ 656,197	75.05%	\$ 640,362	76.58%
Interest income	374	0.04%	292	0.03%
Total general revenue	<u>656,571</u>	<u>75.09%</u>	<u>640,654</u>	<u>76.61%</u>
<b>Program revenue:</b>				
Charges for services	39,966	4.57%	27,452	3.28%
Operating and capital grants	<u>177,825</u>	<u>20.34%</u>	<u>168,118</u>	<u>20.11%</u>
Total program revenue	<u>217,791</u>	<u>24.91%</u>	<u>195,570</u>	<u>23.39%</u>
Total revenue	<u>874,362</u>	<u>100.00%</u>	<u>836,224</u>	<u>100.00%</u>
<b>Expenses:</b>				
Instruction and instructional services	497,290	56.57%	501,667	56.23%
Support services	302,287	34.38%	306,756	34.39%
Food services	50,436	5.74%	52,508	5.89%
Depreciation - unallocated	<u>29,094</u>	<u>3.31%</u>	<u>31,167</u>	<u>3.49%</u>
Total expenses	<u>879,107</u>	<u>100.00%</u>	<u>892,098</u>	<u>100.00%</u>
Increase (decrease) in net position	(4,745)		(55,874)	
Net Position - Beginning	<u>365,321</u>		<u>360,576</u>	
Net Position - Ending	<u>\$ 360,576</u>		<u>\$ 304,702</u>	

**B. State of Michigan Aid, Unrestricted**

The State of Michigan aid, unrestricted is determined by the following variables:

- Per Student, Foundation Allowance: Annually, the State of Michigan sets the per student foundation allowance. The Three Lakes Academy foundation allowance was \$6,966 per student for the 2012 - 2013 Academy year.
- Student Enrollment: The Academy's student enrollment for the count of 2012 - 2013 was 93 students. For the fiscal year, a membership blend of 90% of current year fall student count (September 2012) and 10% of the previous year winter student count (February 2012) is multiplied by the Academy's foundation allowance.

Subsequent to year end June 30, 2013, preliminary student enrollments for 2013 - 2014 indicate that the 2013 fall student enrollment will increase by 10 students from 2012 - 2013 levels.



**C. General Fund Budgetary Highlights**

**General Fund Operations**

The Academy's revenues and other sources from General Fund operations were less than expenditures and other uses by \$22,111 for the year ended June 30, 2013. The board and administration has made an effort to contain costs during the fiscal year.

**Final Budget vs. Actual**

<u>Fiscal Year</u>	<u>Final Budget</u>	<u>Final Actual</u>
Revenues		
2011-2012	\$ 820,430	\$ 820,430
2012-2013	\$ 787,761	\$ 786,833
2013-2014 (projected)	\$ 826,434	\$ -
Expenditures		
2011-2012	\$ 822,855	\$ 810,970
2012-2013	\$ 819,370	\$ 805,944
2013-2014 (projected)	\$ 779,754	\$ -

**Original vs. Final Budget**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Three Lakes Academy amends its budget periodically as needed during the Academy year. For the fiscal year 2012 - 2013, the budget was amended several times due to funding and additional grant changes. The June budget amendment was the final budget for the fiscal year. The Three Lakes Academy Board does not budget for expenditures covered by grants or for the grant revenue until an award is received.

**Change from Original to Final General Fund Budget**

**Revenues:**

Total Revenues Original Budget	\$ 760,573
Total Revenues Final Budget	<u>787,761</u>
Increase in Budgeted Revenues	<u>\$ 27,188</u>

The Academy's final general fund revenues were less than the final budget by \$928.

**C. General Fund Budgetary Highlights (Continued)**

The following are the significant changes in revenues from the original budget:

- Original budget had estimated an enrollment of 90 students and fall 2012 actual enrollment was 93.
- Original budget had estimated the foundation allowance at \$7,000.

**Expenditures:**

The Academy's general fund budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 753,602
Total Expenditures Final Budget	<u>816,370</u>
Increase in Budgeted Expenditures	<u>\$ 62,768</u>

The change was due to bonuses paid out of the use of fund balance.

The Academy's actual expenditures were less than final budget by \$10,426. This variance was primarily a result of unspent state grant allocations awarded to the Academy. Those allocations are available through September 30 and it is anticipated that these unspent allocations at June 30 will be used before the end of the grant period.

The following are the significant changes in expenditures from the original budget:

- Adjustment in instructional staffing to recognize the increase in student enrollment.
- Adjustment in staffing and other costs to recognize the programmatic additions.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**A. Capital Assets**

The Academy's net investment in capital assets decreased by \$20,234 during the fiscal year. This is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Depreciable capital assets	\$ 235,371	\$ 13,850	\$ (7,000)	\$ 242,221
Accumulated depreciation	<u>(46,025)</u>	<u>(31,167)</u>	<u>4,083</u>	<u>(73,109)</u>
Net investment in capital assets	<u>\$ 189,346</u>	<u>\$ (17,317)</u>	<u>\$ (2,917)</u>	<u>\$ 169,112</u>

**B. Depreciation Expense**

GASB 34 requires Public School Academies to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net position in the entity wide financial statements. Depreciation is not recognized in the fund financial statements and has been noted as a reconciling item in the Academy's financial statements.

For the year ended June 30, 2013, the net increase in accumulated depreciation was \$27,084.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset, less an estimated salvage value.

**C. Debt, Principal Payments**

The Academy has a current liability of \$10,501 for the remaining short-term state aid anticipation note.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Preliminary Budget for the 2013-2014 Fiscal Year was adopted by the Board of Education in June 2013. Few definite factors were known as the budget was being drafted, and others were unknown and needed to be projected with management's best estimates based on perceived interest from the community. Some key factors and estimates used in the 2013-2014 budget preparation process include:

- The State Aid foundation had been estimated to be \$6,966 per pupil;
- Enrollment projections of 103 students were utilized, however more students are anticipated.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to Public School Academies. The State periodically holds revenue conferences to estimate what the State's available resources will be throughout the remainder of its fiscal year. Based on the results of the most recent conference, the State has estimated that funds will be sufficient to fund current appropriations.

**CONTACTING THE ACADEMY'S MANAGEMENT**

This financial report is designed to provide our citizens and taxpayers with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Administration Office, Three Lakes Academy, West 17540 Main Street, Curtis, Michigan.

# **Basic Financial Statements**

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# Three Lakes Academy

## Statement of Net Position June 30, 2013

	Governmental Activities
<b>Assets:</b>	
Cash and equivalents	\$ 70,960
Accounts receivable	2,450
Due from other governmental units	139,676
Prepaid items	15,310
Inventories	544
Due from others	1,444
Capital assets depreciated	169,112
Total assets	<u>\$ 399,496</u>
<b>Liabilities:</b>	
Accounts payable	\$ 3,473
Accrued salaries and fringes	63,454
Short-term notes payable	10,501
Accrued sick leave payable - due in more than one year	1,800
Accrued retirement benefits payable - due in more than one year	15,566
Total liabilities	<u>94,794</u>
<b>Net Position:</b>	
Net investment in capital assets	169,112
Unrestricted	135,590
Total net position	<u>\$ 304,702</u>

**Statement of Activities**  
**Year Ended June 30, 2013**

		Program Revenue		Governmental Activities
Expenses	Charges for Services	Operating Grants & Contributions	Net (Expense) Revenue and Changes in Net Position	
<b>Functions/Programs</b>				
Governmental Activities:				
Due from others	\$ 501,667	\$ 14,420	\$ 131,809	\$ (355,438)
Support services	306,756	-	-	(306,756)
Food services	52,508	13,032	36,309	(3,167)
Depreciation - unallocated	31,167	-	-	(31,167)
	<u>\$ 892,098</u>	<u>\$ 27,452</u>	<u>\$ 168,118</u>	(696,528)
General Revenues:				
State of Michigan aid, unrestricted				640,362
Interest income				292
				640,654
<b>Changes in Net Position</b>				(55,874)
Net position:				
Beginning of year				360,576
				End of year
				\$ 304,702

# Three Lakes Academy

## Balance Sheet Governmental funds June 30, 2013

	General	Food Service	Total Governmental Funds
<b>Assets</b>			
Cash and equivalents	\$ 54,965	\$ 15,995	\$ 70,960
Accounts receivable	2,000	450	2,450
Due from other governmental units	139,676	-	139,676
Due from others	15,310	-	15,310
Inventory	-	544	544
Due from others	1,444	-	1,444
Due from other funds	4,605	-	4,605
	<u>\$ 218,000</u>	<u>\$ 16,989</u>	<u>\$ 234,989</u>
Total assets	<u>\$ 218,000</u>	<u>\$ 16,989</u>	<u>\$ 234,989</u>
<b>Liabilities</b>			
Accounts payable	\$ 3,328	\$ 145	\$ 3,473
Accrued salaries and fringes	63,454	-	63,454
Due to other funds	-	4,605	4,605
Short term notes payable	10,501	-	10,501
	<u>77,283</u>	<u>4,750</u>	<u>82,033</u>
Total liabilities	<u>77,283</u>	<u>4,750</u>	<u>82,033</u>
<b>Fund Balances</b>			
Nonspendable	15,310	544	15,854
Committed	44,566	-	44,566
Assigned	-	11,695	11,695
Unassigned	80,841	-	80,841
	<u>140,717</u>	<u>12,239</u>	<u>152,956</u>
Total fund balances	<u>140,717</u>	<u>12,239</u>	<u>152,956</u>
Total liabilities and fund balances	<u>\$ 218,000</u>	<u>\$ 16,989</u>	

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 less accumulated depreciation is	169,112
Accrued sick leave payable	(1,800)
Accrued retirement benefits payable	(15,566)
Net position of governmental activities	<u>\$ 304,702</u>

# Three Lakes Academy

## Statement of Revenue, Expenditures, and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2013

	General	Food Service	Totals
<b>Revenues</b>			
Local Sources	\$ 9,968	\$ 13,032	\$ 23,000
State Sources	706,631	956	707,587
Federal Sources	69,992	35,353	105,345
Interest Income	242	50	292
Total Revenues	786,833	49,391	836,224
<b>Expenditures</b>			
Instructional Services:			
Elementary	441,399	-	441,399
Special Education	60,268	-	60,268
Support Services:			
Pupil Services	6,766	-	6,766
General Administration	12,237	-	12,237
Executive Administration	36,931	-	36,931
Academy Administration	24,183	-	24,183
Business	62,659	-	62,659
Operations & Maintenance	74,069	-	74,069
Pupil Transportation	87,432	-	87,432
Food Services:	-	52,508	52,508
Total Expenditures	805,944	52,508	858,452
<b>Excess of Revenues (Expenditures)</b>	(19,111)	(3,117)	(22,228)
<b>Other Financing Sources (Uses)</b>			
Operating Transfers In	-	3,000	3,000
Operating Transfers Out	(3,000)	-	(3,000)
<b>Excess of Revenues (Expenditures) Over (Under) Other Financing Sources (Uses)</b>	(22,111)	(117)	(22,228)
<b>Fund Balances - Beginning of year</b>	162,828	12,356	175,184
<b>Fund Balances - End of year</b>	\$ 140,717	\$ 12,239	\$ 152,956



# Three Lakes Academy

## Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2013

**Changes in Fund Balances – Total Governmental Funds** \$ (22,228)

The change in net position reported for governmental activities in the Statement of activities is different because:

Governmental funds reported capital outlays as expenditures; however, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	\$ 13,850	
Loss on disposal	(2,917)	
Current depreciation expense	<u>(31,167)</u>	(20,234)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Accrued sick leave payable	(900)
Accrued retirement benefits payable	<u>(12,512)</u>

**Changes in net position of governmental activities** \$ (55,874)

**Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2013**

	<u>Agency</u>
<b>Assets:</b>	
Cash and Equivalents	\$ 7,170
Total Assets	<u>\$ 7,170</u>
<b>Liabilities:</b>	
Due to Organizations	\$ 5,726
Due to Others	<u>1,444</u>
Total Liabilities	<u>\$ 7,170</u>

## **Notes to Financial Statements**

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**Note 1 - Summary of Significant Accounting Policies**

Charter Academy – The Public School Academy was organized Pursuant to Public Act 362 of 1993. This Law allows for the Academy to be eligible for State Aid and must comply with Michigan Academy Code provisions. The Academy operates under a grant agreement expiring June 30, 2017 with the Board of Regents – Bay Mills Community College. The Academy was created to provide a student orientated learning experience. The Academy Board may terminate the operating contract by notification. The College Board of Regents may terminate the operating contract for various failures to comply with laws and regulations, insolvency, bankruptcy, insufficient enrollment, fraud, and other provisions.

The accounting policies of Three Lakes Academy conform to U.S. generally accepted accounting principles as applicable to Academy's. The following is a summary of the significant accounting policies:

**Reporting Entity**

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. Based on application of the criteria, the entity does not contain component units.

**Basic Financial Statements – Government-wide Statements**

The Academy's basic financial statements include both Government-wide (reporting the Academy as a whole) and fund financial statements (reporting the Academy's major funds). The Government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

In the Government-wide Statement of Net Position, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net position is reported in three parts – net investment in capital assets, restricted net position, and unrestricted net position.

The Government-wide Statement of Activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (grants, certain intergovernmental revenues, and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating grants and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

The net costs (by function) are normally covered by general revenue (state sources and federal sources, interest income, etc.)

The Academy does not allocate indirect costs. In creating the Government-wide financial statements, the Academy has eliminated interfund transactions.

The Government-wide focus is on the sustainability of the Academy as an entity and the change in the Academy's net position resulting from the current year's activities.

**Basic Financial Statements – Fund Financial Statements**

The accounts of the Academy are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad fund categories as follows.

**Governmental Funds** – Governmental Funds are those funds through which most Academy functions typically are financed. The acquisition, use, and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund – The General Fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved operating budget. The Academy reports its general fund as a major fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Food Service is the only special revenue fund. Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The Academy reports the food service fund as a major fund.

**Agency Funds** – These Funds account for monies held on behalf of student organizations or Academy affiliated groups that use the Academy as a custodian of funds.

**Measurement Focus and Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus and the governmental-wide statement uses the economic resources measurement focus.

**Note 1 - Summary of Significant Accounting Policies (Continued)****Accrual**

Governmental activities and Fiduciary Funds in the Government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., 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 revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that the principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The Academy reports unearned revenue on its governmental fund balance sheet. Unearned revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenues also arise when resources are received by the Academy before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

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 and accounting principles generally accepted in the United States of America.

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 categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received. The Academy utilizes restricted funding and then unrestricted resources.

**Note 1 - Summary of Significant Accounting Policies (Continued)****Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance**

Cash and Investments – Investments are recorded at fair value, based on quoted market prices, or estimated fair value. The Academy considers all highly liquid investments maturing in 90 days or less as cash equivalents. Deposits are recorded at cost.

Inventories – Inventories, if present, are stated at cost, on a first-in, first-out basis, which approximates market value. Inventory recorded in the General Fund consists of centrally warehoused teaching and operating supplies for the Academy. The Food Services Fund inventory consists of food and paper goods. For all funds, expenditures are recorded at the time of use.

Prepaid Items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined as assets with an initial cost of \$500 or more and an estimated useful life in excess of two years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. It is the policy to take no depreciation of an asset in its first year of use and a full year of depreciation in its last year of use.

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

Site Improvements	5 – 20 years
Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and equipment	5 – 20 years

Accrued Sick Leave and Retirement Benefits – The liability for accrued sick leave and retirement benefits reported in the Government-wide statements consist of unpaid, accumulated annual and vacation balances as well as retirement payouts. The liability has been calculated using the vesting method, in which leave amounts for the Administrator is expected to become eligible in the future to receive such payments upon termination are included.

Deferred Outflows of Resources – 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 government has no items that qualify for reporting in this category.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

Deferred Inflows of Resources – In addition to liabilities, the statement of net position and governmental funds balance sheet 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 government has no items that qualify for reporting in this category.

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 position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance cost, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Balance Classification – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Academy is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Board has classified Inventories and Prepaid Items as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Board has committed funds for transportation needs (\$6,166), technology (\$21,000), and retirement benefits (\$17,400), totaling \$44,566.
- Assigned: This classification includes amounts that are constrained by the Board's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.



**Note 1 - Summary of Significant Accounting Policies (Continued)**

- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Board would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2 - Budgets**

The Academy formally adopted General Fund and Special Revenue Fund budgets by function for the year ended June 30, 2013. Expenditures at this level in excess of amounts budgeted is a violation of Michigan law. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with U.S. generally accepted accounting principles.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General and Food Service Funds are presented as Required Supplementary Information.

**Note 3 - Cash and Equivalents**

**Deposits**

The Academy’s funds are deposited in a single financial institution. Deposits are carried at cost.

	<u>Governmental</u>	<u>Fiduciary</u>
Per Financial Statements:		
Petty Cash	\$ 42	\$ -
Deposits	<u>70,918</u>	<u>7,170</u>
	<u>\$ 70,960</u>	<u>\$ 7,170</u>

**Note 3 - Deposits and Investments (Continued)****Investment and Deposit Risk**

*Interest rate risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Academy's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* The Academy's investment policy does not have specific limits in excess of state law on investment credit risk. The Academy has no investments for which ratings are required.

*Custodial credit risk.* Custodial credit risk, is the risk that in the event of a bank failure, the Academy's deposits may not be returned. State law does not require and the Academy does not have a policy for deposit custodial credit risk. As of year end, \$0 of the Academy's bank balance of \$109,319 was exposed to credit risk because it was uninsured and uncollateralized.

Public Act 152, entitled "An act relative to the investment of funds of public corporations of the state; and to validate certain investments," by amending section 1 (MCL 129.91), as amended by 2009 PA 21.

Except as provided in section 5, the governing body by resolution may authorize its investment officer to invest the funds of that public corporation in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.

**Note 3 - Deposits and Investments (Continued)**

- g. Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
  - (i) The purchase of securities on a when-issued or delayed delivery basis.
  - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
  - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Academy's deposits are in accordance with state statutes.

**Note 4 - Capital Assets**

A summary of changes in governmental capital assets follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Assets (Depreciated)				
Furniture and Equipment	\$ 235,371	\$ 13,850	\$ (7,000)	\$ 242,221
Total Assets (Depreciated)	<u>235,371</u>	<u>13,850</u>	<u>(7,000)</u>	<u>242,221</u>
Accumulated Depreciation				
Furniture and Equipment	(46,025)	(31,167)	4,083	(73,109)
Total Accumulated Depreciation	<u>(46,025)</u>	<u>(31,167)</u>	<u>4,083</u>	<u>(73,109)</u>
Net Capital Assets Depreciated	<u>189,346</u>	<u>(17,317)</u>	<u>(2,917)</u>	<u>169,112</u>
Total Net Capital Assets	<u>\$ 189,346</u>	<u>\$ (17,317)</u>	<u>\$ (2,917)</u>	<u>\$ 169,112</u>

Depreciation for the year ended June 30, 2013 amounted to \$31,167. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**Note 5 - Interfund Receivable and Payable, and Transfers**

The Academy reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds and fiduciary funds. Interfund transactions resulting in interfund receivable and payable are as follows:

DUE FROM OTHER FUNDS	General Fund	DUE TO OTHER FUNDS	Food Service
			\$ 4,605

All balances resulted 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.

TRANSFERS OUT	General Fund	TRANSFER IN	Food Service
			\$ 3,000

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Note 6 -Risk Management**

The Academy is exposed to risks of loss related to property loss, torts, errors, and omissions, employee injuries (worker’s compensation), as well as benefits provided to employees. The Academy has purchased commercial insurance for claims relating to worker’s compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage.

**Note 7 - Commitments and Contingencies**Consortium

The Academy has executed a consortium agreement with the EUPISD for various business and maintenance services.

Grants

The Academy has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Academy. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Academy at June 30, 2013.

Service Contract Commitment

Three Lakes Academy has contracted with C and C's Pine Grove Service, Inc., to perform duties related to business functions, with a focus on state and federal funding, state, federal and charter reporting, payroll, accounts payable, and accounts receivable. The contract term is from September 1, 2012 to June 30, 2014. C and C's Pine Grove Service shall receive from Three Lakes Academy for the services rendered under the contract an amount of \$21,048 for the 2013-2014 school year. Additional time, services, and compensation may be mutually agreed upon by both parties at any time through the duration of the contract.

**Note 8 - Due From Other Governmental Units**

Amounts due from other governmental units consist of \$139,676 in revenues due from state and federal sources. These revenues represent amounts used for the operation of special programs and grant projects, as well as for the final payment of 2013 state aid, which was not received until after year end due to the state aid payment schedule.

**Note 9 - Operating Lease**

The Academy executed an operating lease with the Township of Portage, Michigan for buildings, parking areas and grounds located in Curtis, Michigan. The lease agreement is from July 1, 2010 to June 30, 2020 at the rate of \$12,000 per year. Rent paid during fiscal year 2013 was \$12,000 in accordance with the terms of the lease.

**Note 10 - Academy Funding**

The Three Lakes Academy received approximately \$6,966 per student for basic State aid foundation for the 2012-2013 Academy year for the 93 enrolled students.

**Note 11 - Debt Obligations**

The following is a listing of debt obligations at June 30, 2013:

During July 2012, the Academy executed a Short-Term State Aid Anticipation Note in the amount of \$125,000 for cash flow purposes. The note requires interest to be paid at 1.75% and is due in July 2013. The amount unpaid at year end was \$10,501.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Note Payable	\$ 10,516	\$ 125,000	\$ 125,015	\$ 10,501

**Note 12 - Pension**

**Plan Description** – The Academy participates in the Michigan Public School Employees’ Retirement System (MPERS), a statewide, cost-sharing, multiple-employer, defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the Academy. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees’ Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at P.O. Box 30171, Lansing, MI 48909.

**Funding Policy** – Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each School is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

There are seven different plans available with employer contribution rates ranging from 25.52% to 29.35%. Basic Plan members make a 3% health care contribution, but Member Investment Plan members contribute at rates ranging from 3 percent to 9.4 percent of gross wages. The Academy’s contributions to the MPERS plan for the years ended June 30, 2012 and 2013, were \$99,673 and \$113,487, respectively and were equal to the required contribution for each year. This pension plan member is also subject to a 2% defined contribution through a third party plan administrator.

**Post Employment Benefits** – Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverage’s contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent for credited service over 20 years and 20% over 22 years of the monthly premium amount for the health, dental and vision coverage’s. Required contributions for post employment health care benefits are included as part of the School’s total contribution to the MPERS plan discussed above.

**Note 13 - Compensated Absences and Retirement Benefits**

The Board provides the Administrator with nine (9) personal days during the contract period. Personal days may accumulate year-to-year. Upon resigning or retiring from Academy, the Administrator shall be paid \$100 for each unused personal day. The accrued sick leave liability amounted to \$1,800 as of June 30, 2013.

Upon receiving a satisfactory evaluation or the period ending June 30, 2013, the Administrator shall receive a stipend of \$12,512 to be awarded upon resigning or retiring from Academy. At no time will the accumulated monetary amount due to the Administrator upon termination exceed an annual payout of \$10,000. The accrued retirement benefit liability amount to \$15,566 as of June 30, 2013.

**Note 14 - Priority School**

The Academy has been classified as a Michigan "Priority School" based on criteria established by the Michigan Department of Education designation because there existed a significant achievement gap between its top 30 percent of students and its bottom 30 percent, based on average scale score. The Academy is required to develop and submit a reform/redesign plan to improve student achievement. The Academy also must set aside Title I funds to support implementation of the plan. Additionally, the reform plan must be submitted by November 29, 2013. If the school does not meet the conditions of the redesign plan, the Academy can be placed in the School Reform/Redesign District.

**Note 15 - Change in Presentation**

During 2013, the Academy implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. There were no significant changes to the financial statements as a result of adopting these Statements. The Academy also adopted provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Effects on the financial statements as a result of adopting this standard are limited to financial presentation.

**Note 16 - Subsequent Events**

The Board enacted a resolution authorizing the issuance of notes in anticipation of state school aid through the Michigan Finance Authority for the fiscal 2013/2014 school year. The amount of the borrowing cannot exceed \$125,000, with an interest rate of 1.11%.

## **Required Supplementary Information**

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# Three Lakes Academy

## Required Supplementary Information Budgetary Comparison Schedule – General Fund Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		Over (Under)
<b>Revenues:</b>				
Local Sources	\$ 6,500	\$ 10,000	\$ 9,968	\$ (32)
State Sources	678,690	703,003	706,631	3,628
Federal Sources	74,983	74,527	69,992	(4,535)
Interest Income	400	231	242	11
Total Revenues	760,573	787,761	786,833	(928)
<b>Expenditures:</b>				
Instructional Services:				
Elementary	400,310	442,952	441,399	1,553
Special Education	54,512	60,802	60,268	534
Support Services:				
Pupil Services	6,684	7,810	6,766	1,044
General Administration	15,470	13,340	12,237	1,103
Executive Administration	33,349	38,017	36,931	1,086
Academy Administration	30,885	25,653	24,183	1,470
Business	58,470	62,416	62,659	(243)
Operations & Maintenance	84,637	75,972	74,069	1,903
Pupil Transportation	69,285	89,408	87,432	1,976
Total Expenditures	753,602	816,370	805,944	10,426
<b>Excess of Revenues (Expenditures)</b>	6,971	(28,609)	(19,111)	9,498
<b>Other Financing Uses:</b>				
Operating Transfer Out	(3,000)	(3,000)	(3,000)	-
<b>Excess of Revenues (Expenditures) Over(Under) Other Financing Uses</b>	\$ 3,971	\$ (31,609)	\$ (22,111)	\$ 9,498
<b>Fund Balance – Beginning of year</b>			162,828	
<b>Fund Balance – End of year</b>			\$ 140,717	

# Three Lakes Academy

## Required Supplementary Information Budgetary Comparison Schedule – Food Service Fund Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Over (Under)
<b>Revenues:</b>				
Local Sources	\$ 11,200	\$ 12,586	\$ 13,032	\$ 446
State Sources	-	780	956	176
Federal Sources	37,500	35,355	35,353	(2)
Interest Income	60	50	50	-
Total Revenues	48,760	48,771	49,391	620
<b>Expenditures:</b>				
Food Services	51,295	52,954	52,508	446
Total Expenditures	51,295	52,954	52,508	446
<b>Excess of Revenues (Expenditures)</b>	(2,535)	(4,183)	(3,117)	1,066
<b>Other Financing Uses:</b>				
Operating Transfer In	3,000	3,000	3,000	-
<b>Excess of Revenues (Expenditures) Over(Under) Other Financing Uses</b>	\$ 465	\$ (1,183)	\$ 117	\$ 1,066
<b>Fund Balance – Beginning of year</b>			12,356	
<b>Fund Balance – End of year</b>			\$ 12,239	

# **Report on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
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**MEMBER AICPA  
DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN  
MICHIGAN & WISCONSIN**

**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***

Members of the Board of Education  
Three Lakes Academy  
Curtis, Michigan

We have audited, in accordance with the 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 as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Three Lakes Academy's basic financial statements and have issued our report thereon dated September 26, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Three Lakes 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 Three Lakes Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Three Lakes 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies, listed as 13-1 and 13-2.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Three Lakes 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*.

### **Three Lakes Academy's Response to Findings**

The Three Lakes Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Three Lakes Academy's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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 result 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.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**  
**Kincheloe, Michigan**

September 26, 2013

**Internal Control Over Financial Reporting**

*Significant Deficiencies*

**Preparation of the Financial Statements in Accordance  
with Generally Accepted Accounting Principles**

***Finding 13-1***

*Requirement:* Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 115 requires management to prepare annual audit statements in accordance with GASB Statement Number 34. (Audit report format)

*Criteria:* Internal controls should be in place to provide reasonable assurance to the Academy that management reports financial statements (with GASB Statement number 34 formats) necessary to monitor and report annual financial activity without auditor intervention.

*Condition:* Auditor assists with financial statements and reports in compliance with GASB 34.

*Effect:* The effect of this condition places a reliance on the independent auditor as part of the Academy's internal controls over financial reporting.

*Cause:* Unknown.

*Recommendation:* The Academy should consider subcontracting financial statement preparation activities to monitor and report annual financial activity in accordance with GASB Statement Number 34 or provide appropriate training.

*Corrective Action Planned:* As a result of limited funding, the Academy does not have resources to fund this process. We intend to re-evaluate once funding becomes available for the additional reporting and monitoring based on a cost – benefit analysis.

- *Contact Person(s) Responsible for Correction:*  
Susan Pann, Administrator

**Internal Control Over Financial Reporting**

*Significant Deficiencies*

Segregation of Duties

*Finding 13-2*

*Statement of Condition/Criteria:* The contract Business Manager performs several functions of receipting, deposits, check generation, and posting to the general ledger. To provide a system of checks and balances, these functions are generally assigned to separate positions to minimize the potential for unauthorized transactions.

*Effect:* Lack of segregation of duties provides opportunities for inaccurate or unauthorized disbursements or transfers from Academy funds and increases the potential for inaccurate reporting of account activity.

*Cause:* Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the added personnel.

*Recommendation:* The Board should be aware of the potential weaknesses in the system and provide appropriate oversight or assistance to personnel when cost beneficial.

*Corrective Action Planned:* The Board has implemented compensating controls to reduce the risks discussed above.

- *Contact Person(s) Responsible for Correction:*  
Susan Pann, Administrator



**ANDERSON, TACKMAN & COMPANY, PLC**  
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MICHIGAN & WISCONSIN**

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

To the Administrator and Members  
of the Board of Education  
Three Lakes Academy  
Curtis, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Three Lakes Academy for the year ended June 30, 2013, and have issued our reports thereon dated September 26, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated July 30, 2013, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. 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 the Three Lakes 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 tests of the Three Lakes 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 you in our correspondence about planning matters on July 30, 2013.

### **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 Three Lakes Academy are described in Note 1 to the financial statements. Two new accounting policies were adopted regarding the implementation of GASB Statements 63 and 65 and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 estimate affecting the financial statements was:

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

#### ***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 clearly 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.

### ***Disagreement with Management***

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

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated September 3, 2013.

### ***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 governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

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

### ***Comments and Recommendations***

The following is a summary of our observations with suggestions for improvements we believe should be brought to your attention. We noted no material matters involving the internal control over financial reporting and compliance, as reported in a separate letter in accordance with Government Auditing Standards of the basic financial statement audit report.

### **Fraud Policy (Prior Year)**

With the implementation of Statement on Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The board does not have a policy, which would address fraud or suspected fraud and related actions to be implemented. We recommend the Board adopt a fraud policy to address this concern.

Status: Corrected.

### **Reports on Controls (Prior Year)**

As the Academy continues to expand its use of the Third Party Service Providers, for accounting, payroll, technology etc., assurance should be requested that systems are adequate and effective related to computer processing. A “Report on Controls Placed in Operation” and tests of effectiveness should be requested to assure proper backups are maintained, disaster recovery procedures are in place and other controls are reliable from any third party system vendors.

Status: No change during current fiscal year; however, new operating systems will be used in the next fiscal year.

### **Confidentiality Provisions (Prior Year)**

We reviewed selected independent service contracts and noted that provisions regarding confidentiality and security of school and pupil information were not included. Professional service contracts should include a confidentiality statement to provide assurance that privileged information is not released by independent contractors.

Status: Uncorrected.

### **Reporting Employer Provided Health Coverage on Form W-2**

The Affordable Care Act requires employers to report the cost of coverage under an employer-sponsored group health plan on an employee’s Form W-2, Wage and Tax Statement. Many employers are eligible for transition relief for tax year 2013 and beyond, until the IRS issues final guidance for this reporting requirement.

The amount reported does not affect tax liability, as the value of the employer excludible contribution to health coverage continues to be excludible from an employee’s income, and it is not taxable. This reporting is for informational purposes only, to show employees the value of their health care benefits so they can be informed consumers. More information about the reporting can be found at [Form W-2 Reporting of Employer-Sponsored Health Coverage](#).

Status: Management has elected the transition relief until final guidance is issued.

### **Pension Reporting**

In June 2012, the Governmental Accounting Standards Board (GASB) approved a pair of related Statements that implement substantial changes to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes new accounting and financial reporting requirements. These requirements include a provision for reporting net pension liabilities on the accrual based statement of net position and measuring investments at fair value as well as additional footnote and required supplementary information disclosures.

The Board and Management should review the procedures for implementation of these new standards effective in fiscal 2014 and assess the impact on the local unit of government’s financial reporting.

### **Credit Cards**

During testing of credit cards, it was noted that there were not receipts for all purchases on the credit card statement. It is recommended that the Academy retain some type of support for all credit card purchases.

### **Disbursements**

During testing of cash disbursements, it was noted that two of the twenty disbursements selected for testing lacked proper authorization per the Academy procedures. It is recommended that the Academy follow the procedures in place and stamp each invoice for approval. It was also noted that two of the twenty disbursements lacked supporting documentation for the disbursement. It is recommended that all receipts are retained for support of each purchase.

### **Conclusion**

This letter is intended solely for the information and use of the Board of Education, management, federal awarding agencies, pass through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any further assistance, please contact us.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**  
**Kincheloe, Michigan**

September 26, 2013