

**Three Lakes Public School
Academy**

**Financial Report
with Supplementary Information**

June 30, 2010

Three Lakes Public School Academy

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Independent Auditor's Report

Members of the Board of Education
Three Lakes Public School 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 Public School Academy, as of and for the initial period from inception to June 30, 2010, which collectively comprise the Three Lakes Public School Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Three Lakes Public School Academy's management. 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 and the Michigan School Auditing Manual. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 the Three Lakes Public School Academy, as of June 30, 2010, and the respective changes in financial position, where applicable, thereof for the initial period then ended, in conformity with accounting principles generally accepted in the United States of America.

Board of Education
Three Lakes Public School Academy

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2010, on our consideration of Three Lakes 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the required budgetary comparison information identified in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Anderson Tackman & Co PLC

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 27, 2010

Management's Discussion and Analysis

Three Lakes Public School Academy is a K-6 Public School Academy located in Mackinac County, Michigan. This Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Three Lakes Public School Academy administration's discussion and analysis of the financial results for the initial period ended June 30, 2010.

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: School-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 School'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.

School-wide Financial Statements:

The school-wide financial statements are maintained using the "full accrual" basis. They report all of the School'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 School are reported in the Statement of Net Assets of the school-wide financial statements.

Three Lakes Public School Academy

Management's Discussion and Analysis For Initial Period Ended June 30, 2010

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Summary of Net Assets:

The following summarizes the net assets for the initial period ended June 30, 2010:

Net Assets Summary

	2010
Assets	
Current assets	\$ 98,025
Capital assets	48,779
Total assets	<u>\$ 146,804</u>
Liabilities	
Current liabilities	\$ 40,080
Total liabilities	<u>\$ 40,080</u>
Net assets	
Invested in capital assets, net of related debt	\$ 48,779
Unrestricted	57,945
Total net assets	<u>\$ 106,724</u>

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

During the initial period ended June 30, 2010, the School's net assets increased by \$106,724. This was the initial fiscal year for the Charter School.

Three Lakes Public School Academy

Management's Discussion and Analysis For Initial Period Ended June 30, 2010

A. Results of Operations:

For the initial period ended June 30, 2010, the School wide results of operations were:

	2010	
	Amount	% of Total
General revenue:		
State of Michigan aid - unrestricted	\$ 426,211	68.83%
Interest income	306	0.05%
Total general revenue	426,517	68.88%
Program revenue:		
Charges for services	10,288	1.66%
Operating and capital grants	182,440	29.46%
Total program revenue	192,728	31.12%
Total revenue	619,245	100.00%
Expenses:		
Instruction and instructional services	272,613	53.19%
Support services	224,876	43.88%
Food services	15,032	2.93%
Total expenses	512,521	100.00%
Increase (decrease) in net assets	106,724	
Net Assets - Beginning	-	
Net Assets - Ending	\$ 106,724	

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 Public School Academy foundation allowance was \$7,316 per student for the 2009 - 2010 school year.
- **Student Enrollment:** The School's student enrollment for the count of 2009 - 2010 was 60 students. For the fiscal year, a membership blend of 75% of current year fall student count (September 2009) and 25% of the previous year winter student count (February 2010) is multiplied by the Academy's foundation allowance.

Subsequent to year end June 30, 2010, preliminary student enrollments for 2010 - 2011 indicate that the 2010 fall student enrollment will increase by twenty students with 2009 - 2010 levels.

Three Lakes Public School Academy

Management's Discussion and Analysis For Initial Period Ended June 30, 2010

C. General Fund Budgetary Highlights

General Fund Operations

The School's revenues and other sources from General Fund operations exceeded expenditures and other uses by \$49,289 for the initial period ended June 30, 2010. The board and administration has made an effort to contain costs during the fiscal year.

Final Budget vs. Actual

2009-2010	\$ 608,255	\$ 595,577
2010-2011 (projected)	\$ 1,028,768	\$ -
Expenditures		
2009-2010	\$ 588,688	\$ 546,268
2010-2011 (projected)	\$ 1,019,402	\$ -

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 Public School Academy amends its budget periodically as needed during the school year. For the fiscal year 2009 - 2010, the budget was amended several times due to funding changes. The June budget amendment was the final budget for the fiscal year. The Three Lakes Public School 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	\$ 600,460
Total Revenues Final Budget	<u>608,255</u>
Increase in Budgeted Revenues	<u>\$ 7,795</u>

The School's final general fund revenues were less than the final budget by \$12,698.

C. General Fund Budgetary Highlights

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

- Original budget had estimated an enrollment of 60 students and fall 2009 actual enrollment was 60.
- Original budget had estimated the foundation allowance at \$7,316 the actual foundation allowance for 2009-2010 was \$ 7,151.

Expenditures:

The School's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 568,084
Total Expenditures Final Budget	<u>588,688</u>
Increase in Budgeted Expenditures	<u>\$ 20,604</u>

The School's actual expenditures were less than final budget by \$ 42,420. This variance was primarily a result of unspent federal 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 School's net investment in capital assets increased by \$48,779 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	\$ -	\$ 48,779	\$ -	\$ 48,779
Net investment in capital assets	<u>\$ -</u>	<u>\$ 48,779</u>	<u>\$ -</u>	<u>\$ 48,779</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 assets 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 School's financial statements.

For initial period ended June 30, 2010, the net increase in accumulated depreciation was \$0.

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 School has no financing of debt remaining as of the initial period ended 2010.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Preliminary Budget for the 2010-2011 Fiscal Year was adopted by the Board of Education in June 2010. 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 2010-2011 budget preparation process include:

- The State Aid foundation had been estimated to be \$7,216 per pupil;
- Enrollment projections of 78 students were utilized, however more students are anticipated.

Since the School'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 School Districts and Public School Academies. The State periodically holds revenue-estimating 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 SCHOOL'S MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the School's finances. If you have questions about this report or need additional information, contact the Administration Office, Three Lakes Public School Academy, W17540 Main Street, Curtis, Michigan.

Basic Financial Statements

Three Lakes Public School Academy**Statement of Net Assets
June 30, 2010****Governmental
Activities****Assets****Current Assets**

Cash and equivalents	\$ 19,378
Due from other governmental units	78,647
Total current assets	<u>98,025</u>

Noncurrent Assets

Capital assets	<u>48,779</u>
Total noncurrent assets	<u>48,779</u>
Total assets	<u>\$ 146,804</u>

Liabilities and Net Assets**Current Liabilities**

Accounts payable	\$ 11,148
Accrued salaries and fringes	12,349
Deferred revenue	<u>16,583</u>
Total current liabilities	<u>40,080</u>

Net Assets

Invested in capital assets, net of related debt	48,779
Unrestricted	<u>57,945</u>
Total net assets	<u>106,724</u>
Total liabilities and net assets	<u>\$ 146,804</u>

Three Lakes Public School Academy

Statement of Activities Initial Period Ended June 30, 2010

Functions/Programs	Program Revenue			Governmental Activities	
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:					
Instruction and Instructional Services	\$ 272,613	\$ 4,823	\$ 115,469	\$ 48,779	\$ (103,542)
Support services	224,876	-	-	-	(224,876)
Food services	15,032	5,465	18,192	-	8,625
Total Governmental Activities	\$ 512,521	\$ 10,288	\$ 133,661	\$ 48,779	(319,793)
General Revenues:					
State of Michigan aid, unrestricted					426,211
Interest income					306
Total general revenues					426,517
Changes in Net Assets					106,724
Net assets:					-
Beginning of year					-
End of year					\$ 106,724

Three Lakes Public School Academy

Balance Sheet Governmental funds June 30, 2010

	General	Food Service	Total Governmental Funds
Assets			
Cash and equivalents	\$ 12,475	\$ 6,903	\$ 19,378
Due from other governmental units	78,647	-	78,647
Due from other funds	-	1,753	1,753
Total Assets	<u>\$ 91,122</u>	<u>\$ 8,656</u>	<u>\$ 99,778</u>
Liabilities			
Accounts payable	\$ 11,148	\$ -	\$ 11,148
Accrued salaries and fringes	12,349	-	12,349
Due to other funds	1,753	-	1,753
Deferred revenue	16,583	-	16,583
Total liabilities	<u>41,833</u>	<u>-</u>	<u>41,833</u>
Fund Balances			
Unreserved and undesignated	<u>49,289</u>	<u>8,656</u>	<u>57,945</u>
Total fund balances	<u>49,289</u>	<u>8,656</u>	<u>57,945</u>
Total liabilities and fund balances	<u>\$ 91,122</u>	<u>\$ 8,656</u>	

Amounts reported for governmental activities in the statement of net assets 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	<u>48,779</u>
Net assets of governmental activities	<u>\$ 106,724</u>

Three Lakes Public School Academy

Statement of Revenue, Expenditures, and Changes in Fund Balances Governmental Funds Initial Period Ended June 30, 2010

	General	Food Service	Totals
Revenues			
Local Sources	\$ 7,098	\$ 5,494	\$ 12,592
State Sources	426,211	-	426,211
Federal Sources	154,098	18,194	172,292
Other	8,150	-	8,150
Total Revenues	595,557	23,688	619,245
Expenditures			
Instructional Services:			
Elementary	145,699	-	145,699
Charter Grant	154,017	-	154,017
2% Funding	4,166	-	4,166
Special Education	17,510	-	17,510
Support Services:			
Pupil Services	17,958	-	17,958
General Administration	5,281	-	5,281
Executive Administration	29,505	-	29,505
School Administration	26,720	-	26,720
Business	38,464	-	38,464
Operations & Maintenance	59,460	-	59,460
Pupil Transportation	47,488	-	47,488
Food Services:	-	15,032	15,032
Total Expenditures	546,268	15,032	561,300
Excess of Revenues (Expenditures)	49,289	8,656	57,945
Fund Balances - Beginning of year	-	-	-
Fund Balances - End of year	\$ 49,289	\$ 8,656	\$ 57,945

Three Lakes Public School Academy

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Initial Period Ended June 30, 2010

Changes in Fund Balances – Total Governmental Funds \$ 57,945

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

Governmental funds report capital outlays as expenditures in the
statement of revenues, expenditures and changes in fund balance.
These costs are allocated over their estimated useful lives as
depreciation.

Capital Outlays 48,779

Change in Net Assets, Statement of Activities \$ 106,724

Three Lakes Public School Academy

Statement of Fiduciary Net Assets Fiduciary Funds June 30, 2010

Agency

Assets:

Cash and Equivalents

\$ 5,892

Total Assets

\$ 5,892

Liabilities:

Due to Organizations

\$ 5,892

Total Liabilities

\$ 5,892

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

Charter School – The Public School Academy was organized Pursuant to Public Act 362 of 1993. This Law allows for the School to be eligible for State Aid and must comply with Michigan School Code provisions. The School operates under a grant agreement expiring June 30, 2017 with the Board of Regents – Bay Mills Community College. The school was created to provide a student orientated learning experience. The School 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 Public School Academy conform to U.S. generally accepted accounting principles as applicable to Schools. 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 – School-wide Statements

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

In the school-wide Statement of Net Assets, 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 assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The school-wide Statement of Activities reports both the gross and net cost of each of the School'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 School does not allocate indirect costs. In creating the school-wide financial statements, the School has eliminated interfund transactions.

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

Basic Financial Statements – Fund Financial Statements

The accounts of the School 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 combined 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 School functions typically are financed. The acquisition, use, and balances of the School'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 School pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved operating budget. The School 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 School reports the food service fund as a major fund.

Agency Funds – These Funds account for monies held on behalf of student organizations or school affiliated groups that use the School 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 school-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 School reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the School 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 deferred 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 School 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 deferred revenue. Other categorical funding is recognized when the appropriation is received. The School utilizes restricted funding and then unrestricted resources.

Note 1 - Summary of Significant Accounting Policies (Continued)

Cash and Investments – Investments are recorded at fair value, based on quoted market prices, or estimated fair value. The School 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 School. The Food Services Fund inventory consists of food and paper goods. For all funds, expenditures are recorded at the time of use.

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 other equipment	5 – 20 years

Compensated Absences – The School has no liability for compensated absences reported in the school-wide statements since no termination benefits are provided to its employees.

Long-Term Obligations – In the school-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

Subsequent Events – Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

Note 2 - Budgets

The Public School Academy formally adopted General Fund and Special Revenue Fund budgets by function for the initial period ended June 30, 2010. 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 Fund is presented as Required Supplementary Information.

Note 3 - Deposits and Investments**Deposits**

The School's funds are deposited in a single financial institution. Deposits are carried at cost.

	<u>Governmental</u>	<u>Fiduciary</u>
Per Financial Statements:		
Deposits	\$ <u>19,378</u>	\$ <u>5,892</u>

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

Note 3 - Deposits and Investments (Continued)

Custodial credit risk. Custodial credit risk, is the risk that the in the event of a bank failure, the School's deposits may not be returned. State law does not require and the School does not have a policy for deposit custodial credit risk. As of year end, \$0 of the School's bank balance of \$38,741 was exposed to credit risk because it was uninsured and uncollateralized.

Statutory Authority:

Michigan laws compiled Section 129.91, authorizes the School to deposit and invest 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, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- 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 a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchase through an interlocal agreement under the urban cooperations 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, 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 Schools deposits are in accordance with state statutes.

Three Lakes Public School Academy

Notes to Financial Statements
June 30, 2010

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	\$ -	\$ 48,779	\$ -	\$ 48,779
Total Assets (Depreciated)	-	48,779	-	48,779
Accumulated Depreciation				
Furniture and Equipment	-	-	-	-
Total Accumulated Depreciation	-	-	-	-
Net Capital Assets Depreciated	-	48,779	-	48,779
Total Net Capital Assets	\$ -	\$ 48,779	\$ -	\$ 48,779

Depreciation for the initial period ended June 30, 2010 amounted to \$0. The School determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Note 5 - Interfund Receivable and Payables, and Transfers

The School 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 assets/balance sheet for governmental funds and fiduciary funds. Interfund transactions resulting in interfund receivables and payable are as follows:

	<u>Food Service</u>	<u>Total</u>
 General	\$ 1,753	\$ 1,753
		

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.

Note 6 - Risk Management

The School 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 School 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

Grants

The Charter School 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 is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School. 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 School at June 30, 2010.

Note 8 - Due From Other Governmental Units

Amounts due from other governmental units consist of \$78,647 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 2010 state aid, which was not received until after year end due to the state aid payment schedule.

Note 9 - Operating Lease

The charter school executed an operating lease with the Township of Portage, Michigan for buildings, parking areas and grounds located in Curtis, Michigan. The lease expires annually on July 31st. It is anticipated that the lease will be renewed in future years. Rent paid during fiscal 2010 was \$12,000 in accordance with the terms of the lease.

Note 10 - School Funding

The Three Lakes Public School Academy received approximately \$7,316 per student for basic State aid foundation for the 2009-2010 school year for the 60 enrolled students.

Three Lakes Public School Academy

Notes to Financial Statements
June 30, 2010

Note 11 - Debt Obligations

The following is a listing of debt obligations at June 30, 2010:

During September 2009, the School 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 3.14% and was due June 27, 2010. The amount unpaid at year end was \$0.

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 125,000</u>	<u>\$ -</u>

Note 12 Pension

Plan Description – The School 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 District. 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 7150 Harris Drive, P.O. Box 30673, Lansing, MI 489019-8103.

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.

The pension benefit rate totals 16.54% for the period July 1, 2009 through June 30, 2010 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The Academy's contributions to the MPERS plan for the year ended June 30, 2010, was \$29,890 and was equal to the required contribution for the year.

Note 13 - Subsequent Event

During September 2010, the School executed a short-term state aid anticipation note in the amount of \$125,000. Terms of the note state interest shall be paid periodically at 1.5% and the full amount of unpaid principal is due in June 2011.

The Academy extended the operating lease for buildings, parking areas and grounds on similar terms in August 2010.

Required Supplementary Information

Three Lakes Public School Academy

Required Supplementary Information Budgetary Comparison Schedule – General Fund Initial Period Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Over (Under)
Revenues:				
Local Sources	\$ -	\$ 7,050	\$ 7,098	\$ 48
State Sources	432,960	425,555	426,211	656
Federal Sources	167,500	167,500	154,098	(13,402)
Other Transactions	-	8,150	8,150	-
Total Revenues	600,460	608,255	595,557	(12,698)
Expenditures:				
Instructional Services:				
Elementary	112,476	144,546	145,699	(1,153)
Charter Grant	167,500	167,500	154,017	13,483
2% Funding	-	8,150	4,166	3,984
Special Education	28,080	24,916	17,510	7,406
Support Services:				
Pupil Services	750	19,040	17,958	1,082
General Administration	5,560	5,897	5,281	616
Executive Administration	79,899	29,273	29,505	(232)
School Administration	25,650	28,519	26,720	1,799
Business	17,000	34,983	38,464	(3,481)
Operations & Maintenance	69,029	71,803	59,460	12,343
Pupil Transportation	48,140	54,061	47,488	6,573
Other Transactions	14,000	-	-	-
Total Expenditures	568,084	588,688	546,268	42,420
Excess of Revenues (Expenditures)	\$ 32,376	\$ 19,567	49,289	\$ 29,722
Fund Balances – Beginning of year			-	
Fund Balances – End of year			<u>\$ 49,289</u>	

Three Lakes Public School Academy**Required Supplementary Information
Budgetary Comparison Schedule – Food Service Fund
Initial Period Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget Over (Under)</u>
Revenues:				
Local Sources	\$ 3,800	\$ 5,240	\$ 5,494	\$ 254
Federal Sources	13,100	18,195	18,194	(1)
Other Transactions	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>21,900</u>	<u>23,435</u>	<u>23,688</u>	<u>253</u>
Expenditures:				
Food Services	<u>20,000</u>	<u>19,035</u>	<u>15,032</u>	<u>4,003</u>
Total Expenditures	<u>20,000</u>	<u>19,035</u>	<u>15,032</u>	<u>4,003</u>
Excess of Revenues (Expenditures)	<u>\$ 1,900</u>	<u>\$ 4,400</u>	8,656	<u>\$ 4,256</u>
Fund Balances – Beginning of year			<u>-</u>	
Fund Balances – End of year			<u>\$ 8,656</u>	

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

Members of the Board of Education
Three Lakes Public School 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 Public School Academy, as of and for the initial period ended June 30, 2010, which collectively comprise Three Lakes Public School Academy's basic financial statements and have issued our report thereon, dated August 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the Michigan School Auditing Manual, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Three Lakes Public School Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting, listed as 10-1. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule findings and responses as items 10-2.

We noted certain matters that we reported to management of the Three Lakes Public School Academy in a separate letter dated August 27, 2010.

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the School's responses and accordingly, we express no opinion on them.

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

Anderson Tackman & Co PLLC

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 27, 2010

Significant Deficiencies

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

Finding 10-1

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 School that management reports financial statements (with GASB Statement number 34 formats) necessary to monitor and report annual financial activity without auditor intervention.

Condition: Auditor prepares 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 School's internal controls over financial reporting.

Cause: Unknown.

Recommendation: The School 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 School 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.

Noncompliance with State Statutes

Expenditures in Excess of Appropriations--Budgetary Funds

Finding 10-2

Criteria: The expenditures of funds in excess of appropriations is contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

Condition: Our examination of procedures used by the Academy to adopt and maintain operating budgets for the School's general fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The School's 2010 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled at the activity level. As detailed, actual 2010 expenditures exceeded the board's approved budget allocations for some general fund activities.

During the initial period ended June 30, 2010, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 24 of the financial statements.

Effect: Condition's may violate State Law.

Cause: Unknown.

Recommendation: We recommend that the School's chief administrative officer and personnel responsible for administering the activities of the various funds of the School, develop budgetary control procedures for the General Fund which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Corrective Action Planned: Proper Amounts will be maintained in the future.