

MARSHALL ACADEMY
Report on Financial Statements
(With required supplementary information)

Year Ended June 30, 2013

**Marshall Academy
Financial Report
For the Fiscal Year Ended
June 30, 2013**

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CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Board of Directors
Marshall Academy
18203 Homer Road
Marshall, MI 49068

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund (General Fund) of Marshall Academy (the Academy) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Marshall 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 Academy'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 Academy'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 and the major fund (General Fund) of Marshall Academy as of June 30, 2013, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages vi through xii and 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

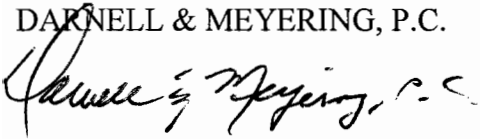
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marshall Academy's financial statements as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2013, on our consideration of Marshall Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

DARNELL & MEYERING, P.C.

A handwritten signature in black ink, appearing to read "Darnell & Meyering, P.C.", written over the printed name.

Taylor, Michigan
October 2, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Marshall Academy's (the Academy) annual financial report presents our discussion and analysis of the public school academy's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Financial Highlights

- Blended enrollment used for state aid purposes was 247.40.
- The Academy maintained its outstanding liabilities.

Overview of the Financial Statements

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

The first two statements are government-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 government-wide statements.

The governmental fund statements express how basic services such as regular education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-1 Organization of Marshall Academy Annual Financial Report

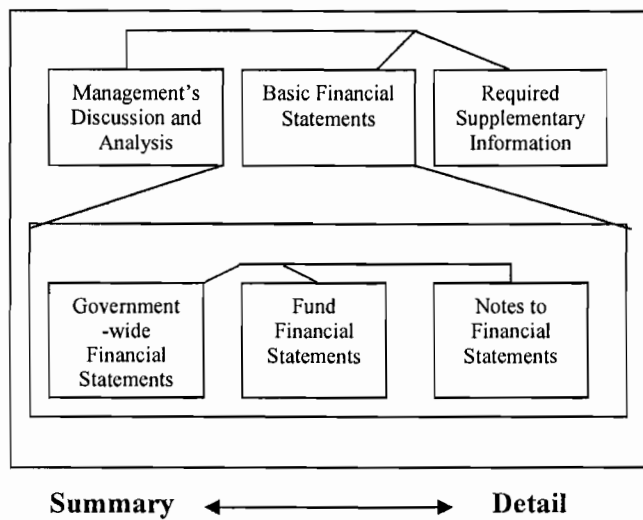


Figure A-2 summarizes the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A – 2 Major Features of the Government-Wide and Fund Financial Statements

| | Government-wide Statements | Fund Financial Statements |
|--------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | Governmental funds |
| Scope | Entire Academy (except fiduciary funds) | All activities of the Academy that are not fiduciary |
| Required financial statements | * Statement of net position * Statement of activities | * Balance sheet * Statement of revenues, expenditures and changes in fund balances |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus |
| Type of asset/deferred outflows of resources/liability/deferred inflows of resources information | All assets, deferred outflows of resources, liabilities, and deferred inflows of resources both financial and capital, short-term and long-term | Generally assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter; no capital assets or long-term liabilities included |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable |

Government-wide statements

The government-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Academy's assets, deferred outflows of resources (if any), liabilities and deferred inflows of resources (if any). 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 government-wide statements report the Academy's net position and how they have changed. Net position – the difference between the Academy's assets, deferred outflows of resources (if any), liabilities and deferred inflows of resources (if any), are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

Fund financial statements

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

The Academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities. The Debt Service Fund contains the funds necessary to pay the annual required debt payments. In 2013, the debt service fund was combined with the general fund.

The Academy has only one type of fund:

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

Financial analysis of the Academy as a whole

Net position - the Academy’s combined net position was a deficit of \$(957,943) on June 30, 2013. See Figure A – 3.

The total revenues were \$2,106,650. State aid foundation allowance included in revenue from state sources accounts for most of the Academy’s revenue (82 percent).

The total cost of instruction was \$907,791.

The Academy’s stable net position is the product of many factors. The primary reasons are the management of expenses to bring them in line with the Academy’s revenue.

Academy governmental activities

| Figure A-3 Marshall Academy | | |
|----------------------------------------|---------------------|-----------------------|
| | 2013 | 2012 |
| Assets: | | |
| Current assets | \$ 363,078 | \$ 476,928 |
| Noncurrent assets | 522,718 | 517,605 |
| Capital assets | 4,351,588 | 4,468,655 |
| Total assets | <u>5,237,384</u> | <u>5,463,188</u> |
| Liabilities: | | |
| Current liabilities | 514,308 | 2,576,596 |
| Noncurrent liabilities | 5,681,019 | 3,950,000 |
| Total liabilities | <u>6,195,327</u> | <u>6,526,596</u> |
| Net position: | | |
| Net investment in capital assets | (1,498,412) | (1,656,345) |
| Restricted - debt service | 375,319 | 454,338 |
| Unrestricted | 165,150 | 138,599 |
| Total net position (deficit) | <u>\$ (957,943)</u> | <u>\$ (1,063,408)</u> |

| Figure A-4 | | |
|---------------------------------------------------|-------------------|------------------|
| Changes in Marshall Academy's Net Position | | |
| | <u>2013</u> | <u>2012</u> |
| Revenues: | | |
| Program revenues: | | |
| Federal and state categorical grants | \$ 193,732 | \$ 234,621 |
| General revenues: | | |
| State aid - unrestricted | 1,712,503 | 1,868,410 |
| Other | 200,415 | 20,220 |
| Total revenues | <u>2,106,650</u> | <u>2,123,251</u> |
| Expenses: | | |
| Instruction | 907,791 | 915,944 |
| Support services | 622,195 | 609,004 |
| Interest expense | 399,872 | 464,678 |
| Unallocated depreciation | 71,327 | 72,496 |
| Total expenses | <u>2,001,185</u> | <u>2,062,122</u> |
| Change in net position | <u>\$ 105,465</u> | <u>\$ 61,129</u> |

Financial analysis of the Academy's funds

The stable financial performance of the Academy as a whole is reflected in its governmental funds as well. As the Academy completed the year, its general fund reported a fund balance of \$573,722.

General fund budgetary highlights

Over the course of the year, the Academy revised the annual operating budget two times. These budget amendments fall into several categories:

Changes were made in the second and fourth quarters to account for student enrollment counts, state aid, and changes in assumptions (e.g. salaries, supplies, advertising and building maintenance costs) since the original budget was adopted.

While the Academy's final budget for the general fund anticipated expenditures would exceed revenues by \$86,077, the actual results for the year showed expenditures over revenue of \$152,609.

Capital asset and debt administration

Capital assets

By the end of the year ended June 30, 2013, the Academy had invested \$4,351,588 in capital assets consisting primarily of land, furniture, fixtures and equipment, computers equipment, and building and improvements net of accumulated depreciation. More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year was \$120,561.

The Academy's capital assets are as follows:

| | <u>Cost</u> | <u>Accumulated Depreciation</u> | <u>2013 Net Book Value</u> | <u>2012 Net Book Value</u> |
|-----------------------------------|---------------------|-------------------------------------|------------------------------------|------------------------------------|
| Land | \$ 100,000 | \$ - | \$ 100,000 | \$ 100,000 |
| Furniture, fixtures and equipment | 239,610 | 144,633 | 94,977 | 105,853 |
| Computer equipment | 23,372 | 14,856 | 8,516 | 7,945 |
| Building and Improvements | 5,241,285 | 1,093,190 | 4,148,095 | 4,254,857 |
| Total | <u>\$ 5,604,267</u> | <u>\$ 1,252,679</u> | <u>\$ 4,351,588</u> | <u>\$ 4,468,655</u> |

Long-term debt Activity

At year-end, the Academy had outstanding long-term debt obligations in the amount of \$5,821,040 (more detailed information about the Academy's long-term liabilities is presented in Note 6 of the financial statements.)

| | <u>2013</u> | <u>2012</u> |
|------------------------------------|---------------------|---------------------|
| 2005 Certificates of participation | \$ 3,950,000 | \$ 4,025,000 |
| Mortgage note payable | 1,871,040 | 2,100,000 |
| Total | <u>\$ 5,821,040</u> | <u>\$ 6,125,000</u> |

Factors bearing on the Academy's future

At the time these financial statements were prepared and audited, the Academy was not aware of any existing circumstances that could significantly affect its financial health in the future.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's office at 2525 West Jefferson, Trenton, MI 48183.

Marshall Academy
Statement of Net Position
June 30, 2013

| | Governmental Activities |
|---------------------------------------------|----------------------------|
| Assets | |
| Current Assets: | |
| Cash and equivalents | \$ 23,999 |
| Receivables: | |
| Due from other governmental units | 339,079 |
| Total Current Assets | 363,078 |
| Noncurrent Assets: | |
| Investments - restricted for debt service | 522,718 |
| Capital assets | 5,604,267 |
| Less accumulated depreciation | (1,252,679) |
| Total Noncurrent Assets | 4,874,306 |
| Total Assets | 5,237,384 |
| Liabilities | |
| Current Liabilities: | |
| Accounts payable | 38,963 |
| Accrued oversight fee | 9,332 |
| Accrued interest | 212,305 |
| SAAN payable | 55,573 |
| Due to other governmental unit | 8,682 |
| Unearned revenue | 20,472 |
| Note payable | 28,960 |
| Current portion of long term obligations | 140,021 |
| Total Current Liabilities | 514,308 |
| Noncurrent Liabilities: | |
| Noncurrent portion of long term obligations | 5,681,019 |
| Total Noncurrent Liabilities | 5,681,019 |
| Total Liabilities | 6,195,327 |
| Net Position (Deficit): | |
| Net investment in capital assets | (1,498,412) |
| Restricted for debt service | 375,319 |
| Unrestricted | 165,150 |
| Total Net Position (Deficit) | \$ (957,943) |

The notes to the financial statements are an integral part of this statement.

Marshall Academy
Statement of Activities
Year Ended June 30, 2013

| <u>Functions/programs</u> | <u>Expenses</u> | <u>Charges for Services</u> | <u>Program Revenues Operating Grants & Contributions</u> | <u>Governmental Activities Net (expense) Revenue and Changes in Net Position</u> |
|-------------------------------------------|---------------------|---------------------------------|----------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| Governmental activities: | | | | |
| Instruction | \$ 907,791 | \$ - | \$ 193,732 | \$ (714,059) |
| Support services | 622,195 | - | - | (622,195) |
| Interest expense | 399,872 | - | - | (399,872) |
| Unallocated depreciation | <u>71,327</u> | - | - | <u>(71,327)</u> |
| Total governmental activities | <u>\$ 2,001,185</u> | <u>\$ -</u> | <u>\$ 193,732</u> | <u>(1,807,453)</u> |
| General revenues: | | | | |
| State of Michigan school aid unrestricted | | | | 1,712,503 |
| Miscellaneous | | | | 203,575 |
| Special items: | | | | |
| Loss on disposal of assets | | | | <u>(3,160)</u> |
| Total general revenues | | | | <u>1,912,918</u> |
| Change in net position | | | | 105,465 |
| Net position, beginning of year | | | | <u>(1,063,408)</u> |
| Net position, end of year (deficit) | | | | <u>\$ (957,943)</u> |

The notes to the financial statements are an integral part of this statement.

Marshall Academy
Balance Sheet
Governmental Fund
Year Ended June 30, 2013

| | General Fund |
|-------------------------------------------|-------------------|
| Assets | |
| Assets: | |
| Cash and equivalents | \$ 23,999 |
| Receivables | |
| Other governmental units | 339,079 |
| Investments - restricted for debt service | 522,718 |
| Total Assets | \$ 885,796 |
| | |
| Liabilities and Fund Balance | |
| Liabilities: | |
| Accounts payable | \$ 38,963 |
| Accrued oversight fee | 9,332 |
| Interest payable | 150,092 |
| Due to other governmental unit | 8,682 |
| Unearned revenue | 20,472 |
| Note payable | 28,960 |
| SAAN payable | 55,573 |
| Total Liabilities | 312,074 |
| | |
| Fund Balance: | |
| Restricted for debt service | 437,532 |
| Unassigned | 136,190 |
| Total Fund Balance | 573,722 |
| | |
| Total Liabilities and Fund Balance | \$ 885,796 |

Total governmental fund balances \$ 573,722

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds

The cost of capital assets is:

\$ 5,604,267
(1,252,679)

4,351,588

Long term liabilities are not due and payable in the current period and are not reported in the funds

Long term obligations

Certificates of Participation

Mortgage note payable

(3,950,000)
(1,871,040)

Accrued interest not included as a liability in the governmental funds, it is recorded when paid

(62,213)

Net position of governmental activities (deficit)

\$ (957,943)

Marshall Academy
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
Year Ended June 30, 2013

| | General Fund |
|-------------------------------|------------------|
| Revenues: | |
| Local sources | \$ 3,575 |
| Intermediate sources | 67,707 |
| State sources | 1,780,143 |
| Federal sources | 58,385 |
| Total revenues | 1,909,810 |
| Expenditures: | |
| Current: | |
| Instruction: | |
| Basic programs | 745,070 |
| Added needs | 160,347 |
| Total instruction | 905,417 |
| Support services: | |
| Instructional staff | 1,543 |
| General administration | 181,012 |
| School administration | 190,060 |
| Business and fiscal services | 21,400 |
| Operations/maintenance | 143,225 |
| Central | 34,988 |
| Athletics | 9,761 |
| Total support services | 581,989 |

| | General Fund |
|----------------------------------------|--------------------------|
| Expenditures (concluded): | |
| Debt service: | |
| Principal | 103,960 |
| Interest & fiscal charges | 471,053 |
| | <u>575,013</u> |
| Total debt service | |
| Total expenditures | <u>2,062,419</u> |
| Net change in fund balance | (152,609) |
| Fund balances: | |
| Previously reported, beginning of year | 378,836 |
| Transfer from debt service fund | 347,495 |
| Beginning of year, as adjusted | <u>726,331</u> |
| End of year | <u><u>\$ 573,722</u></u> |

Marshall Academy
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance of Governmental Fund
To the Statement of Activities
Year Ended June 30, 2013

| | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| Net change in fund balance total governmental fund | \$ (152,609) |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p> | |
| Governmental funds report capital outlays as expenditures. | |
| In the statement of activities, these costs are allocated over their estimated useful lives as depreciation. | |
| Capital outlay | 6,654 |
| Depreciation expense | (120,561) |
| Governmental funds report the proceeds from the disposition of assets as an other financing source. | |
| In the statement of activities, a gain or loss is recognized based on the net book value of the asset. | |
| Loss on disposition of fixed assets | (3,160) |
| Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities). | |
| Principal repayment on long-term obligations | 103,960 |
| Principal forgiven on mortgage note | 200,000 |
| Accrued interest on long-term debt is recorded in the statement of activities when incurred, it is not recorded in the governmental funds until it is paid. | |
| Accrued interest payable beginning of the year | 133,394 |
| Accrued interest payable end of the year | (62,213) |
| Change in net position of governmental activities | \$ 105,465 |

MARSHALL ACADEMY
Notes to the Financial Statements
June 30, 2013

Note 1. Summary of Significant Accounting Policies

The accounting policies of Marshall Academy (the Academy) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Academy.

A. Reporting Entity

The Academy is a public school academy. A public school academy is a Michigan Public School System under Public Act No. 362 of 1993 and is subject to the leadership and general supervision of the State Board of Education. Ferris State University is the authorizing body of the Academy and has contracted with the Academy confirming the status of the public school academy. The contract with Ferris State University will expire on June 30, 2015. Marshall Academy's school board is approved by the authorizing body and is authorized to manage the property and affairs of the Academy. The Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements Nos. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree, to which the direct expenses, of a given function or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net position, the governmental activities column is presented on a consolidated basis, and is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations.

MARSHALL ACADEMY
Notes to the Financial Statements
June 30, 2013
(Continued)

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate Academy sources, interest income and other revenues).

The Academy does not allocate indirect costs.

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

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

In 2013, the *debt service fund* that accounts for the servicing of the Academy's Certificates of Participation (COP) was presented as part of the general fund and reported as restricted fund balance.

MARSHALL ACADEMY
Notes to the Financial Statements
June 30, 2013
(Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the charter school based on information supplied by the schools.

MARSHALL ACADEMY
Notes to the Financial Statements
June 30, 2013
(Continued)

For the year June 30, 2013, the foundation allowance was based on the pupil membership counts taken in September and February of 2012. The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October, 2012 to August, 2013. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

The Academy also receives revenue from the State to administer certain categorical education programs. State rules required that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as unearned revenue.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

D. Other Accounting Policies

1. Deposits and Investments

The Academy's cash and cash equivalents are considered to be cash on hand demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

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

MARSHALL ACADEMY
Notes to the Financial Statements
June 30, 2013
(Continued)

bankers' acceptances of U.S. Banks, and mutual funds composed of investments as outlined above. At June 30, 2013, the Academy had \$522,718 of U.S. Treasury Obligations.

2. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

3. Capital Assets

Capital assets include property, plant, and equipment, which are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure type assets.

Depreciation on all assets is provided using the straight-line method over the following useful lives:

| | |
|------------------------------------|-------------|
| Furniture, fixtures and equipment | 5-30 years |
| Computers | 5 years |
| Building and building improvements | 15-50 years |

4. Deferred Outflows/Inflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy does not have any outflows to report in the statement of net position as of June 30, 2013.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Academy does not have any inflows to report in the statement of net position as of June 30, 2013.

MARSHALL ACADEMY
Notes to the Financial Statements
June 30, 2013
(Continued)

5. Long-term obligations

In the government-wide financial statements, long-term debt obligations are reported as liabilities on the statement of net position. Debt premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the debt using the straight-line method over the term of related debt.

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

6. Government-wide Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net Position consists of the following:

Net investment in Capital Assets – Consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

Restricted net position – Consists of restricted assets less any accrued interest from the Academy's certificates of Participation (COP) debt. This can only be used to pay the COP's debt.

Unrestricted net position – Consists of all other assets that do not meet the definition of "restricted" or "Net investment in Capital Assets".

7. Governmental Fund Balance

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

MARSHALL ACADEMY
Notes to the Financial Statements
June 30, 2013
(Continued)

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

Committed fund balance – amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purposes unless the government takes the same highest level action to remove or change the constraint;

Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates authority;

Unassigned fund balance – amounts that are available for any purpose; positive amounts reported only in the general fund.

The Academy's board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of a fund. Assigned fund balance is established by the Academy's board through adoption or amendment of the budget as intended for a specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes). The Academy utilizes fund balance in the following order when an expenditure has been incurred for which more than one type of fund balance is available for that respective expenditure: Restricted, Committed, Assigned, Unassigned.

In the general fund, the Academy strives to maintain an unassigned fund balance to be used for unanticipated emergencies.

8. Use of Estimates

The process of preparing general purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

MARSHALL ACADEMY
Notes to the Financial Statements
June 30, 2013
(Continued)

Note 2. Stewardship, Compliance and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for capital outlay, which is reported in the function, or activity it services. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at fiscal year end.

The Academy maintains a formalized encumbrance accounting system.

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

- A. The Management Organization submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances – budget and actual – general fund.
- B. Public hearings are conducted to obtain local public comments.
- C. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditure in violation of the budgeting act is disclosed as unfavorable variances in the budgetary comparison schedule - general fund.
- D. The management company is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, the School Board must approve these transfers and any revisions that alter the total expenditures of any fund.
- E. Formal budgetary integration is employed as a management control device during the year for the general fund.
- F. The budget as presented has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

MARSHALL ACADEMY
Notes to the Financial Statements
June 30, 2013
(Continued)

G. The Academy had the following General Fund budget function overdrafts for the year ended June 30, 2013.

| <u>Function</u> | <u>Amount by which expenditures exceeded Appropriations</u> |
|-------------------------|-------------------------------------------------------------------------|
| General Administration | \$ 2,671 |
| School Administration | 3,992 |
| Operation & Maintenance | 16,947 |
| Debt Service | 63,523 |

Note 3. Deposits and Restricted Investments

The Marshall Academy is governed by the deposit and investment limitations of Michigan State law which limitations are indicated in the Summary of Significant Accounting policies reported earlier. Under the terms of the Certificates of Participation debt agreement, certain investments are required to be restricted for debt service. The deposits and investments held at June 30, 2013, and reported at fair value, are as follows:

| Type | Rating | Maturities | Carrying Value |
|--------------------------------------------------------|--------|------------|--------------------------|
| Unrestricted Deposits | | | |
| Deposits: | | | |
| Cash on hand | | | \$ 100 |
| Demand deposits | | | <u>23,899</u> |
| Total Unrestricted Deposits | | | <u>23,999</u> |
| Restricted Investments - Debt Service | | | |
| U.S. Treasury Obligations | Aaa | Various | <u>522,718</u> |
| Total Unrestricted Deposits and Restricted Investments | | | <u><u>\$ 546,717</u></u> |
| Reconciliation to Statement of Net Assets: | | | |
| Current: | | | |
| Cash and Cash Equivalents | | | \$ 23,999 |
| Noncurrent: | | | |
| Investments - Debt Service | | | <u>522,718</u> |
| Total Unrestricted Deposits and Restricted Investments | | | <u><u>\$ 546,717</u></u> |

MARSHALL ACADEMY
Notes to the Financial Statements
June 30, 2013
(Continued)

Interest Rate Risk

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates by structuring the investment portfolio so that the securities purchased can mature immediately when funds are needed to meet operating needs (sweep account). This avoids the need to sell securities in the open market, and investing operating funds primarily in short term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2013, the Academy did not have investments in commercial paper and corporate bonds.

Concentration of credit risk

The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2013, none of the Academy's bank balance of \$28,320 was exposed to custodial credit risk because it was insured by federal depository insurance. The FDIC insures bank deposits up to \$250,000.

Custodial credit risk – investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy minimizes custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to bank investment pools invested in U.S. Government Obligations and pre-qualifying the financial institution with which the Academy will do business. Of the investments in U.S. Treasury Obligations of \$522,718 the Academy has a custodial credit risk exposure of \$522,718 because the related securities are uninsured and unregistered.

MARSHALL ACADEMY
Notes to the Financial Statements
June 30, 2013
(Continued)

Foreign currency risk

The Academy is not authorized to invest in investments, which have this type of risk.

Note 4. Receivables

Receivables as of year-end were as follows:

| | <u>General</u> |
|---------------------------|--------------------------|
| Receivables: | |
| State Aid | \$ 323,266 |
| Federal | 1,722 |
| Other Governmental Entity | <u>14,091</u> |
| Net total receivables | <u><u>\$ 339,079</u></u> |

All receivables were deemed collectible as of June 30, 2013.

MARSHALL ACADEMY
Notes to the Financial Statements
June 30, 2013
(Continued)

Note 5. Capital Assets

Capital asset activity for the Academy for the current fiscal year was as follows:

| | <u>Balance July 1, 2012</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2013</u> |
|--------------------------------------|---------------------------------|---------------------|------------------|----------------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 100,000 | \$ - | \$ - | \$ 100,000 |
| Subtotal | <u>100,000</u> | <u>-</u> | <u>-</u> | <u>100,000</u> |
| Capital assets being depreciated | | | | |
| Furniture, fixtures, and equipment | 246,118 | 1,856 | 8,364 | 239,610 |
| Computers | 18,948 | 4,798 | 374 | 23,372 |
| Building and building improvements | 5,242,425 | - | 1,140 | 5,241,285 |
| Subtotal | <u>5,507,491</u> | <u>6,654</u> | <u>9,878</u> | <u>5,504,267</u> |
| Total capital assets | <u>5,607,491</u> | <u>6,654</u> | <u>9,878</u> | <u>5,604,267</u> |
| Less: Accumulated depreciation for: | | | | |
| Furniture, fixtures, and equipment | 140,265 | 10,447 | 6,079 | 144,633 |
| Computers | 11,003 | 4,227 | 374 | 14,856 |
| Building and building improvements | 987,568 | 105,887 | 265 | 1,093,190 |
| Subtotal | <u>1,138,836</u> | <u>120,561</u> | <u>6,718</u> | <u>1,252,679</u> |
| Capital assets, net of depreciation | <u>\$ 4,468,655</u> | <u>\$ (113,907)</u> | <u>\$ 3,160</u> | <u>\$ 4,351,588</u> |

Depreciation expense for the fiscal year ended June 30, 2013, amounted to \$120,561.

Depreciation expense was allocated as follows:

| | |
|--------------------|-------------------|
| Instruction | \$ 7,172 |
| Support | 42,062 |
| Unallocated | 71,327 |
| Total depreciation | <u>\$ 120,561</u> |

The Academy determined that it was impractical to allocate the above unallocated amount to the various governmental activities as the assets service multiple functions.

MARSHALL ACADEMY
Notes to the Financial Statements
June 30, 2013
(Continued)

Note 6. Long-Term Debt

The Academy issues Certificates of Participation (COP) and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. The COPs are direct obligations and pledge the full faith and credit of the Academy. The Academy issued a mortgage note to provide for an addition to the Academy's already existing building.

Long-term obligation activity can be summarized as follows:

| Governmental Activities | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|------------------------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| 2005 COPS | \$ 4,025,000 | \$ - | \$ 75,000 | \$ 3,950,000 | \$ 80,000 |
| Mortgage note payable | <u>2,100,000</u> | <u>-</u> | <u>228,960</u> | <u>1,871,040</u> | <u>60,021</u> |
| Total | <u>\$ 6,125,000</u> | <u>\$ -</u> | <u>\$ 303,960</u> | <u>\$ 5,821,040</u> | <u>\$ 140,021</u> |

Annual debt service requirements to maturity for the above Certificates of Participation and mortgage note obligations are as follows:

| Fiscal Year Ending, | Governmental Activities | | |
|---------------------|-------------------------|---------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2014 | \$ 140,021 | \$ 333,909 | \$ 473,930 |
| 2015 | 147,935 | 325,798 | 473,733 |
| 2016 | 155,990 | 317,230 | 473,220 |
| 2017 | 164,194 | 308,198 | 472,392 |
| 2018 | 1,717,900 | 261,446 | 1,979,346 |
| 2019-2023 | 620,000 | 1,008,000 | 1,628,000 |
| 2024-2028 | 850,000 | 778,050 | 1,628,050 |
| 2029-2033 | 1,150,000 | 466,200 | 1,616,200 |
| 2034-2036 | <u>875,000</u> | <u>84,892</u> | <u>959,892</u> |
| Total | <u>\$ 5,821,040</u> | <u>\$ 3,883,723</u> | <u>\$ 9,704,763</u> |

MARSHALL ACADEMY
Notes to the Financial Statements
June 30, 2013
(Continued)

Governmental Activities

Long-term obligations currently outstanding are as follows:

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| Certificates of Participation with annual installments of \$65,000 to \$310,000 through October 1, 2035. Interest stated at 6.3% | \$ 3,950,000 |
| Mortgage note payable with interest only payments through December 1, 2012 Interest stated at 10% from July 1, 2011, through December 1, 2012 Interest stated at 4.75% from January 1, 2013, through December 31, 2017 \$1,612,900 payable on January 1, 2018 | <u>1,871,040</u> |
| Total long-term debt | <u><u>\$ 5,821,040</u></u> |

In June 2013, the terms of the note have been modified to extend the payments of interest and principal for 60 months commencing on January 1, 2013 through December 31, 2017 for a monthly payment of \$12,300. Upon expiration of the said 60 month period, the balance of the amount due shall be paid in full. In addition, the principal amount of the note has been reduced to \$1,900,000.

The Academy accrued \$28,960 of principal and \$149,840 of interest of the mortgage note that is due as of June 30, 2013. These amounts were reported in the general fund as of June 30, 2013.

Interest expense for the year amounted to \$405,194.

Debt Covenant

The debt covenant with respect to the Certificates of Participation requires the Academy to maintain general fund equity of not less than \$50,000 on any June 30th. As of June 30, 2013, the Academy was not in violation of the debt covenant in the financing agreement with respect to the Certificates of Participation. The Academy's unassigned general fund balance at June 30, 2013, was \$136,190.

MARSHALL ACADEMY
Notes to the Financial Statements
June 30, 2013
(Continued)

Note 7. Revenue Anticipation Note

Marshall Academy has an outstanding revenue anticipated note of \$309,000 with an interest rate of 2.95% to assist with operational cash flows prior to the receipt of state aid payments. The note is secured by funding provided from the State of Michigan's foundation grant revenue. The balance at June 30, 2013 was \$55,573 with a maturity date of August 20, 2013.

| Year | Beginning Balance | Additions | Deletions | Ending Balance |
|-----------|----------------------|-------------------|-------------------|-------------------|
| 2011-2012 | \$ 84,383 | \$ - | \$ 84,383 | \$ - |
| 2011-2012 | 120,000 | | 120,000 | - |
| 2012-2013 | - | 309,000 | 253,427 | 55,573 |
| Total | <u>\$ 204,383</u> | <u>\$ 309,000</u> | <u>\$ 457,810</u> | <u>\$ 55,573</u> |

Note 8. Management Agreement

MJ Management Services, Inc. provides management services under a Consultancy Services Agreement extended through June 30, 2015. Under the terms of the management agreement, the Academy is charged an annual fee of \$99,313.

Note 9. Oversight Fees

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary payments to the Ferris State University Board of Trustees, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2013 the Academy incurred expense of approximately \$51,219 for oversight fees.

Note 10. Related Party Transactions

During the 2007-2008 school year, the Academy entered into an agreement for construction of an addition to its facilities. It was originally determined that the builder, which was Harley & Duke Properties Group, LLC, would construct and own the building addition while the Academy would continue to own the land and lease the building with an option to purchase from Harley & Duke Properties Group, LLC. Later, with the addition substantially completed, it was determined that the Board would outright purchase the addition. This was accomplished through the use of a mortgage note which provided for the payment of interest only through November of 2010. The terms of the note extend the payments of interest only through November of 2012.

MARSHALL ACADEMY
Notes to the Financial Statements
June 30, 2013
(Continued)

As discussed in Note 6, the terms of the note have been modified. Harley & Duke Properties Group, LLC is also the mortgagee with respect to this transaction. The president of the management company currently owns a 6.703% interest in Harley & Duke Properties Group, LLC. The total amount of interest paid to Harley & Duke Properties Group, LLC, for the fiscal year ended June 30, 2013, was \$70,000.

Note 11. Risk Management

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

Note 12. Subsequent Events

In August of 2013, the Academy issued a Revenue Anticipation Note in the amount of \$545,000 to assist with operational cash flows prior to the receipt of state aid payments for the 2013 – 2014 school year. The note is secured by the future receipt of state aid payments.

REQUIRED SUPPLEMENTARY INFORMATION

Marshall Academy
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2013

| | Original Budget | Final Budget | Actual | Variance with final budget Favorable (Unfavorable) |
|------------------------------|--------------------|------------------|------------------|-------------------------------------------------------------|
| Revenues: | | | | |
| Local sources | \$ 5,000 | \$ 4,050 | \$ 3,575 | \$ (475) |
| Intermediate sources | 50,000 | 54,000 | 67,707 | 13,707 |
| State sources | 1,981,373 | 1,802,984 | 1,780,143 | (22,841) |
| Federal sources | 63,631 | 63,631 | 58,385 | (5,246) |
| Total revenues | <u>2,100,004</u> | <u>1,924,665</u> | <u>1,909,810</u> | <u>(14,855)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Basic programs | 773,510 | 767,455 | 745,070 | 22,385 |
| Added needs | 160,662 | 166,217 | 160,347 | 5,870 |
| Total instruction | <u>934,172</u> | <u>933,672</u> | <u>905,417</u> | <u>28,255</u> |
| Support services: | | | | |
| Instructional staff | 2,393 | 2,393 | 1,543 | 850 |
| General administration | 197,732 | 178,341 | 181,012 | (2,671) |
| School administration | 198,326 | 186,068 | 190,060 | (3,992) |
| Business and fiscal services | 54,750 | 23,500 | 21,400 | 2,100 |
| Operation & maintenance | 141,050 | 126,278 | 143,225 | (16,947) |
| Central | 38,500 | 38,500 | 34,988 | 3,512 |
| Athletics | 12,000 | 10,500 | 9,761 | 739 |
| Total support services | <u>644,751</u> | <u>565,580</u> | <u>581,989</u> | <u>(16,409)</u> |

| | Original Budget | Final Budget | Actual | Variance with final budget Favorable (Unfavorable) |
|-------------------------------------------|--------------------|-----------------|------------|-------------------------------------------------------------|
| Expenditures (concluded): | | | | |
| Debt service: | | | | |
| Principal | 75,000 | 75,000 | 103,960 | (28,960) |
| Interest and fiscal charges | 466,490 | 436,490 | 471,053 | (34,563) |
| Total debt service | 541,490 | 511,490 | 575,013 | (63,523) |
| Total expenditures | 2,120,413 | 2,010,742 | 2,062,419 | (51,677) |
| Net change in fund balance | (20,409) | (86,077) | (152,609) | (66,532) |
| Fund balance: | | | | |
| Beginning of year, as previously reported | 378,836 | 378,836 | 378,836 | - |
| Transfer from debt service fund | 347,495 | 347,495 | 347,495 | - |
| Beginning of year, as adjusted | 726,331 | 726,331 | 726,331 | - |
| End of year | \$ 705,922 | \$ 640,254 | \$ 573,722 | \$ (66,532) |

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MEMBERS
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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 GOVERNMENTAL AUDITING STANDARDS

Board of Directors
Marshall Academy
18203 Homer Road
Marshall, MI 49068

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund (General Fund) of Marshall Academy (the Academy) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated October 2, 2013.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2013-01 that we consider to be a significant deficiency.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2013-02.

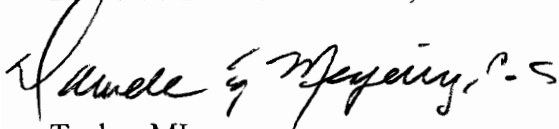
The Academy's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DARNELL & MEYERING, P.C.



Taylor, MI
October 2, 2013

MARSHALL ACADEMY
Schedule of Findings and Responses
June 30, 2013

Reference
Number

Finding

2013-01 **Finding Type** – Significant deficiency

Finding: Again, in our assessment of internal controls, we found that there was not adequate segregation of duties in the accounts payable process. Accounts payable entry, check processing, journal-entry posting, and bank reconciliations are performed by the same person.

Recommendations: We believe certain steps could be taken to implement both segregation of duties and compensating controls. We understand that the new accountant is a CPA, and this individual has been performing those functions. The bank reconciliation process could be improved by having someone other than the preparer to review the monthly bank reconciliation and obtain sign-off from both the preparer and reviewer, by having someone other than the preparer open the bank statements, and by allowing the reviewer access to online banking.

View of Responsible Officials and Planned Corrective Actions: We agree with the auditor's recommendation. We will have someone other than the preparer review the monthly bank reconciliation and have both the preparer and reviewer sign-off. Currently the board of directors receives the monthly check register report. Going forward we will include the monthly bank reconciliation in the financial report that the board receives each month. This will allow the board members to review the monthly bank reconciliation as well.

MARSHALL ACADEMY
Schedule of Findings and Responses
June 30, 2013
(continued)

Reference
Number

Finding

2013-02 **Finding Type** – Noncompliance with grant.

Finding: Again, in our review of compliance with grant agreements, we found that the Academy has \$8,682 of advance payments as of June 30, 2013 from its Title I Part A federal grant. According to the Michigan Department of Education, payments to districts and recipients are on a reimbursement basis only. Advance payments are not available as of December 1, 2008.

Recommendations: We recommend that an individual independent of the person doing the grant reimbursement requests should monitor their federal grants. In addition, the Academy should only draw down funds after the expenditures have been incurred.

View of Responsible Officials and Planned Corrective Actions: We agree with the auditor's recommendations. No funds will be drawn down until after the expenditures have been incurred. All draw requests will need to have an expenditure report attached as support. Also, before any expenditure is recorded under a federal grant, the expenditure must be verified as part of the federal grant budget.

**MARSHALL ACADEMY
(A Charter Public School)**

COMMENTS AND RECOMMENDATIONS

Year Ended June 30, 2013

DARNELL & MEYERING, P.C.

Certified Public Accountants

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MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

October 2, 2013

To the Board of Directors
Marshall Academy
18203 Homer Road
Marshall, MI 49068

In planning and performing our audit of the financial statements of the governmental activities, and the major fund (the General Fund) of Marshall Academy (the Academy) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Academy's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected or corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weakness.

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. We consider the deficiency in internal control identified as item 2013-01 in our audit report schedule of findings and responses dated October 2, 2013 to be a significant deficiency.

In addition, our audit tests also disclosed other matters that, while not considered to be significant deficiencies in internal control, we believe should be brought to your attention. This letter does not affect our report dated October 2, 2013, on the financial statements of the Academy. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

We are pleased to report that the following Comment and Recommendation from the prior year has been partially corrected:

- Budget and Salary/Compensation Transparency Reporting – The Academy has posted the 2012 audit reports and management comments and recommendations. In addition, expenditure pie charts were updated for 2011-2012 school year.

The following are the Comments and Recommendations for the current year:

2013-03 - Authorized Check Signers

Finding: Again, with respect to authorized check signers, we found several former board members as authorized check signers according to the bank's records. We understand that this was updated at the August board meeting.

Recommendation: We recommend that the Academy contact the bank to have former board members removed as authorized check signers.

2013-04 - Fixed Assets Inventory

Finding: Again, we noted during our discussion with the Academy that there has been no fixed asset inventory for so many years.

Recommendation: We suggest that physical inventories of fixed assets be taken periodically and related records be timely and appropriately updated, to prevent large abnormal write-offs in the future. Also, a complete and accurate inventory of fixed assets will provide for much stronger internal control to detect any future fixed asset removal or disposition without proper authorization. In addition, a formal policy to ensure the reporting of fixed asset disposals should be adopted and should include the necessary level of approval for the disposal. This information should be reported to the accounting department on a timely basis. A simple standardized form could be developed to provide adequate accounting documentation and to provide evidence of adherence to the Academy's policy.

2013-05 - Budget and Salary/Compensation Transparency Reporting

Finding: We have reviewed the Academy's website and noted that the disclosure requirements from Section 18(2) of the State School Aid Act were not up to date. The website has only the November 2012 budget amendment posted. The June 2013 budget amendment was not posted on the Academy's website.

Recommendation: We recommend that the Academy review their website, as well as Section 18(2) of the State School Aid Act, to ensure they are in compliance with the disclosure requirements of Section 18(2). Section 18(2) requires that adoptions, or subsequent revisions, of all budgets must be posted within 30 days of board approval. In addition, the posting of the other information needs to be disclosed within 30 days after the board has adopted its annual school operating budget, or not later than July 30 of the following year.

2013-06 - Budget Deficits

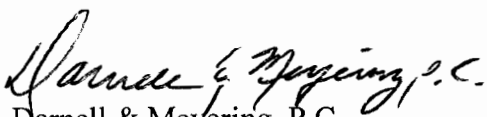
Finding: The Uniform Budgeting and Accounting Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues will be less than anticipated or so that expenditures will not be in excess of original estimates. At fiscal year ended June 30, 2013, actual expenditures were in excess of appropriated expenditures by more than 1% and the appropriated fund balance was in excess of the actual balance at June 30, 2013.

Recommendation: We recommend that procedures be put in place by the Board of Directors and the management company to better monitor the actual expenditures and expected revenues before year end so appropriate amendments can be done.

This report is intended solely for the information and use of Marshall Academy, management, and others within the Academy, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,


Darnell & Meyering, P.C.
Taylor, Michigan
October 2, 2013

DARNELL & MEYERING, P.C.

Certified Public Accountants

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October 2, 2013

To the Board of Directors
Marshall Academy
18203 Homer Road
Marshall, MI 49068

We have audited the financial statements of the governmental activities and the major fund (General Fund) of Marshall Academy (the Academy) for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 25, 2013. Professional standards also require that we communicate to you the following related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Academy are described in Note 1 to the financial statements. In 2013, the Academy adopted GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The adoption of the new accounting policy on Net Position affects the presentation of the basic financial statements. The Academy has no deferred outflows of resources and deferred inflows of resources as of June 30, 2013. In addition, the application of other policies was not changed during the year ended June 30, 2013. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events

affecting them may differ significantly from those expected. We did not identify any sensitive estimates.

The financial statement disclosures are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the general fund's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 2, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a

Marshall Academy

October 2, 2013

Page 3

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

Other Audit Findings or Issues

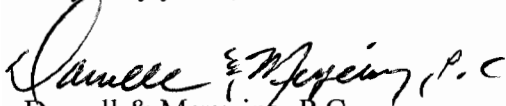
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were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

Other Matters

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

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

Very truly yours,


Darnell & Meyering, P.C.