

Three Lakes Academy

**Financial Statements
with Required Supplementary Information**

June 30, 2014

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Three Lakes Academy, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the 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, 2014, 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 28 through 29 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 August 25, 2014 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

Management's Discussion and Analysis

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, 2014.

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, 2013 and 2014:

Net Position Summary

	2013	2014
Assets		
Current assets	\$ 230,384	\$ 269,375
Capital assets	169,112	155,466
Total assets	<u>\$ 399,496</u>	<u>\$ 424,841</u>
Liabilities		
Current liabilities	\$ 77,428	\$ 79,932
Noncurrent liabilities	17,366	29,812
Total liabilities	<u>\$ 94,794</u>	<u>\$ 109,744</u>
Net position		
Net investment in capital assets	\$ 169,112	\$ 155,466
Restricted for food services	12,239	14,920
Unrestricted	123,351	144,711
Total net position	<u>\$ 304,702</u>	<u>\$ 315,097</u>

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

During the year ended June 30, 2014, the Academy's net position increased by \$10,395. This was the fifth year of operation for the Academy.

A. Results of Operations:

For the years ended June 30, 2013 and 2014, the Academy wide results of operations were:

	2013		2014	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
General revenue:				
State of Michigan aid - unrestricted	\$ 640,362	76.58%	\$ 729,628	78.66%
Interest income	292	0.03%	280	0.03%
Total general revenue	<u>640,654</u>	<u>76.61%</u>	<u>729,908</u>	<u>78.69%</u>
Program revenue:				
Charges for services	27,452	3.29%	44,052	4.75%
Operating and capital grants	<u>168,118</u>	<u>20.10%</u>	<u>153,609</u>	<u>16.56%</u>
Total program revenue	<u>195,570</u>	<u>23.39%</u>	<u>197,661</u>	<u>21.31%</u>
Total revenue	<u>836,224</u>	<u>100.00%</u>	<u>927,569</u>	<u>100.00%</u>
Expenses:				
Instruction and instructional services	501,667	56.23%	510,248	55.63%
Support services	306,756	34.38%	317,573	34.63%
Food services	52,508	5.89%	56,326	6.14%
Depreciation - unallocated	<u>31,167</u>	<u>3.50%</u>	<u>33,027</u>	<u>3.60%</u>
Total expenses	<u>892,098</u>	<u>100.00%</u>	<u>917,174</u>	<u>100.00%</u>
Increase (decrease) in net position	(55,874)		10,395	
Net Position - Beginning	<u>360,576</u>		<u>304,702</u>	
Net Position - Ending	<u>\$ 304,702</u>		<u>\$ 315,097</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 \$7,026 per student for the 2013/2014 Academy year.
- Student Enrollment: The Academy's student enrollment for the count of 2013/2014 was 105 students. For the fiscal year, a membership blend of 90% of current year fall student count (October 2013) and 10% of the prior year winter student count (February 2013) is multiplied by the Academy's foundation allowance.

Subsequent to year end June 30, 2014, preliminary student enrollments for 2014/2015 indicate that the 2014 fall student enrollment will stay the same as 2013/2014 levels.

C. General Fund Budgetary Highlights**General Fund Operations**

The Academy's revenues and other sources from General Fund operations were more than expenditures and other uses by \$33,806 for the year ended June 30, 2014. 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		
2012-2013	\$ 787,761	\$ 786,833
2013-2014	\$ 872,320	\$ 871,562
2014-2015 (projected)	\$ 883,902	\$ -
Expenditures		
2012-2013	\$ 819,370	\$ 805,944
2013-2014	\$ 846,516	\$ 834,756
2014-2015 (projected)	\$ 868,335	\$ -

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 2013/2014, 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	\$ 826,434
Total Revenues Final Budget	<u>872,320</u>
Increase in Budgeted Revenues	<u>\$ 45,886</u>

The Academy's final general fund revenues were less than the final budget by \$758.

C. General Fund Budgetary Highlights (Continued)

Expenditures:

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

Total Expenditures Original Budget	\$ 776,754
Total Expenditures Final Budget	<u>846,516</u>
Increase in Budgeted Expenditures	<u>\$ 69,762</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 \$11,760. 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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The Academy's net investment in capital assets decreased by \$13,646 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	\$ 242,221	\$ 21,702	\$ (4,756)	\$ 259,167
Accumulated depreciation	<u>(73,109)</u>	<u>(33,027)</u>	<u>2,435</u>	<u>(103,701)</u>
Net investment in capital assets	<u>\$ 169,112</u>	<u>\$ (11,325)</u>	<u>\$ (2,321)</u>	<u>\$ 155,466</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, 2014, the net increase in accumulated depreciation was \$30,592.

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 \$11,402 for the remaining short-term state aid anticipation note.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Preliminary Budget for the 2014/2015 Fiscal Year was adopted by the Board of Education in June 2014. 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 2014/2015 budget preparation process include:

- The State Aid foundation had been estimated to be \$7,187 per pupil;
- Enrollment projections of 105 students were utilized.

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

**Statement of Net Position
June 30, 2014**

	Governmental Activities
Assets:	
Cash and Equivalents	\$ 102,953
Accounts Receivable	1,588
Due from Other Governmental Units	157,527
Prepaid Items	3,985
Inventories	898
Due from Others	2,424
Capital Assets Depreciated	155,466
Total Assets	<u>\$ 424,841</u>
Liabilities:	
Accounts Payable	\$ 10,326
Accrued Salaries and Fringes	58,204
Short Term Notes Payable	11,402
Accrued Sick Leave Payable - due in more than one year	2,700
Accrued Termination Benefits Payable - due in more than one year	27,112
Total Liabilities	<u>109,744</u>
Net Position:	
Net Investment in Capital Assets	155,466
Restricted for Food Services	14,920
Unrestricted	144,711
Total Net Position	<u>\$ 315,097</u>

Statement of Activities
Year Ended June 30, 2014

		Program Revenue		Governmental
		Charges for Services	Operating Grants & Contributions	Activities Net (Expense) Revenue and Changes in Net Position
	Expenses			
Functions/Programs				
Governmental Activities:				
Instructional Services	\$ 510,248	\$ 32,034	\$ 109,661	\$ (368,553)
Support Services	317,573	-	-	(317,573)
Food Services	56,326	12,018	43,948	(360)
Depreciation - Unallocated	33,027	-	-	(33,027)
Total Governmental Activities	<u>\$ 917,174</u>	<u>\$ 44,052</u>	<u>\$ 153,609</u>	(719,513)
General Revenues:				
State of Michigan Aid, Unrestricted				729,628
Interest Income				<u>280</u>
Total General Revenues				<u>729,908</u>
Changes in Net Position				10,395
Net Position:				
Beginning of year				<u>304,702</u>
End of year				<u>\$ 315,097</u>

Three Lakes Academy

Balance Sheet Governmental funds June 30, 2014

	General	Food Service	Total Governmental Funds
Assets			
Cash and Equivalents	\$ 85,240	\$ 17,713	\$ 102,953
Accounts Receivable	-	1,588	1,588
Due from Other Governmental Units	157,527	-	157,527
Prepaid Items	3,985	-	3,985
Due from Others	2,424	-	2,424
Inventory	-	898	898
Due from Other Funds	5,134	-	5,134
Total Assets	<u>\$ 254,310</u>	<u>\$ 20,199</u>	<u>\$ 274,509</u>
Liabilities			
Accounts Payable	\$ 10,181	\$ 145	\$ 10,326
Accrued Salaries and Fringes	58,204	-	58,204
Due to Other Funds	-	5,134	5,134
Short Term Notes Payable	11,402	-	11,402
Total Liabilities	<u>79,787</u>	<u>5,279</u>	<u>85,066</u>
Fund Balances			
Nonspendable	3,985	898	4,883
Restricted	-	14,022	14,022
Committed	61,978	-	61,978
Unassigned	108,560	-	108,560
Total Fund Balances	<u>174,523</u>	<u>14,920</u>	<u>189,443</u>
Total Liabilities and Fund Balances	<u>\$ 254,310</u>	<u>\$ 20,199</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	155,466
Accrued sick leave payable	(2,700)
Accrued termination benefits payable	<u>(27,112)</u>
Net position of governmental activities	<u>\$ 315,097</u>

Three Lakes Academy

Statement of Revenue, Expenditures, and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2014

	General	Food Service	Totals
Revenues			
Local Sources	\$ 19,903	\$ 12,018	\$ 31,921
State Sources	806,184	1,016	807,200
Federal Sources	45,236	42,932	88,168
Interest Income	239	41	280
Total Revenues	871,562	56,007	927,569
Expenditures			
Instructional Services:			
Elementary	458,034	-	458,034
Special Education	59,590	-	59,590
Support Services:			
Pupil Services	3,681	-	3,681
General Administration	11,439	-	11,439
Executive Administration	37,914	-	37,914
Academy Administration	32,978	-	32,978
Business	55,403	-	55,403
Operations and Maintenance	89,934	-	89,934
Pupil Transportation	85,783	-	85,783
Food Services:	-	56,326	56,326
Total Expenditures	834,756	56,326	891,082
Excess of Revenues (Expenditures)	36,806	(319)	36,487
Other Financing Sources (Uses)			
Operating Transfers In	-	3,000	3,000
Operating Transfers Out	(3,000)	-	(3,000)
Excess of Revenues (Expenditures) Over (Under) Other Financing Sources (Uses)	33,806	2,681	36,487
Fund Balances - Beginning of year	140,717	12,239	152,956
Fund Balances - End of year	\$ 174,523	\$ 14,920	\$ 189,443

**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, 2014**

Changes in Fund Balances – Total Governmental Funds \$ 36,487

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	\$ 21,702	
Loss on disposal	(2,321)	
Current depreciation expense	<u>(33,027)</u>	
		(13,646)

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>(11,546)</u>

Changes in net position of governmental activities \$ 10,395

**Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014**

	<u>Agency</u>
Assets:	
Cash and Equivalents	\$ <u>12,792</u>
Total Assets	\$ <u>12,792</u>
Liabilities:	
Due to Organizations	\$ 10,368
Due to Others	<u>2,424</u>
Total Liabilities	\$ <u>12,792</u>

Notes to Financial Statements

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 Services Fund is the only special revenue fund. Special Revenue Funds 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 in the Government-wide financial statements and Fiduciary Funds 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 Revised 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 \$5,000 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 Termination Benefits – The liability for accrued sick leave and termination 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 Academy 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 Academy 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 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 (\$11,166), technology (\$21,000), and termination benefits (\$29,812), totaling \$61,978.
- 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, 2014. 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

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:		
Cash and Equivalents	\$ <u>102,953</u>	\$ <u>12,792</u>

Note 3 - Cash and Equivalents (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 \$145,653 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 - Cash and Equivalents (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:

	Beginning Balance	Additions	Disposals	Ending Balance
Assets (Depreciated)				
Furniture and Equipment	\$ 242,221	\$ 21,702	\$ (4,756)	\$ 259,167
Total Assets (Depreciated)	242,221	21,702	(4,756)	259,167
Accumulated Depreciation				
Furniture and Equipment	(73,109)	(33,027)	2,435	(103,701)
Total Accumulated Depreciation	(73,109)	(33,027)	2,435	(103,701)
Net Capital Assets Depreciated	169,112	(11,325)	(2,321)	155,466
Total Net Capital Assets	\$ 169,112	\$ (11,325)	\$ (2,321)	\$ 155,466

Depreciation for the year ended June 30, 2014 amounted to \$33,027. 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 TO OTHER FUNDS	
		Food Service	
DUE FROM OTHER FUNDS	General Fund	<u>\$ 5,134</u>	

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.

		TRANSFER IN	
		Food Service	
TRANSFERS OUT	General Fund	<u>\$ 3,000</u>	

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 ContingenciesConsortium

The Academy has executed a consortium agreement with the EUPISD for various business and maintenance services. Payments under the agreement amounted to \$27,776 for various 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, 2014.

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 \$157,527 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 2014 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 2014 was \$12,000 in accordance with the terms of the lease.

Note 10 - Academy Funding

The Three Lakes Academy received approximately \$7,026 per student for basic State aid foundation for the 2013/2014 Academy year for the 105 enrolled students.

Note 11 - Debt Obligations

The following is a listing of debt obligations at June 30, 2014:

During July 2013, 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 1.11% and is due in July 2014. The amount unpaid at year end was \$11,402.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Note Payable	\$ <u>10,501</u>	\$ <u>125,000</u>	\$ <u>124,099</u>	\$ <u>11,402</u>

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 and defined contribution, 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 several different plans available with employer contribution rates ranging from 20.96% to 24.79% for defined benefit plan and 1% to 6% for defined contribution plan. 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, 2013 and 2014 were \$113,487 and \$153,871, respectively and were equal to the required contribution for each year. Of the \$153,871, \$30,899 represents the employee’s contributions. This pension plan member is also subject to a 2% defined contribution through a third party plan administrator.

In September 2012, the Michigan legislature enacted additional changes (2012 Retirement Reform) to the Retirement Act, with different aspects becoming effective in late 2012 and early 2013. With these changes MPERS offers eight retirement plans: Basic, Member Investment Plan (MIP), Basic 4%, MIP 7%, Basic DC Converted, MIP DC Converted, Pension Plus, and the Defined Contribution (DC) plan. Multiple options exist within some of these plans.

Note 12 - Pension (Continued)

Post Employment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS 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 Academy's total contribution to the MPSERS plan discussed above.

Other Information – On June 28, 2010, the Michigan Court of Claims issued an injunction in response to a challenge to the authority of the State to require employees who began working before July 1, 2010, to contribute 3% of reportable wages to the retiree health care trust at MPSERS. As a result, the State has adjusted the contribution rate due on employees' wages paid between November 1, 2010 and September 30, 2011 to 20.66% for members who first worked prior to July 1, 2010 and 19.16% for Pension Plus members. In March 2011, the Court of Claims granted the plaintiffs' motions for summary disposition finding that the mandatory 3% contribution violated both the U.S. and Michigan constitutions. The State appealed the ruling to the Michigan Court of Appeals. The Court of Appeals accepted the appeal and ordered an expedited review. The Court of Appeals also granted the State's motion for a stay of proceedings and ordered that the 3% deduction continue to be collected and placed into an escrow account until further order of the Court.

On August 16, 2012, the State of Michigan Court of Appeals affirmed the trial court's orders granting summary dispositions in favor of the plaintiffs in each of the cases before it, terminating the stay ordered by this Court on March 18, 2011. The State of Michigan has appealed the decision to the Michigan Supreme Court. The Office of Retirement Services is instructing Michigan public school employers to continue withholding the 3% contribution. Should the plaintiffs prevail, the escrowed funds will be returned to the employees.

Note 13 - Compensated Absences and Termination 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 \$2,700 as of June 30, 2014.

Upon receiving a satisfactory evaluation for the period ending June 30, 2014, the Administrator shall receive a stipend of \$27,112 to be awarded upon leaving from the 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 \$27,112 as of June 30, 2014.

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. 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 - 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 2014/2015 school year. The amount of the borrowing cannot exceed \$90,000.

Required Supplementary Information

Three Lakes Academy

Required Supplementary Information Budgetary Comparison Schedule-General Fund For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local Sources	\$ 16,300	\$ 21,025	\$ 19,903	\$ (1,122)
State Sources	769,425	805,839	806,184	345
Federal Sources	40,489	45,236	45,236	-
Interest Income	220	220	239	19
Total Revenues	826,434	872,320	871,562	(758)
Expenditures				
Instructional Services:				
Elementary	429,257	463,887	458,034	5,853
Special Education	48,098	61,584	59,590	1,994
Supporting Services:				
Pupil Services	4,710	3,810	3,681	129
General Administration	14,000	12,205	11,439	766
Executive Administration	36,227	38,662	37,914	748
Academy Administration	29,284	32,987	32,978	9
Business	52,777	56,027	55,403	624
Operations and Maintenance	83,988	90,427	89,934	493
Pupil Transportation	78,413	86,927	85,783	1,144
Total Expenditures	776,754	846,516	834,756	11,760
Excess of Revenues (Expenditures)	49,680	25,804	36,806	11,002
Other Financing Sources (Uses)				
Operating Transfers Out	(3,000)	(3,000)	(3,000)	-
Total Other Financing Sources (uses)	(3,000)	(3,000)	(3,000)	-
Excess of Revenues (Expenditures) Over (Under) Other Financing Uses	<u>\$ 46,680</u>	<u>\$ 22,804</u>	33,806	<u>\$ 11,002</u>
Fund Balance- Beginning of year			140,717	
Fund Balance - End of year			<u>\$ 174,523</u>	

Required Supplementary Information
Budgetary Comparison Schedule-Food Service Fund
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local Sources	\$ 12,400	\$ 10,392	\$ 12,018	\$ 1,626
State Sources	695	986	1,016	30
Federal Sources	39,500	42,935	42,932	(3)
Interest Income	60	40	41	1
Total Revenues	52,655	54,353	56,007	1,654
Expenditures				
Food Service	57,797	57,253	56,326	927
Total Expenditures	57,797	57,253	56,326	927
Excess of Revenues (Expenditures)	(5,142)	(2,900)	(319)	2,581
Other Financing Sources (Uses)				
Operating Transfers In	3,000	3,000	3,000	-
Total Other Financing Sources (Uses)	3,000	3,000	3,000	-
Excess of Revenues (Expenditures) Over (Under) Other Financing Uses	<u>\$ (2,142)</u>	<u>\$ 100</u>	2,681	<u>\$ 2,581</u>
Fund Balance- Beginning of year			12,239	
Fund Balance - End of year			<u>\$ 14,920</u>	

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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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, 2014, 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 August 25, 2014.

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 2014-001 and 2014-002.

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

August 25, 2014

Internal Control Over Financial Reporting

Significant Deficiencies

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

Finding 2014-001

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 2014-002

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



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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, 2014, and have issued our reports thereon dated August 25, 2014. 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, 2014, 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.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis and budgetary comparison schedules, which supplement(s) the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

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, 2014.

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. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the 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 August 25, 2014.

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 Matters

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

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.

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: The Academy’s contractor carries \$500,000 of coverage.

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.

Pension Reporting (Prior Year)

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.

Status: Will be implemented in next fiscal year.

Credit Cards (Prior Year)

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.

Status: Uncorrected.

Disbursements (Prior Year)

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.

Status: Uncorrected.

Receipts

During our testing of the receipt system, one deposit did not match supporting documentation. We recommend that a receipt/deposit register be utilized for all deposits to ensure supporting documentation agrees to the monies deposited.

Disbursements

During our testing of the disbursement system, it was noted that a few reimbursement requests did not include itemized receipts. We recommend that all reimbursement requests include itemized receipts to validate items being purchased.

Long Outstanding Checks

During our testing of cash, we noted a few long outstanding checks. We recommend that the Academy follow the State laws on unclaimed property and remit those checks outstanding longer than one year for payroll and three years for vendors to State Treasury.

Credit Cards

During our testing of credit card statements, we noted instances where the Academy's tax exempt status was not used when purchasing items for the Academy. We recommend that each purchase be exempt from sales tax in accordance with the Academy's credit card and purchasing policies.

Payroll

During our testing of the payroll system, we noted that two Michigan New Hire Forms could not be located. We recommend that all required forms be completed at employment.

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.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

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

August 25, 2014