

THREE LAKES ACADEMY
Mackinac County, Michigan

Annual Financial Report

For the year ended June 30, 2015

THREE LAKES ACADEMY
Table of Contents

For the year ended June 30, 2015

Financial Section

<i>Independent Auditor's Report</i>	1
<i>Management's Discussion and Analysis</i>	5
<i>Basic Financial Statements</i>	13
Academy-Wide Financial Statements:	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	16
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances	18
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	20
Fiduciary Fund:	
Statement of Fiduciary Assets and Liabilities	21
Notes to Basic Financial Statements	22
<i>Required Supplementary Information</i>	
Schedule of the Academy's Proportionate Share of the Net Pension Liability	46
Schedule of Academy Contributions	47
Notes to Required Supplementary Information	48

THREE LAKES ACADEMY
Table of Contents (Continued)

For the year ended June 30, 2015

Supplementary Information

Agency Fund.....	50
Student Activities Agency Fund:	
Statement of Changes in Assets and Liabilities.....	51

Internal Control and Compliance

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	53
---	----

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

October 30, 2015

The Board of Directors
Three Lakes Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Three Lakes Academy (the "Academy") as of and for the year ended June 30, 2015, 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, the major fund and the aggregate remaining fund information of Three Lakes Academy as of June 30, 2015, and the respective changes in financial position and budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note G to the financial statements, the Academy adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* for the fiscal year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015 on our consideration of Three Lakes Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Three Lakes Academy's internal control over financial reporting and compliance.



Certified Public Accountants

This page intentionally left blank.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THREE LAKES ACADEMY
Management's Discussion and Analysis
June 30, 2015

As management of the Three Lakes Academy, we offer readers of the Academy's financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the Academy's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of four parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include two kinds of statements that present different views of the Academy:

- The first two statements, the Statement of Net Position and the Statement of Activities, are *Academy-wide financial statements* that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the Academy-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the Academy acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data; Required Supplementary Information includes pension information schedules; Other Supplementary Information follows and includes combining and individual fund statements and schedules.

Academy-wide Statements

The Academy-wide financial statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net position, and how it has changed. Net position - the difference between the Academy's assets and liabilities - is one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the Academy's overall health, one should consider additional non-financial factors such as changes in the Academy's property tax-base, economic factors that might influence state aid revenue, and the condition of school buildings and other facilities.

THREE LAKES ACADEMY
Management's Discussion and Analysis
June 30, 2015

In the Academy-wide financial statements, the Academy's activities are presented as follows:

- *Governmental activities:* The Academy's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

New Accounting Pronouncements Implemented

The Academy implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, during the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing (pension) liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. These changes resulted in a reduction of \$954,367 in Academy-wide net position as of July 1, 2014, (to record the beginning net pension liability of \$1,031,787 less the pension contributions made after the measurement date of \$77,420) and now include the *net pension liability* of the Academy of \$969,906 at June 30, 2015.

Condensed Academy-wide Financial Information

The Statement of Net Position provides financial information on the Academy as a whole.

	2015	2014
Assets		
Current assets	\$ 329,704	\$ 269,375
Net capital assets	208,888	155,466
Total Assets	538,592	424,841
Deferred Outflows of Resources	156,884	—
Liabilities		
Current liabilities	95,438	79,932
Long-term liabilities	44,812	29,812
Net pension liability	969,906	—
Total Liabilities	1,110,156	109,744
Deferred Inflows of Resources	107,224	—
Net Position		
Net investment in capital assets	208,888	155,466
Restricted	14,046	14,920
Unrestricted (deficit)	(744,838)	144,711
Total Net Position	\$ (521,904)	\$ 315,097

THREE LAKES ACADEMY
Management's Discussion and Analysis
June 30, 2015

The Statement of Activities presents changes in net position from operating results:

	2015	2014
Program Revenues		
Charges for services	\$ 12,173	\$ 44,052
Operating grants	307,297	153,609
General Revenues		
State school aid, unrestricted	643,265	729,628
Interest and investment earnings	333	280
Other	107,240	—
	1,070,308	927,569
Expenses		
Instruction	529,502	510,248
Supporting services	321,707	317,573
Community services	1,891	—
Food service	54,564	56,326
Other	6,076	—
Depreciation – unallocated	39,202	33,027
	952,942	917,174
Increase in net position	117,366	10,395
Net Position - Beginning of Year, as restated	(639,270)	304,702
Net Position - End of Year	\$ (521,904)	\$ 315,097

Financial Analysis of the Academy as a Whole

Total revenues exceeded expenses by \$117,366 on the Statement of Activities, increasing total net position (as restated) from a deficit of \$639,270 at June 30, 2014 to a deficit of \$521,904 at June 30, 2015. Unrestricted net assets (as restated) increased by \$64,818 from a deficit of \$809,656 at June 30, 2014, to a deficit of \$744,838 at June 30, 2015.

The Academy's financial position is the product of many factors.

The Academy's total revenues were \$1.07 million. Unrestricted state aid accounted for most of the Academy's revenues, contributing 60% of the total. The remainder came from State and federal aid for specific programs (29 percent), fees charged for services, interest earnings and other local sources.

THREE LAKES ACADEMY
Management's Discussion and Analysis
June 30, 2015

The total cost of all programs was \$952 thousand. The Academy's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (63 percent). The Academy's administrative and business services accounted for 15% of total costs and operation and maintenance services accounted for 10 percent of total costs.

The current position of the Academy's finances can be credited to careful monitoring of economic changes and appropriate cost-cutting measures to maintain programs during these challenging economic times. Despite the ongoing uncertainty of funding revenue from the State of Michigan, the Academy has endeavored to maintain a positive fund balance.

- The Academy has conducted a thorough budget analysis and has broken the budget down into specific components and their related expenses. This has allowed the Academy to prioritize expenses, and also to identify where cuts could occur if necessary.
- Regular updates were provided to the Board of Directors during the school year. This information is also presented to the community via the Academy's website, staff meetings and presentations.
- Collaboration with the surrounding Academics have helped reduced expenditures in many areas.

Fund Financial Statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its most significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs. As a general rule, fund balances from one fund are prohibited from being expended on expenditures of another fund.

The Academy utilizes two kinds of funds:

- *Governmental funds:* Most of the Academy's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.
- *Fiduciary funds:* The Academy is the trustee, or fiduciary, for assets that belong to others, such as Student Activities Funds. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The Academy excludes these activities from the Academy-wide financial statements because it cannot use these assets to finance its operations.

THREE LAKES ACADEMY
Management's Discussion and Analysis
June 30, 2015

Financial Analysis of the Academy's Funds

The Academy uses funds to record and analyze financial information. Three Lakes Academy's funds are described as follows:

Major Fund

- The General Fund is our primary operating fund. The General Fund had total revenues of \$1,014,444, and total expenditures of \$962,671 and other financing uses of \$6,076. The General Fund ended the fiscal year with a fund balance of \$220,220, up from \$174,523 at June 30, 2014.

Nonmajor Fund

- The Food Service Fund, which administers the hot lunch program of the Academy, had total revenues of \$55,864 and total expenditures of \$56,738 in 2014-15, decreasing its fund balance to \$14,046 at June 30, 2015 from \$14,920 at June 30, 2014.

Fiduciary Fund

- The Student Activities Fund is operated as an Agency Fund of the Academy. The assets of this fund are being held for the benefit of Academy students. Balances on hand at June 30, 2015 totaled \$21,272.

General Fund Budgetary Highlights

During the course of the year, the Academy continuously reviews the annual operating budget after the June adoption. Changes in the budget are due to the following:

- Changes made in the fall to account for the final student enrollment, which determines how much state foundation grant will be received during the fiscal year.
- Implementation of Great Start Readiness Program Budget
- Staff adjustments
- Final amendments are made in June for increases in appropriations to prevent budget overruns and reductions in expenses put into place by the administration.
- The final budget for the General Fund anticipated the fund balance to be 19.0% of General Fund expenditures and transfers - the actual results equaled 22.7%.
- The increase in fund balance was due primarily to the Academy's implementation of the Great Start Readiness Program, the resignation of a teacher that was not replaced, and the collaborative effort of the administrator and the Board of Directors to diligently monitor the budget on a monthly basis.

THREE LAKES ACADEMY
Management's Discussion and Analysis
June 30, 2015

Capital Asset and Debt Administration

Capital Assets

By the end of 2015, the Academy had a \$351,791 investment in a broad range of capital assets, including school buildings and furniture and equipment. (More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.)

At June 30, 2015, the Academy's investment in capital assets (net of accumulated depreciation), was \$208,888. Capital asset additions totaled \$92,624 for the fiscal year with accumulated depreciation increasing \$39,202, leaving a net increase in the book value of capital assets of \$53,422.

The Academy's net investment in capital assets, including buildings and additions and furniture and equipment, is detailed as follows:

Furniture and equipment	\$ 122,439
Buildings and additions	<u>86,449</u>
Net Capital Assets	<u><u>\$ 208,888</u></u>

Long-term Debt

The Academy's only long-term obligations include early termination benefits and accumulated sick leave. We present more detailed information about our long-term liabilities in Note F in the Notes to Basic Financial Statements.

Factors Bearing on the Academy's Future

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

- The State of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Educational Assessment Program and the Michigan Merit Exam) are compared from year to year, with the results being tabulated by school building and by academy. With the changes to the federal Title I legislation resulting from the No Child Left Behind Act, adequate yearly progress of students will be more important as certain portions of funding are tied to it.
- Cost increases exceeding the general rate of inflation continue to be expected for the Academy relative to health care and pension contribution obligations in 2015-16 and beyond. These costs represent a significant portion of the Academy's budget and their rate of increase is a concern to management. Surges in prices of energy commodities such as diesel, gasoline and natural gas have abated and prices have even declined. If this trend is sustained, it may provide some relief from the rate of growth in overall operating costs going forward.

THREE LAKES ACADEMY
Management's Discussion and Analysis
June 30, 2015

- The Academy offers its employees single subscriber health, dental and vision insurance. During the 2014-15 school year, the Academy contributed \$331 monthly, per employee, toward staff insurance premiums; any cost beyond the Academy paid contribution was paid by the employee. Employees who declined health care coverage were eligible for cash in lieu of benefits in the amount \$3,500 for the 2014-15 school year.
- Recent months have seen a lot of legislative activity in the areas of teacher tenure, seniority and layoffs, teacher and administrator evaluations, student achievement and employee contributions to health insurance. The Academy is determined to keep up with all the changes even with a reduction in the administrative work force.
- As the Academy continues to face the budget challenges of the current and upcoming school years, operating efficienciess and balanced budgets will be necessary. The ability to continue to operate an adequate educational system with continued less revenue and increasing expenditures is the challenge of the future. The Board of Directors is currently working on strategic plan goals that include fiscal oversight, fiscal responsibility, and financial planning.

Contacting the Academy's Financial Management

This financial report is designed to provide the Academy's citizens, taxpayers, customers, and investors and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Three Lakes Academy, W17540 Main St., Curtis, MI 49820.

BASIC FINANCIAL STATEMENTS

THREE LAKES ACADEMY
Statement of Net Position
June 30, 2015

	Governmental Activities
Assets	
Cash equivalents (Note B)	\$ 141,412
Accounts receivable	1,139
Due from other governmental units (Note C)	180,496
Inventory	794
Prepaid expenses	5,863
Capital assets being depreciated, net (Note E)	208,888
	538,592
Deferred Outflows of Resources	
Deferred pension amounts	156,884
	156,884
Liabilities	
Accounts payable	4,123
State aid anticipation loan payable (Note F)	22,571
Due to other governmental units	24,307
Payroll withholdings payable	326
Salaries payable	44,111
Long-term liabilities (Note G):	
Due in more than one year	44,812
Net pension liability	969,906
	1,110,156
Deferred Inflows of Resources	
Deferred pension amounts	107,224
	107,224
Net Position	
Net investment in capital assets	208,888
Restricted:	
Food service	14,046
Unrestricted	(744,838)
	(521,904)
	\$ (521,904)

See accompanying notes to basic financial statements.

THREE LAKES ACADEMY
Statement of Activities
For the year ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Position
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 529,502	\$ -	\$ 158,952	\$ (370,550)
Supporting services	2,744	-	104,694	101,950
Community services	1,891	-	-	(1,891)
Food service	54,564	12,173	43,651	1,260
Other	6,076	-	-	(6,076)
Depreciation - unallocated*	39,202	-	-	(39,202)
Total Governmental Activities	<u>\$ 633,979</u>	<u>\$ 12,173</u>	<u>\$ 307,297</u>	<u>(314,509)</u>
General Revenues				
				643,265
State school aid, unrestricted				333
Interest and investment earnings				107,240
Other				<u>750,838</u>
Total General Revenues				<u>750,838</u>
Change in Net Position				436,329
Net Position - Beginning of Year, as restated (Note K)				<u>(639,270)</u>
Net Position - End of Year				<u>\$ (202,941)</u>

*This amount excludes direct depreciation expenses of the various programs.
See accompanying notes to basic financial statements.

THREE LAKES ACADEMY
Balance Sheet
Governmental Funds
June 30, 2015

Assets	<u>General</u>	<u>Food Service</u>	<u>Total</u>
Cash equivalents (Note B)	\$ 129,265	\$ 12,147	\$ 141,412
Accounts receivable	-	932	932
Due from other funds (Note D)	299	410	709
Due from other governmental units (Note C)	180,496	-	180,496
Inventory	-	794	794
Prepaid expenditures	5,863	-	5,863
Total Assets	<u>\$ 315,923</u>	<u>\$ 14,283</u>	<u>\$ 330,206</u>
 Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 3,978	\$ 145	\$ 4,123
State aid anticipation loan payable (Note F)	22,571	-	22,571
Due to other funds (Note D)	410	92	502
Due to other governmental units	24,307	-	24,307
Payroll withholdings payable	326	-	326
Salaries payable	44,111	-	44,111
Total Liabilities	<u>95,703</u>	<u>237</u>	<u>95,940</u>
 Fund Balances (Note A)			
Nonspendable	5,863	794	6,657
Restricted	-	13,252	13,252
Committed for termination benefits	44,812	-	44,812
Assigned for transportation and technology	26,090	-	26,090
Unassigned	143,455	-	143,455
Total Fund Balances	<u>220,220</u>	<u>14,046</u>	<u>234,266</u>
Total Liabilities and Fund Balances	<u>\$ 315,923</u>	<u>\$ 14,283</u>	<u>\$ 330,206</u>

See accompanying notes to basic financial statements.

THREE LAKES ACADEMY
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2015

Total governmental fund balances		\$ 234,266
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 therefore are not reported as assets in governmental funds. The cost of assets is \$351,791 and accumulated depreciation is \$142,903.		208,888
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Termination benefits	\$ (41,112)	
Accumulated sick leave	(3,700)	(44,812)
Net pension liability and related outflows/inflows of resources are not included as assets/liabilities in governmental funds		
Net pension liability	(969,906)	
Deferred outflows	156,884	
Deferred inflows	(107,224)	(920,246)
Total net position - governmental activities		\$ (521,904)

See accompanying notes to basic financial statements.

THREE LAKES ACADEMY
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2015

	General	Food Service	Total
Revenues			
Local sources	\$ 107,533	\$ 12,213	\$ 119,746
State sources	836,375	410	836,785
Federal sources	41,850	43,241	85,091
Interdistrict sources	28,686	-	28,686
Total Revenues	<u>1,014,444</u>	<u>55,864</u>	<u>1,070,308</u>
Expenditures			
Current:			
Instruction	641,817	-	641,817
Supporting services	318,963	-	318,963
Community services	1,891	-	1,891
Food service	-	56,738	56,738
Total Expenditures	<u>962,671</u>	<u>56,738</u>	<u>1,019,409</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>51,773</u>	<u>(874)</u>	<u>50,899</u>
Other Financing Sources (Uses)			
Other	<u>(6,076)</u>	<u>-</u>	<u>(6,076)</u>
Net Change in Fund Balances	45,697	(874)	44,823
Fund Balances, Beginning of Year	<u>174,523</u>	<u>14,920</u>	<u>189,443</u>
Fund Balances, End of Year	<u><u>\$ 220,220</u></u>	<u><u>\$ 14,046</u></u>	<u><u>\$ 234,266</u></u>

See accompanying notes to basic financial statements.

THREE LAKES ACADEMY
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2015

Net change in fund balances - total governmental funds	\$	44,823
Amounts reported for governmental activities in the Statement of Activities are different because:		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period:</p>		
Capital outlays	\$ 92,624	
Depreciation expense	<u>(39,202)</u>	53,422
<p>In the Statement of Net Position, termination benefits and accumulated sick leave are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned (\$15,000) exceeded the amounts used/paid (\$0).</p>		
		<u>(15,000)</u>
<p>The changes in net pension liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds.</p>		
		<u>34,121</u>
Total changes in net position - governmental activities	\$	<u><u>117,366</u></u>

See accompanying notes to basic financial statements.

THREE LAKES ACADEMY
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2015

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues				
Local sources	\$ 6,250	\$ 17,950	\$ 107,533	\$ 89,583
State sources	818,552	840,314	836,375	(3,939)
Federal sources	57,750	77,317	41,850	(35,467)
Interdistrict sources	1,350	7,020	28,686	21,666
Total Revenues	883,902	942,601	1,014,444	71,843
Expenditures				
Current:				
Instruction:				
Basic programs	424,314	470,706	548,971	(78,265)
Added needs	100,615	110,944	92,846	18,098
Supporting services:				
Pupil services	18,200	15,742	6,338	9,404
Instructional staff services	-	6,722	6,055	667
General administrative services	54,530	42,243	38,625	3,618
School administrative services	32,429	37,321	36,493	828
Business services	58,279	62,910	62,897	13
Operation and maintenance services	92,855	99,797	92,922	6,875
Pupil transportation services	81,603	70,606	64,457	6,149
Central services	5,510	15,080	11,176	3,904
Community services	-	3,447	1,891	1,556
Total Expenditures	868,335	935,518	962,671	(27,153)
Excess of Revenues Over Expenditures	15,567	7,083	51,773	44,690
Other Financing Sources (Uses)				
Transfers out	(3,500)	(3,500)	-	3,500
Other	-	-	(6,076)	(6,076)
Total Other Financing Sources (Uses)	(3,500)	(3,500)	(6,076)	(2,576)
Net Change in Fund Balances	12,067	3,583	45,697	42,114
Fund Balances, Beginning of Year	174,523	174,523	174,523	-
Fund Balances, End of Year	\$ 186,590	\$ 178,106	\$ 220,220	\$ 42,114

See accompanying notes to basic financial statements.

THREE LAKES ACADEMY
Fiduciary Fund
Statement of Fiduciary Assets and Liabilities
June 30, 2015

Assets	
Cash equivalents (Note B)	<u>\$ 21,272</u>
Liabilities	
Due to other funds (Note D)	\$ 207
Due to student groups	<u>21,065</u>
Total Liabilities	<u>\$ 21,272</u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

Note A – Summary of Significant Accounting Policies

Three Lakes Academy received its charter under Public Act 416 of 1994 from Bay Mills Community College. As part of the chartering process, Three Lakes Academy filed Articles of Incorporation with the Michigan Department of Commerce. According to the contract with Bay Mills Community College, Three Lakes Academy is to act exclusively as a governmental agency, for the purposes of operating as a public school academy, and is not to undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Under this contract, Bay Mills Community College provides certain services to Three Lakes Academy including approval of Three Lakes Academy's operating plan, monitoring compliance with provisions of the charter contract and the selection of members for the Board of Directors. Bay Mills Community College is paid 3% of State Aid payments received by Three Lakes Academy for such services.

The Academy is governed by a Board of Directors consisting of seven members approved by Bay Mills Community College and administered by a Principal who is appointed by the aforementioned Board. The Academy provides educational services for approximately 89 full-time students as specified by State statute and Board of Directors policy.

The financial statements of Three Lakes Academy (the "Academy") have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school Academy's. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Academy's significant accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The Academy is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the Academy for financial statement presentation purposes, and the Academy is not included in any other governmental reporting entity. Consequently, the Academy's financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. Academy-wide and Fund Financial Statements

Academy-wide Financial Statements - The academy-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present financial information about the Academy as a whole. The reported information includes all of the nonfiduciary activities of the Academy. The Academy does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the Academy. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Academy does not have any *business-type activities*.

The Statement of Net Position is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The Academy's net position is reported in three parts: net investment in capital assets, restricted net assets, and unrestricted net assets.

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the academy-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the Academy's only major funds. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the academy-wide level. Reconciliations between the two sets of statements are provided in separate schedules.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises 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 the qualifying expenditures.

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

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

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 revenues in accordance with State law and accounting principles generally accepted in the United States of America.

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

Governmental Funds

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

Major Fund:

The *General Fund* is the general operating fund of the Academy. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Nonmajor 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.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school Academy maintains full control of these funds. The School Service Fund maintained by the Academy is the Food Service Special Revenue Fund.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the Academy in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

Agency Funds—Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Academy presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of an academy be under budgetary control and that both budgeted and actual financial results do not incur a deficit. An academy's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from an academy's budget may occur without a corresponding amendment to the budget. An academy has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. An academy may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Directors. Expenditures may not legally exceed budgeted appropriations at the function level. All appropriations lapse at the end of the fiscal year.

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

Three Lakes Academy utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- In the spring, administrative personnel propose the operating budget for the ensuing fiscal year.
- The preliminary operating budget is submitted to the Board of Directors. This budget includes proposed expenditures and the means of financing them.
- After the budget is finalized, the Board of Directors adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General Fund budget was amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- The budget for the General Fund was adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventories/Prepaid Items

Inventories are valued at cost (first-in, first-out), and are accounted for using the consumption method. Inventories of the Food Service Fund consist of food, and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed rather than when purchased.

8. Capital Assets

Capital assets, which include buildings and additions, and furniture and equipment, are reported in the academy-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

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

Land improvements, buildings and additions, and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings and additions	10-50 years
Furniture and equipment	5-10 years

9. Termination Benefits/Accumulated Sick Leave

Termination benefits and accumulated sick leave at June 30, 2015 have been computed and recorded in the basic financial statements of the Academy. Eligible Academy employees who select termination benefits are entitled to a termination leave payment based on their hire date. Employees who leave the Academy are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2015, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for termination benefits and accumulated sick leave amounted to \$41,112 and \$3,700, respectively.

10. Deferred Outflows/Inflows 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 future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Academy has only one type of item that qualifies for reporting in this category: the deferred outflows relating to the recognition of net pension liability on the financial statements.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as in inflow of resources (revenue) until that time. The Academy has only one type of item that qualifies for reporting in this category: the deferred inflows of resources relating to the recognition of net pension liability on the financial statements.

11. Net Position

Net position represents the difference between assets and liabilities. Net position net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations from other governments.

12. Fund Balance

The Academy had adopted Governmental Accounting Standards Board (GASB) Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*". The stated objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, detailed as follows:

- Nonspendable – resources that cannot be spent because they are either (a) not in spendable form (inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact (the principal of a permanent fund).
- Restricted – resources that cannot be spent because of (a) constraints externally imposed by creditors (debt covenants), grantors, contributors, or laws or regulations or (b) imposed by law through constitutional provisions or enabling legislation and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.
- Committed – resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority (Board of Education). Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified uses by taking the same type of action it employed to previously commit those amounts. Committed fund balance does not lapse at year end.
- Assigned – resources that are constrained by the government’s *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has designated the authority to assign amounts to be used for specific purposes.
- Unassigned – unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

As of June 30, 2015, Three Lakes Academy had not established a policy for its use of unrestricted fund balance amounts; it considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used, but reserves the right to selectively spend unassigned resources first to defer the use of other classified funds.

13. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

14. Estimates

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

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

Note B – Cash Equivalents

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker’s acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school Academy in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school Academy in Michigan.

Balances at June 30, 2015 related to cash equivalents and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Position:	
Governmental activities	\$ 141,412
Fiduciary Fund:	
Trust and Agency Funds	<u>21,272</u>
	<u>\$ 162,684</u>

Cash Equivalents

Depositories actively used by the Academy during the year are detailed as follows:

1. State Savings Bank

Cash equivalents consist of bank public funds checking and savings accounts.

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

June 30, 2015 balances are detailed as follows:

Cash equivalents	<u>\$ 162,684</u>
------------------	-------------------

Custodial Credit Risk Related to Cash Equivalents

Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned to the Academy. Protection of Academy cash equivalents is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the Academy's cash equivalents was \$162,684, and the bank balance was \$172,098. The bank balance was completely covered by federal depository insurance.

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts.

These additional State revenues pass through to Michigan schools in the form of a per pupil "Foundation Allowance" paid on a "blended count" of Academy pupil membership in October, 2014 and February, 2015. The 2014-15 "Foundation Allowance" for Three Lakes Academy was \$7,126 for 89 "Full Time Equivalent" students, generating \$731,201 in state aid payments to the Academy of which \$132,906 was paid to the Academy in July and August, 2015 and included in "Due From Other Governmental Units" of the General Fund.

Note D – Interfund Receivables/Payables

Amounts due from (to) other funds, representing interfund receivables and payables for year-end expenditure allocations not reimbursed at June 30, 2015, are detailed as follows:

	Due From	Due To
Major Fund		
General Fund:		
Special Revenue Fund:		
Food Service Fund	\$ 92	\$ 410
Agency Fund:		
Student Activities Fund	207	—
	299	410
Total Major Fund	299	410
Nonmajor Fund		
Special Revenue Fund:		
Food Service Fund:		
General Fund	410	92
	410	92
Fiduciary Fund		
Agency Fund:		
Student Activities Fund:		
General Fund	—	207
	—	207
Total All Funds	\$ 709	\$ 709

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Balances July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2015</u>
Buildings and additions	\$ —	\$ 92,624	\$ —	\$ 92,624
Furniture and equipment	259,167	—	—	259,167
Total capital assets being depreciated	<u>259,167</u>	<u>\$ 92,624</u>	<u>\$ —</u>	<u>351,791</u>
Less accumulated depreciation for:				
Buildings and additions	—	\$ 6,175	\$ —	6,175
Furniture and equipment	<u>103,701</u>	<u>33,027</u>	<u>—</u>	<u>136,728</u>
Total accumulated depreciation	<u>103,701</u>	<u>\$ 39,202</u>	<u>\$ —</u>	<u>142,903</u>
Net Capital Assets	<u>\$ 155,466</u>			<u>\$ 208,888</u>

Depreciation expense for the Academy was \$39,202. The Academy determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

Note F – Long-term Debt

Changes in long-term debt for the year ended June 30, 2015 are summarized as follows:

	<u>Debt Outstanding July 1, 2014</u>	<u>Debt Added</u>	<u>Debt Retired</u>	<u>Debt Outstanding June 30, 2015</u>
Termination benefits	\$ 27,112	\$ 14,000	\$ —	\$ 41,112
Accumulated sick leave	<u>2,700</u>	<u>1,000</u>	<u>—</u>	<u>3,700</u>
	<u>\$ 29,812</u>	<u>\$ 15,000</u>	<u>\$ —</u>	<u>\$ 44,812</u>

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

Note G – Retirement Plan

Summary of Significant Accounting Policies

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented by the Academy during the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Cost sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans – pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

Substantially all Academy employees participate in the Michigan Public School Employees' Retirement System (MPERS) (the "System"), a cost sharing, multiple employer, state-wide, defined benefit public employee retirement system governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/orsschools/>.

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of pension plans offered by MPERS are detailed as follows:

Plan Name	Plan Type	Plan Status
Member Investment Plan (MIP)	Defined Benefit	Closed
Basic	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

Membership

At September 30, 2014, the System's membership consisted of the following:

Inactive plan members or their beneficiaries currently receiving benefits:	
Regular benefits	181,489
Survivor benefits	16,855
Disability benefits	6,168
Total	204,512
Inactive plan members entitled to but not yet receiving benefits:	16,979
Active plan members:	
Vested	108,934
Non-vested	101,843
Total	210,777
Total plan members	432,268

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB member or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

Option 1 members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic Plan members; 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic Plan members, 3.9% for MIP-Fixed, up to 4% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Deferred Compensation plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in the 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and Final Average Compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a Deferred Contribution (DC) plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus plan. If they elect to opt out of the Pension Plus plan, their participation in the DC plan will be retroactive to their date of hire.

Regular Retirement

The retirement benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period. For a Member Investment Plan (MIP) member, who became a member of MPSERS prior to July 1, 2010, the averaging period is 36 consecutive months. For a Pension Plus member, who became a member of MPSERS after June 30, 2010, the averaging period is 60 consecutive months. For a Basic Plan member, this period is the 60 consecutive months yielding the highest total wages. The annual pension is paid

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012 and is shown below:

Option 1: $FAC \times \text{total years of service} \times 1.5\%$

Option 2: $FAC \times 30 \text{ years of service} \times 1.5\% + FAC \times \text{years of service beyond 30} \times 1.25\%$

Option 3: $FAC \times \text{years of service as of transition date} \times 1.5\% + FAC \times \text{years of service after transition date} \times 1.25\%$

Option 4: $FAC \text{ as of transition date} \times \text{years of service as of transition date} \times 1.5\%$

A MIP member who became a member of MPSERS prior to July 1, 2010 may retire at:

- age 46 with 30 or more years of credited service; or
- age 60 with 10 or more years of credited service; or
- age 60 with 5 years of credited service provided the member has worked through his or her 60th birthday and has credited service in each of the five school fiscal years immediately preceding the retirement effective date.

A Pension Plus member who became a member of MPSERS after June 30, 2010 may retire at age 60 with 10 or more years of credited service.

A Basic Plan member may retire at:

- age 55 with 30 or more years of service; or
- age 60 with 10 or more years of service.

There is no mandatory retirement age.

Early Retirement

A member may retire with an early permanently reduced pension:

- after completing at least 15 but less than 30 years of credited service; and
- after attaining age 55; and
- with credited service in each of the 5 school years immediately preceding the pension effective date.

Deferred Retirement

If a member terminates employment before attaining the age qualification, but after accruing 10 or more years of credited service, the member becomes a deferred member and is eligible for a pension at the time the age qualification is attained.

Non-Duty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled due to any non-duty related cause and who has not met the age requirement for a regular pension is eligible for a non-duty disability pension computed in the same manner as an age and service pension, upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by two percent for each year retired; first year 100%, next year 102%, etc.).

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

Duty Disability Benefit

A member who becomes totally and permanently disabled as a result of a duty-related cause, who has not met the age and service requirement for a regular pension, and who is in receipt of weekly workers' compensation is eligible for a duty disability pension computed in the same manner as an age and service pension (but based upon a minimum of 10 years of service) upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by 2% for each year retired; first year 100%, next year 102%, etc.).

Forms of Payment

The election of a pension option is made at the time of application. Once a member has retired, the option choice is irrevocable. The pension effective date is the first of the calendar month following the date the member has satisfied the age and service requirements, has terminated public school employment and has the completed application forms on file with the System for a period of 15 days. A retroactive pension can be paid for no more than 12 calendar months. Thus, delay in filing the application can result in a loss of some retroactive pension benefits. An application may select only one of the following options.

Straight Life Pension – the Straight Life Pension pays the largest level pension a retiree can receive during his or her lifetime and stops with the month of the retiree's death. There are no monthly benefits for a beneficiary. The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to any beneficiary.

Survivor Options - Under the Survivor Options, 100% Survivor Pension, 100% Equated, 75% Survivor Pension, 75% Equated, 50% Survivor Pension and 50% Equated, the reduction is an actuarial determination dependent upon the combined life expectancies of a retiree and a beneficiary, and varies from case to case. A beneficiary may only be a spouse, brother, sister, parent or child (including an adopted child) of a retiring member. If the beneficiary predeceases a retiree, the pension will revert to either the Straight Life or Straight Life Equated amount ("pop-up" provision). If, however, a retiree was single at the time of retirement and subsequently married, the retiree can request to nominate a new spouse if they elected the straight life option at retirement. Also, if a retiree was married at the time of retirement and has since been widowed and remarried, the retiree can request to nominate a new spouse as a pension beneficiary as long as they elected a survivor option for the spouse at the time of retirement.

100% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree's death, the same amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

75% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree's death, 75% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

50% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree's death, 50% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

Equated Plan – The Equated Plan may be combined with the Straight Life, 100% Survivor, 75% Survivor, or 50% Survivor pension by any member under age 61, except a disability applicant. The Equated Plan provides a higher pension every month until age 62, at which time the monthly pension is permanently decreased to a lower amount than the Straight Life, 100%, 75%, or 50% Survivor alone would provide.

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

The intent of the Equated Plan is for the retiree's pension to decrease at age 62 by approximately the same amount as that person's Social Security benefit will provide. The System pension until age 62 should be about the same as the combined System pension and Social Security after age 62.

The projected Social Security pension the retiring member obtains from the Social Security Administration and furnishes to the System is used in the Equated Plan calculation. The actual Social Security pension may vary from the estimate.

NOTE: The reduction in the pension at age 62 pertains to the Equated Plan only and affects only the retiree. A beneficiary under 100% Equated, 75% Equated or 50% Equated will receive the 100%, 75%, or 50% Survivor amount the month following the retiree's death as if the Equated Plan had not been chosen. A beneficiary does not participate in the Equated Plan.

Survivor Benefit

A non-duty survivor pension is available if a Member Investment Plan (MIP) member has 10 years of credited service or, if age 60 or older, with five years of credited service; the date they became a MIP member does not matter. The Basic Plan provides a survivor pension with 15 years of credited service or, if age 60 or older, with 10 years of credited service. An active member may nominate as a survivor beneficiary a spouse, child(ren) (including adopted child(ren)), brother, sister, or parent. If other than the spouse is nominated and a spouse exists, the spouse must waive this benefit. If no beneficiary has been nominated, the beneficiary is automatically the spouse; or, if there is no spouse, unmarried children under age 18 share the benefit equally until age 18. The benefit is computed as a regular pension but reduced in accordance with an Option 2 (100% survivor pension factor). The pension begins the first of the month following the member's death. In the event of death of a deferred member, the System begins payment to the nominated beneficiary at the time the member would have attained the minimum age qualification.

A duty survivor pension is payable if weekly Workers' Compensation is being paid to the eligible beneficiary due to the member's death. A spouse receives the benefit (based on a minimum of 10 years of service credit) reduced in accordance with a 100% survivor pension factor. If there is no spouse, unmarried children under age 18 share the benefit equally until age 18; if there is no spouse or child(ren), a disabled and dependent parent is eligible.

Post-Retirement Adjustments

A retiree who became a Member Investment Plan (MIP) member prior to July 1, 2010, receives an annual post-retirement non-compounded increase of three percent of the initial pension in the October following twelve months of retirement. Basic Plan members do not receive an annual post-retirement increase, but are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions. Pension Plus members do not receive an annual post-retirement increase.

On January 1, 1990, pre-October 1, 1981 retirees received an increase that ranged from 1% to 22% dependent upon the pension effective date. On October 1, 1990, the base pension of all retirees with an effective pension date of January 1, 1987, or earlier was increased to include all prior post-retirement benefits.

On January 1, 1986, all recipients through calendar year 1985 received a permanent 8% increase that established the 1986 base pension. In addition, each October, retirees with a pension effective date of January 1, 1987, or earlier receive a fixed increase equal to 3% of the base pension. Both increases are deducted from the distribution of excess investment income, if any. Beginning in 1983, eligible recipients receive an annual distribution of excess investment income, if any.

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

Contributions

The majority of the members currently participate on a contributory basis, as described above under “Benefits Provided”. Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB) (See Note I). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under the method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability will be amortized over a 22 year period for the 2014 fiscal year.

Employer contributions to the plans are based on a percentage of covered payroll that has been actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded liability. Member contributions are determined based on date of hire and the plan selected. In addition, the Academy is invoiced monthly an amount that approximates 7.63% of covered payroll for “MPSERS UAAL Stabilization.” This additional contribution is offset by monthly State Aid payments equal to the amounts actually billed by the Office of Retirement Services (ORS). For the plan year ended September 30, 2015, an additional 1.13% MPSERS liability prepayment was invoiced as a one-time cost. Employer contribution requirements for pension and retiree healthcare, including the MPSERS UAAL Stabilization and one-time prepayment rates, ranged from 27.52% to 31.83% of covered payroll. Plan member contribution rates range from 0.0% to 7.0% of covered payroll.

The Academy’s contributions to MPSERS under all pension plans for the year ended June 30, 2015, inclusive of the MSPERS UAAL Stabilization and one-time prepayment, totaled \$129,878.

Total MPSERS plan actual employer contributions for retirement benefits were \$1,364.1 million for fiscal year 2014. The fiscal year 2014 annual covered payroll was \$8.79 billion. Required employer contributions based on previous year actuarial valuations for pensions included:

- \$390.0 million for fiscal year 2014 for the normal cost of pensions representing 4.5% (before reconciliation) of annual covered payroll for fiscal year 2014.
- \$1,541.9 million for fiscal year 2014 for amortization of unfunded actuarial liability representing 17.8% (before reconciliation) of annual covered payroll for fiscal year 2014.

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System’s members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 1998, and payments began in fiscal year 1999.

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from members’ paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2014, there were 16,503 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2014. The average remaining length of a contract was approximately 6.0 years for 2014. The short-term receivable was \$29.7 million and the discounted long-term receivable was \$83.6 million at September 30, 2014.

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

MPSERS Plan Net Pension Liability

Total Pension Liability	\$ 65,160,887,182
Plan Fiduciary Net Position	43,134,384,072
Net Pension Liability	\$ 22,026,503,110
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	66.20%
Net Pension Liability as a Percentage of Covered Employee Payroll	250.11%

Proportionate Share of Reporting Unit's Net Pension Liability

At June 30, 2015, the Academy reported a liability of \$969,906 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2014, the Academy's proportion was .00440336%.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the Academy recognized pension expense of \$78,563. At June 30, 2015, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 35,787	\$ —
Net difference between projected and actual earnings on pension plan investments	—	107,224
Changes in proportion and differences between Academy contributions and proportionate share of contributions	—	—
Academy contributions subsequent to the measurement date*	121,097	—
Total	\$ 156,884	\$ 107,224

*This amount, reported as deferred outflows of resources related to pensions resulting from Reporting Unit contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

Year ended June 30	Amount
2016	\$ 17,500
2017	17,500
2018	17,500
2019	18,937

Valuation Assumptions

The rate of investment return was 8.0% a year, compounded annually net of investment and administrative expenses of the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus plan).

The assumed real return is the rate of return in excess of wage inflation. Considering other assumptions used in the valuation, the 8.0% nominal rate translates to a net real return of 4.5% a year for the Non-Hybrid groups. Considering other assumptions used in the valuation, the 7.0% nominal rate translates to a net real return of 3.5% a year for the Hybrid group.

The rate of pay increase used for individual members is 3.5%. This assumption is used to project a member's current pay to the pay upon which System benefits will be based. The current assumption was first used for the September 30, 2004 valuation of the System.

Actuarial Cost Method – Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an Individual Entry-Age Actuarial Cost Method having the following characteristics:

- the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;
- each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

Actuarial gains (losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability (UAAL).

Financing of Unfunded Actuarial Accrued Liabilities – Unfunded actuarial accrued liabilities (full funding credit if assets exceed liabilities) were amortized by level (principal and interest combined) percent-of-payroll contributions over a reasonable period of future years.

Amortization of UAAL Resulting from the Early Retirement Incentive (ERI) Program of 2010 – it has been reported that 1.36% of payroll will be contributed beginning in fiscal year 2013 for a 10 year period to amortize the UAAL associated with the ERI program of 2010. In order to avoid duplication of the employer contributions, the present value of future ERI amortization payments is subtracted from the unfunded actuarial accrued liability (UAAL) to determine the remaining UAAL contribution.

Actuarial Value of System Assets – The actuarial value of assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in over a closed five year period. During periods when investment performance exceeds the assumed rate, actuarial value of assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, actuarial value of assets will tend to be greater than market value. The actuarial value of assets was reset to marked value as of September 30, 2006, with five-year smoothing restarted at that time. The actuarial value of assets is developed separately for the Non-Hybrid and Hybrid portions of the System. The total actuarial value of assets is the sum of these two components.

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

Mortality Assumptions

The healthy life post-retirement mortality table used in this valuation of the System was the RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA. The final rates used include no margin for future mortality improvement. This assumption is used to measure the probabilities of each benefit payment being made after retirement.

Experience Study

The annual actuarial report of the System used for these statements is dated September 30, 2014. An assumption experience study is performed every five years. The actuarial assumptions used in the September 30, 2014 valuation were based on the results on an actuarial experience study for the period October 1, 2007 to September 30, 2012. As a result of this actuarial experience study, the actuarial assumptions were adjusted to more closely reflect actual experience.

Discount Rate

The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school Academys will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the plan's projected fiduciary net position is not sufficient to pay benefits).

- The expected rate of return on pension plan investments 8.0%.
- The municipal bond rate is 3.480% (based on the weekly rate closeout to but not later than the measurement date of the 20-year Bond Buyer Index as published by the Federal Reserve).
- The resulting single discount rate is 8.0%.
- The Plan Fiduciary Net Position is projected to be sufficient to make Projected Benefit Payments until 2114.

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Expected Monthly Weighted Rate of Return</u>
Domestic Equity Pools	28.0%	4.8%	1.34%
Private Equity Pools	18.0%	8.5%	1.53%
International Equity Pools	16.0%	6.1%	.98%
Fixed Income Pools	10.5%	1.5%	.16%
Real Estate & Infrastructure Pools	10.0%	5.3%	.53%
Real Return, Opportunistic, and Absolute Pools	15.5%	6.3%	.98%
Short-term Investment Pools	2.0%	(0.2%)	(.02)%
Totals	<u>100.0%</u>		<u>5.50%</u>
Inflation			<u>2.50%</u>
Investment Rate of Return			<u>8.00%</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Academy's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	<u>1% Decrease (7.0%)</u>	<u>Current Discount Rate (8.0%)</u>	<u>1% Increase (9.0%)</u>
Academy's proportionate share of the net pension liability	\$ 1,278,737	\$ 969,906	\$ 709,712

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System September 30, 2014 Comprehensive Annual Financial Report, available here: <http://michigan.gov/orsschools>.

Payables to the Pension Plan

Payables to the pension plan totaling \$44,111 at June 30, 2015 arise from the normal legally required contributions based on the accrued salaries payable at year-end, expected to be liquidated with expendable available financial resources.

Note H – Other Postemployment Benefits

Plan Description and Employee Contributions

Benefit provisions of the post-employment healthcare plan are established by State statute which may be amended. Retirees have the option of health coverage, which, through 2012, is currently funded on a cash disbursement basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

balance deducted from the monthly pension of each retiree health care recipient. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees.

Public Act 300 of 2012 granted all active members of MPSERS a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012.

Members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their Section 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) account no later than their first pay date after February 1, 2013.

Members who did not make an election before the deadline retain the subsidy benefit and continue making the 3% contribution toward retiree healthcare.

Members who elected to retain the premium subsidy continue to annually contribute 3% of compensation into the healthcare funding account. A member or former member age 60 or older, who made the 3% healthcare contributions but who does not meet the eligibility requirements may request a refund of their contributions.

Under Public Act 300 of 2012, the State no longer offers an insurance premium subsidy in retirement for public school employees who first work on or after September 4, 2012. Instead all new employees will be placed into the Personal Healthcare Fund where they will have support saving for retirement healthcare costs in the following ways:

- They will be automatically enrolled in a 2% employee contribution into a Section 457 account as of their date of hire, earning them a 2% employer match into a 401(k) account.
- They will receive a credit into a Health Reimbursement Account (HRA) at termination if they have at least 10 years of service at termination. The credit will be \$2,000 for participants who are at least 60 years of age at termination or \$1,000 for participants who are less than 60 years of age at termination.

Employer contributions

Required contributions for post-employment health care benefits ranged from 5.52% to 8.18% of covered payroll for the fiscal year ended June 30, 2015.

Post-employment Plan Status

At September 30, 2013, the actuarial accrued liability for post-employment insurance benefits for the MPSERS as a whole was \$14.79 billion. The MPSERS net assets available for these benefits were \$1.35 billion leaving an unfunded actuarial accrued liability of \$13.44 billion. At September 30, 2013, the funded ratio of actuarial liability was 9.1%; covered payroll totaled \$8.6 billion, and unfunded actuarial liability was 155.4% of covered payroll.

THREE LAKES ACADEMY
Notes to Basic Financial Statements
June 30, 2015

Note I – Risk Management and Benefits

The Academy is exposed to risks of loss related to property loss, torts, errors, and omissions, employee injuries (worker’s compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for health claims, and contracts with EMC Insurance Companies for claims relating to workers’ compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. Member premiums are used to purchase commercial excel insurance coverage and to pay member claims in excel of deductible amounts.

There were no significant reductions in insurance coverage in fiscal year 2014-15.

Note J – Stewardship, Compliance and Accountability

The following Academy fund had actual expenditures exceed final budgeted amounts for the year ended June 30, 2015, as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Current:			
Instruction:			
Basic programs	\$ 470,706	\$ 548,971	\$ 78,265

The Academy has an unrestricted net position deficit of \$744,838 and a total net position deficit of \$521,904 as of June 30, 2015. These deficit net positions result primarily from recording a net pension liability of \$954,367 at July 1, 2014 (see Note K).

Note K – Restatement of Net Position

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented by the Academy during the fiscal year ended June 30, 2015. Changes/additions to deferred outflows of resources, deferred inflows of resources and net pension liability required by the Statements decreased beginning net position by \$954,367 at July 1, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

THREE LAKES ACADEMY
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2015

	Year Ended June 30, 2015
District's proportion of the net pension liability	0.00440336%
District's proportionate share of the net pension liability	\$ 969,906
District's covered-employee payroll	\$ 355,451
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	272.87%
Plan fiduciary net position as a percentage of the total pension liability	66.20%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See accompanying notes to required supplementary information.

THREE LAKES ACADEMY
Required Supplementary Information
Schedule of District Contributions
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2015

	Year Ended June 30, 2015
Contractually required contribution	\$ 129,878
Contributions in relation to the contractually required contribution	129,878
Contribution deficiency (excess)	\$ -
District's covered-employee payroll	\$ 410,564
Contributions as a percentage of covered employee payroll	31.63%

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See accompanying notes to required supplementary information.

THREE LAKES ACADEMY
Notes to Required Supplementary Information
June 30, 2015

Note A – Net Pension Liability and Contributions

Changes of benefit terms: There were no changes of benefit terms in 2014-15

Changes of assumptions: There were no changes of benefit assumptions in 2014-15

SUPPLEMENTARY INFORMATION

AGENCY FUND

Student Activities—to account for the collection and disbursements of monies used by the school activity clubs and groups.

THREE LAKES ACADEMY
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2015

	<u>Balances July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2015</u>
Assets				
Cash equivalents	<u>\$ 12,792</u>	<u>\$ 24,900</u>	<u>\$ 16,420</u>	<u>\$ 21,272</u>
Liabilities				
Due to other funds	\$ 2,424	\$ 1,077	\$ 3,294	\$ 207
Due to student groups	<u>10,368</u>	<u>26,639</u>	<u>15,942</u>	<u>21,065</u>
Total Liabilities	<u>\$ 12,792</u>	<u>\$ 27,716</u>	<u>\$ 19,236</u>	<u>\$ 21,272</u>

INTERNAL CONTROL AND COMPLIANCE



**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**

October 30, 2015

The Board of Directors
Three Lakes Academy

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Three Lakes Academy (the "Academy"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy'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.

A handwritten signature in cursive script that reads "Hungerford Nichols".

Certified Public Accountants