

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

**Year Ended June 30, 2011**

**Marshall Academy  
Financial Report  
For the Fiscal Year Ended  
June 30, 2011**

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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Marshall Academy as of and for the year ended June 30, 2011, which collectively comprise Marshall Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Marshall Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Marshall Academy as of June 30, 2011, 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.

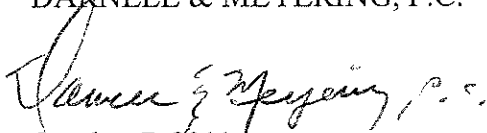
In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2011, on our consideration of the Marshall Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal

control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages v through xi and 20 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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.

DARNELL & MEYERING, P.C.



October 7, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Marshall Academy's 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, 2011. 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 267.50.
- 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 charter-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**

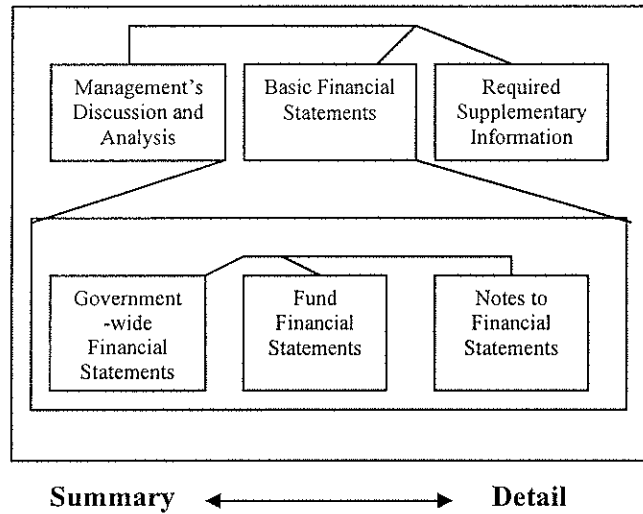


Figure A-2 summarizes the major features of the academy’s financial statements, including the portion of the academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents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

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

	Charter-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 assets * 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/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities 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

## **Charter-wide statements**

The charter-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 assets 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 government-wide statements report the academy's net assets and how they have changed. Net assets – the difference between the academy's assets and liabilities, are one way to measure the academy's financial health or position.

- Over time, increases or decreases in the academy's net assets are 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.

The academy has only one type 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 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 assets - the academy's combined net assets were a deficit of \$(1,124,537) on June 30, 2011. See Figure A – 3.

The total revenues were \$2,052,910. State aid foundation allowance included in revenue from state sources accounts for most of the academy's revenue (91 percent).

The total cost of instruction was \$843,948.

The academy's stable financial position is the product of many factors. The primary reasons are the management of expenses to bring them into line with the academy's revenue.

**Academy governmental activities**

<b>Figure A-3 Marshall Academy</b>		
	2010	2011
Current assets	\$ 465,894	\$ 508,361
Noncurrent assets	322,257	492,177
Capital assets	4,684,910	4,586,067
Total assets	<u>5,473,061</u>	<u>5,586,605</u>
Current liabilities	509,897	586,142
Noncurrent liabilities	6,195,000	6,125,000
Total liabilities	<u>6,704,897</u>	<u>6,711,142</u>
Net assets:		
Invested in capital assets, net of related debt	(1,580,090)	(1,608,933)
Restricted - debt service	412,105	562,316
Unrestricted	(63,851)	(77,920)
Total net assets(deficit)	<u>\$ (1,231,836)</u>	<u>\$ (1,124,537)</u>



<b>Figure A-4</b>		
<b>Changes in Marshall Academy's Net Assets</b>		
	2010	2011
<b>Revenues:</b>		
Program revenues:		
Federal and state categorical grants	\$ 176,750	\$ 172,699
General revenues:		
State aid - unrestricted	1,752,711	1,873,964
Investment	-	5
Other	5,175	6,242
Total revenues	<u>1,934,636</u>	<u>2,052,910</u>
<b>Expenses:</b>		
Instruction	788,712	843,948
Support services	611,262	599,161
Interest expense	415,966	427,087
Athletics	4,850	-
Unallocated depreciation	76,814	75,415
Total expenses	<u>1,897,604</u>	<u>1,945,611</u>
Change in net assets(decrease)	<u>\$ 37,032</u>	<u>\$ 107,299</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 \$232,715.

### **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 revenues would exceed expenditures by \$91,774, the actual results for the year showed revenues over expenditures of \$479,225.

## Capital asset and debt administration

### Capital assets

By the end of the year ended June 30, 2011, the academy had invested \$4,586,067 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 \$123,346.

The Academy's capital assets are as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>2011 Net Book Value</u>	<u>2010 Net Book Value</u>
Land	\$ 100,000	\$ -	\$ 100,000	\$ 100,000
Furniture, fixtures and equipment	243,818	128,684	115,134	128,093
Computer equipment	17,464	7,274	10,190	4,971
Building and Improvements	5,242,425	881,682	4,360,743	4,451,846
Total	<u>\$ 5,603,707</u>	<u>\$ 1,017,640</u>	<u>\$ 4,586,067</u>	<u>\$ 4,684,910</u>

### Long-term debt Activity

At the year-end, the Academy had outstanding long-term debt obligations in the amount of \$6,195,000. (more detailed information about the Academy's long-term liabilities is presented in Note 7 of the financial statements.)

	<u>2010</u>	<u>2011</u>
2005 Certificates of participation	\$ 4,165,000	\$ 4,095,000
Mortgage note payable	2,100,000	2,100,000
Total	<u>\$ 6,265,000</u>	<u>\$ 6,195,000</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 Assets**  
**June 30, 2011**

Assets	<u>Governmental Activities</u>
<b>Current Assets:</b>	
Cash and equivalents	\$ 132,145
Receivables:	
Due from other governmental units	350,697
Prepaid expenditures	<u>25,519</u>
<b>Total Current Assets</b>	<u>508,361</u>
 <b>Noncurrent Assets:</b>	
Investments - restricted for debt service	492,177
Capital assets	5,603,707
Less accumulated depreciation	<u>(1,017,640)</u>
<b>Total Noncurrent Assets</b>	<u>5,078,244</u>
 <b>Total Assets</b>	 <u><u>\$ 5,586,605</u></u>
 <b>Liabilities And Net Assets (Deficit)</b>	
 <b>Current Liabilities:</b>	
Accounts payable	\$ 30,231
Accrued oversight fee	10,348
Accrued interest	80,613
Deferred revenue	23,282
MPEFA payable	371,668
Current portion of long term obligations	<u>70,000</u>
<b>Total Current Liabilities</b>	<u>586,142</u>
 <b>Noncurrent Liabilities:</b>	
Noncurrent portion of long term obligations	<u>6,125,000</u>
<b>Total Noncurrent Liabilities</b>	<u>6,125,000</u>
 <b>Total Liabilities</b>	 <u>6,711,142</u>
 <b>Net Assets (Deficit):</b>	
Invested in capital assets - net of related debt (deficit)	(1,608,933)
Restricted for debt service	562,316
Unrestricted	<u>(77,920)</u>
<b>Total Net Assets (Deficit)</b>	<u>(1,124,537)</u>
 <b>Total Liabilities And Net Assets</b>	 <u><u>\$ 5,586,605</u></u>

See notes to financial statements.

**Marshall Academy  
Statement of Activities  
Year Ended June 30, 2011**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants &amp; Contributions</u>	<u>Net (expense) Revenue and Changes in Net Assets</u>
Governmental activities:				
Instruction	\$ 843,948	\$ -	\$ 172,699	\$ (671,249)
Support services	599,161	-	-	(599,161)
Interest expense	427,087	-	-	(427,087)
Unallocated depreciation	75,415	-	-	(75,415)
 Total governmental activities	 <u>\$1,945,611</u>	 <u>\$ -</u>	 <u>\$ 172,699</u>	 <u>(1,772,912)</u>
 General revenues:				
Investment earnings				5
State of Michigan school aid unrestricted				1,873,964
Miscellaneous				6,242
Total general revenues				<u>1,880,211</u>
 Change in net assets				 107,299
 Net assets, beginning of year				 <u>(1,231,836)</u>
 Net assets, end of year (deficit)				 <u>\$ (1,124,537)</u>

See notes to financial statements.



**Total governmental fund balances** \$ 562,892

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

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

The cost of capital assets is:

\$ 5,603,707

(1,017,640)

4,586,067

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

(4,095,000)

(2,100,000)

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

(78,496)

**Net assets of governmental activities (deficit)**

\$ (1,124,537)





	General Fund	Debt Service Fund	Total Governmental Funds
<b>Expenditures (concluded):</b>			
Debt service:			
Principal	-	70,000	70,000
Interest & fiscal charges	154,000	260,190	414,190
Total debt service	154,000	330,190	484,190
Total expenditures	1,573,681	330,190	1,903,871
<b>Excess (deficiency) of revenues over expenditures:</b>	479,225	(330,186)	149,039
<b>Other financing sources (uses):</b>			
Operating transfers in	-	338,106	338,106
Operating transfers out	(338,106)	-	(338,106)
Total other financing sources (uses)	(338,106)	338,106	-
<b>Net change in fund balances</b>	141,119	7,920	149,039
<b>Fund balances:</b>			
Beginning of year	91,596	322,257	413,853
End of year	\$ 232,715	\$ 330,177	\$ 562,892

See notes to financial statements.

**Marshall Academy**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures and Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**Year Ended June 30, 2011**

**Net change in fund balances total governmental funds**

\$ 149,039

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

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

24,503

Depreciation expense

(123,346)

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

70,000

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

65,599

Accrued interest payable end of the year

(78,496)

**Change in net assets of governmental activities**

\$ 107,299

MARSHALL ACADEMY  
Notes to the Financial Statements  
June 30, 2011

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

The accounting policies of Marshall 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**

Marshall Academy (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 assets 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 assets, 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. The

MARSHALL ACADEMY  
Notes to the Financial Statements  
June 30, 2011  
(Continued)

Academy's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The 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 assets 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.

The *debt service fund* accounts for the servicing of the Academy's Certificates of Participation (COP). COPs are classified as long-term debt instruments that are required to be maintained in a separate fund with its own bank account.

MARSHALL ACADEMY  
Notes to the Financial Statements  
June 30, 2011  
(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 Academy based on information supplied by the Academy. For the

MARSHALL ACADEMY  
Notes to the Financial Statements  
June 30, 2011  
(Continued)

year ended June 30, 2011, the foundation allowance was based on pupil membership counts taken in February 2010 and September 2010.

**D. Assets, Liabilities and Net Assets or Equity**

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, bankers' acceptances of U.S. Banks, and mutual funds composed of investments as outlined above.

2. Receivables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds", (i.e., the current portion of interfund loans) or "advance to/from other funds", (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

All receivables are shown net of an allowance for uncollectible amounts, if any.

MARSHALL ACADEMY  
Notes to the Financial Statements  
June 30, 2011  
(Continued)

3. Prepaid Items

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

4. Fund Equity Balance

Beginning with fiscal year 2011, the Academy implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the Academy's fund balance more transparent. 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;

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 are 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

MARSHALL ACADEMY  
Notes to the Financial Statements  
June 30, 2011  
(Continued)

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.

5. 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

6. Long-term obligations

In the government-wide financial statements, long-term debt obligations are reported as liabilities on the statement of net assets. 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.



MARSHALL ACADEMY  
Notes to the Financial Statements  
June 30, 2011  
(Continued)

7. 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.

**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.

MARSHALL ACADEMY  
Notes to the Financial Statements  
June 30, 2011  
(Continued)

- 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.
- G. The Academy had the following General Fund budget function overdrafts for the year ended June 30, 2011.

<u>Function</u>	<u>Appropriations</u>
School administration	\$ 4,932
Operations and maintenance	15,439
Operating transfers out	338,106

**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, 2011, and reported at fair value, are as follows:

Type	Rating	Maturities	Carrying Value
Unrestricted Deposits			
Deposits:			
Cash on hand			\$ 100
Demand deposits			132,045
			132,145
Total Unrestricted Deposits			132,145
Restricted Investments - Debt Service			
U.S. Treasury Obligations	Aaa	Various	492,177
			492,177
Total Unrestricted Deposits and Restricted Investments			\$ 624,322
Reconciliation to Statement of Net Assets:			
Current:			
Cash and Cash Equivalents			\$ 132,145
Noncurrent:			
Investments - Debt Service			492,177
Total Unrestricted Deposits and Restricted Investments			\$ 624,322

MARSHALL ACADEMY  
Notes to the Financial Statements  
June 30, 2011  
(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, 2011, 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, 2011, none of the Academy's bank balance of \$140,170 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 \$492,177 the Academy has

MARSHALL ACADEMY  
Notes to the Financial Statements  
June 30, 2011  
(Continued)

a custodial credit risk exposure of \$492,177 because the related securities are uninsured and unregistered.

**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	<u>\$ 350,697</u>
Net total receivables	<u><u>\$ 350,697</u></u>

All receivables were deemed collectible as of June 30, 2011.

MARSHALL ACADEMY  
Notes to the Financial Statements  
June 30, 2011  
(Continued)

**Note 5. Capital Assets**

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

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
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	242,097	1,721	-	243,818
Computers	9,060	8,404	-	17,464
Building and building improvements	<u>5,228,047</u>	<u>14,378</u>	<u>-</u>	<u>5,242,425</u>
Subtotal	<u>5,479,204</u>	<u>24,503</u>	<u>-</u>	<u>5,503,707</u>
 Total capital assets	 <u>5,579,204</u>	 <u>24,503</u>	 <u>-</u>	 <u>5,603,707</u>
Less: Accumulated depreciation for:				
Furniture, fixtures, and equipment	114,004	14,680	-	128,684
Computers	4,089	3,185	-	7,274
Building and building improvements	<u>776,201</u>	<u>105,481</u>	<u>-</u>	<u>881,682</u>
Subtotal	<u>894,294</u>	<u>123,346</u>	<u>-</u>	<u>1,017,640</u>
 Capital assets, net of depreciation	 <u>\$ 4,684,910</u>	 <u>\$ (98,843)</u>	 <u>\$ -</u>	 <u>\$ 4,586,067</u>

Depreciation expense for the fiscal year ended June 30, 2011, amounted to \$123,346.

Depreciation expense was allocated as follows:

Instruction	\$ 7,234
Support	40,697
Unallocated	<u>75,415</u>
Total depreciation	<u>\$ 123,346</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, 2011  
(Continued)

**Note 6. Interfund Transfers**

The General Fund transferred to the Debt Service Fund funds in order to service the Academy's debt.

	Transfer in:	
		Debt Service Fund
Transfer out:		
General Fund		\$ 338,106

**Note 7. 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. During the year, 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	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2005 COPS	\$ 4,165,000	\$ -	\$ 70,000	\$ 4,095,000	\$ 70,000
Mortgage note payable	2,100,000	-	-	2,100,000	-
Total	\$ 6,265,000	\$ -	\$ 70,000	\$ 6,195,000	\$ 70,000

MARSHALL ACADEMY  
Notes to the Financial Statements  
June 30, 2011  
(Continued)

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

Fiscal Year Ending,	Governmental Activities		
	Principal	Interest	Total
2012	\$ 70,000	\$ 465,780	\$ 535,780
2013	2,175,000	338,713	2,513,713
2014	80,000	246,330	326,330
2015	85,000	241,133	326,133
2016	90,000	235,620	325,620
2017-2021	550,000	1,081,710	1,631,710
2022-2026	750,000	878,850	1,628,850
2027-2031	1,015,000	602,438	1,617,438
2032-2036	1,380,000	227,430	1,607,430
Total	\$ 6,195,000	\$ 4,318,004	\$ 10,513,004

**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% \$ 4,095,000

Mortgage note payable with interest only payments through November 1, 2012  
Interest stated at 8% from July 1, 2010, through June 30, 2011  
Interest stated at 10% from July 1, 2011, through December 1, 2012  
\$2,100,000 payable on December 1, 2012 2,100,000

Total long-term debt \$ 6,195,000

Interest expense for the year amounted to \$441,126

MARSHALL ACADEMY  
Notes to the Financial Statements  
June 30, 2011  
(Continued)

**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, 2011, the Academy was not in violation of the debt covenant in the financing agreement with respect to the Certificates of Participation. The Academy's general fund balance at June 30, 2011, was \$232,715.

**Note 8. Revenue Anticipation Note**

Marshall Academy has an outstanding revenue anticipated note of \$599,000 with an interest rate of 3.98% 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, 2011 was \$121,668 with a maturity date of July 20, 2011. A new note was obtained by the Academy in the amount of \$250,000 with an interest rate of 2.75% until maturity date of August 22, 2011.

Year	Beginning Balance	Additions	Deletions	Ending Balance
2009-2010	\$ 185,000	\$ -	\$ 185,000	\$ -
2009-2010	78,000	-	78,000	-
2010-2011	-	599,000	477,332	121,668
2010-2011	-	250,000	-	250,000
Total	<u>\$ -</u>	<u>\$ 849,000</u>	<u>\$ 477,332</u>	<u>\$ 371,668</u>

**Note 9. Management Agreement**

MJ Management Services, Inc. provides management services under a Consultancy Services Agreement extended through June 30, 2013. Under the terms of the management agreement, the Academy is charged an annual fee of \$99,313. During the year ended June 30, 2011, the Academy incurred expense of \$101,813, which consisted of the aforementioned management fee of \$99,313 and a technology fee of \$2,500.



MARSHALL ACADEMY  
Notes to the Financial Statements  
June 30, 2011  
(Continued)

**Note 10. 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, 2011 the Academy incurred expense of approximately \$56,890 for oversight fees.

**Note 11. 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 and note which provided for the payment of interest only through November of 2010. The terms of the note have been modified to extend the payments of interest only through November of 2012. 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, 2011, was \$214,500.

**Note 12. 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 13. The American Recovery and Reinvestment Act (ARRA)**

During the year ended June 30, 2011, the Academy received \$29,777 of ARRA funds to off-set a shortage in the State of Michigan foundation funding. It is uncertain if the Academy will receive ARRA funds in the future.

MARSHALL ACADEMY  
Notes to the Financial Statements  
June 30, 2011  
(Continued)

**Note 14. Subsequent Events**

In August of 2011, the Academy issued a Revenue Anticipation Note in the amount of \$470,000 to assist with operational cash flows prior to the receipt of state aid payments for the 2011 – 2012 school year. The note is secured by the future receipt of state aid payments.

Beginning with the 2011 – 2012 school year, the State of Michigan has changed the method for determining the foundation allowance that the Academy receives as State Aid as described in Note 1. The Academy formerly received a per pupil amount based on a blend equal to 25% of the prior school year's February pupil count and 75% of the current school year's September pupil count. Beginning with the 2011 – 2012 school year, the Academy will receive a per pupil amount based on a blend equal to 10% of the prior school year's February pupil count and 90% of the current year's September pupil count.

**REQUIRED SUPPLEMENTARY INFORMATION**



	Original Budget	Final Budget	Actual	Variance with final budget Favorable (Unfavorable)
<b>Expenditures (concluded):</b>				
Debt service:				
Interest and fiscal charges	499,490	499,490	154,000	345,490
Total debt service	499,490	499,490	154,000	345,490
Total expenditures	1,937,462	2,004,816	1,573,681	431,135
<b>Excess (deficiency) of revenues over expenditures</b>	111,730	91,774	479,225	387,451
<b>Other financing sources (uses):</b>				
Operating transfers in	500	-	-	-
Operating transfers out	-	-	(338,106)	(338,106)
Total other financing sources (uses)	500	-	(338,106)	(338,106)
<b>Net change in fund balance</b>	112,230	91,774	141,119	49,345
<b>Fund balance:</b>				
Beginning of year	91,596	91,596	91,596	-
End of year	\$ 203,826	\$ 183,370	\$ 232,715	\$ 49,345

# DARNELL & MEYERING, P.C.

*Certified Public Accountants*

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CERTIFIED PUBLIC ACCOUNTANTS

## 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 the financial statements of the governmental activities and each major fund of Marshall Academy as of and for the year ended June 30, 2011, which collectively comprise Marshall Academy's basic financial statements and have issued our report thereon dated October 7, 2011. 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.

### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in

internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

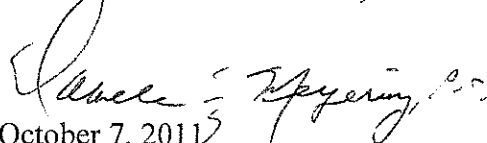
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Marshall Academy's 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*.

We noted certain matters that we reported to management of Marshall Academy, in a separate letter dated October 7, 2011.

This report is intended solely for the information and use of the Board of Directors, management, the U.S. Department of Education, and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

DARNELL & MEYERING, P.C.

  
October 7, 2011