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

Year Ended June 30, 2012

Marshall Academy
Financial Report
For the Fiscal Year Ended
June 30, 2012

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AMERICAN INSTITUTE OF
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MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

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, 2012, 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, 2012, 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 September 18, 2012, 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 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 21 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 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.

Darnell & Meyering, P.C.

September 18, 2012

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, 2012. 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 272.20.

- 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

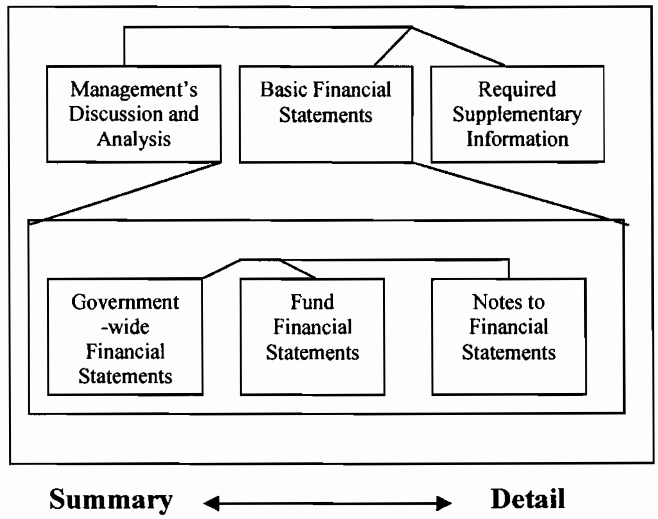

Figure A-2 summarizes the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents 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 $(1,063,408) on June 30, 2012. See Figure A – 3.

The total revenues were $2,123,251. State aid foundation allowance included in revenue from state sources accounts for most of the Academy's revenue (88 percent).

The total cost of instruction was $915,944.

The Academy's stable financial 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

	2011	2012
Current assets	$ 508,361	$ 476,928
Noncurrent assets	492,177	517,605
Capital assets	4,586,067	4,468,655
Total assets	5,586,605	5,463,188
Current liabilities	586,142	2,576,596
Noncurrent liabilities	6,125,000	3,950,000
Total liabilities	6,711,142	6,526,596
Net assets:		
Invested in capital assets, net of related debt	(1,608,933)	(1,656,345)
Restricted - debt service	562,316	454,338
Unrestricted	(77,920)	138,599
Total net assets(deficit)	$ (1,124,537)	$ (1,063,408)

Figure A-4 Changes in Marshall Academy's Net Assets	2011	2012
Revenues:		
Program revenues:		
Federal and state categorical grants	$ 172,699	$ 234,621
General revenues:		
State aid - unrestricted	1,873,964	1,868,410
Investment	5	-
Other	6,242	20,220
Total revenues	2,052,910	2,123,251
Expenses:		
Instruction	843,948	915,944
Support services	599,161	609,004
Interest expense	427,087	464,678
Unallocated depreciation	75,415	72,496
Total expenses	1,945,611	2,062,122
Change in net assets	$ 107,299	$ 61,129

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 $378,836.

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 $57,106, the actual results for the year showed revenues over expenditures of $146,121.

Capital asset and debt administration

Capital assets

By the end of the year ended June 30, 2012, the Academy had invested $4,468,655 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 $121,196.

The Academy's capital assets are as follows:

Figure A-5
Marshall Academy's Capital Assets

	Cost	Accumulated Depreciation	2012 Net Book Value	2011 Net Book Value
Land	$ 100,000	$ -	$ 100,000	$ 100,000
Furniture, fixtures and equipment	246,118	140,265	105,853	115,134
Computer equipment	18,948	11,003	7,945	10,190
Building and Improvements	5,242,425	987,568	4,254,857	4,360,743
Total	$ 5,607,491	$ 1,138,836	$ 4,468,655	$ 4,586,067

Long-term debt Activity

At the year-end, the Academy had outstanding long-term debt obligations in the amount of $6,125,000. (more detailed information about the Academy's long-term liabilities is presented in Note 7 of the financial statements.)

Figure A-6
Marshall Academy's Outstanding Long-Term Debt

	2011	2012
2005 Certificates of participation	$ 4,095,000	$ 4,025,000
Mortgage note payable	2,100,000	2,100,000
Total	$ 6,195,000	$ 6,125,000

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, 2012

	Governmental Activities
Assets	
Current Assets:	
Cash and equivalents	$ 124,423
Receivables:	
Due from other governmental units	351,030
Prepaid expenditures	1,475
Total Current Assets	476,928
Noncurrent Assets:	
Investments - restricted for debt service	517,605
Capital assets	5,607,491
Less accumulated depreciation	(1,138,836)
Total Noncurrent Assets	4,986,260
Total Assets	$ 5,463,188
Liabilities And Net Assets (Deficit)	
Current Liabilities:	
Accounts payable	$ 20,332
Accrued oversight fee	10,015
Accrued interest	136,104
Deferred revenue	30,762
MPEFA payable	204,383
Current portion of long term obligations	2,175,000
Total Current Liabilities	2,576,596
Noncurrent Liabilities:	
Noncurrent portion of long term obligations	3,950,000
Total Noncurrent Liabilities	3,950,000
Total Liabilities	6,526,596
Net Assets (Deficit):	
Invested in capital assets - net of related debt (deficit)	(1,656,345)
Restricted for debt service	454,338
Unrestricted	138,599
Total Net Assets (Deficit)	(1,063,408)
Total Liabilities And Net Assets	$ 5,463,188

See notes to financial statements.

Marshall Academy
Statement of Activities
Year Ended June 30, 2012

Functions/programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants & Contributions	Governmental Activities: Net (expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	$ 915,944	$ -	$ 234,621	$ (681,323)
Support services	609,004	-	-	(609,004)
Interest expense	464,678	-	-	(464,678)
Unallocated depreciation	72,496	-	-	(72,496)
Total governmental activities	$ 2,062,122	$ -	$ 234,621	(1,827,501)
General revenues:				
Investment earnings				-
State of Michigan school aid unrestricted				1,868,410
Miscellaneous				20,220
Total general revenues				1,888,630
Change in net assets				61,129
Net assets, beginning of year				(1,124,537)
Net assets, end of year (deficit)				$ (1,063,408)

See notes to financial statements.

Marshall Academy
Balance Sheet
Governmental Funds
Year Ended June 30, 2012

	General Fund	Debt Service Fund	Total Governmental Funds
Assets			
Assets:			
Cash and equivalents	$ 124,423	-	$ 124,423
Receivables			
Other governmental units	351,030	-	351,030
Prepaid expenditures	1,475	-	1,475
Investments - restricted for debt serivce	170,110	347,495	517,605
Total Assets	$ 647,038	$ 347,495	$ 994,533
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ 20,332	$ -	$ 20,332
Accrued oversight fee	10,015	-	10,015
Interest payable	2,710	-	2,710
Deferred revenue	30,762	-	30,762
MPEFA payable	204,383	-	204,383
Total Liabilities	268,202	-	268,202
Fund Balances:			
Nonspendable prepaid expenditures	1,475	-	1,475
Restricted for debt service	240,237	347,495	587,732
Unassigned	137,124	-	137,124
Total Fund Balances	378,836	347,495	726,331
Total Liabilities and Fund Balances	$ 647,038	$ 347,495	$ 994,533

Total governmental fund balances		$ 726,331
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:	$ 5,607,491	
Accumulated depreciation is:	(1,138,836)	4,468,655
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		(4,025,000)
Mortgage note payable		(2,100,000)
Accrued interest not included as a liability in the governmental funds, it is recorded when paid		(133,394)
Net assets of governmental activities (deficit)		$ (1,063,408)

See notes to financial statements.

Marshall Academy
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2012

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues:			
Local sources	$ 20,220	$ -	$ 20,220
Intermediate sources	63,355	-	63,355
State sources	1,931,345	-	1,931,345
Federal sources	108,331	-	108,331
Total revenues	2,123,251	-	2,123,251
Expenditures:			
Current:			
Instruction:			
Basic programs	755,006	-	755,006
Added needs	155,483	-	155,483
Total instruction	910,489	-	910,489
Support services:			
Improvement of instruction	366	-	366
General administration	186,131	-	186,131
School administration	197,574	-	197,574
Business and fiscal services	35,361	-	35,361
Operations/maintenance	109,654	-	109,654
Central	36,736	-	36,736
Athletics	3,721	-	3,721
Total support services	569,543	-	569,543

	General Fund	Debt Service Fund	Total Governmental Funds
Expenditures (concluded):			
Debt service:			
Principal retirements	-	-	-
Principal	-	70,000	70,000
Interest & fiscal charges	154,000	255,780	409,780
Total debt service	154,000	325,780	479,780
Total expenditures	1,634,032	325,780	1,959,812
Excess (deficiency) of revenues over expenditures:	489,219	(325,780)	163,439
Other financing sources (uses):			
Operating transfers in	-	343,098	343,098
Operating transfers out	(343,098)	-	(343,098)
Total other financing sources (uses)	(343,098)	343,098	-
Net change in fund balances	146,121	17,318	163,439
Fund balances:			
Beginning of year	232,715	330,177	562,892
End of year	$ 378,836	$ 347,495	$ 726,331

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, 2012

Net change in fund balances total governmental funds	$ 163,439
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	3,784
Depreciation expense	(121,196)
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	78,496
Accrued interest payable end of the year	(133,394)
Change in net assets of governmental activities	$ 61,129

See notes to financial statements.

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 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

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.

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 year ended June 30, 2012, the foundation allowance was based on pupil membership counts taken in February 2011 and September 2011.

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.

3. Prepaid Items

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

4. Fund Equity 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;
>
> 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 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.

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.

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, 2012.

Function	Appropriations
Operating transfers out	$ 11,608

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, 2012, and reported at fair value, are as follows:

Type	Rating	Maturities	Carrying Value
Unrestricted Deposits			
Deposits:			
Cash on hand			$ 100
Demand deposits			124,323
Total Unrestricted Deposits			124,423
Restricted Investments - Debt Service			
U.S. Treasury Obligations	Aaa	Various	517,604
Total Unrestricted Deposits and Restricted Investments			$ 642,027
Reconciliation to Statement of Net Assets:			
Current:			
Cash and Cash Equivalents			$ 124,423
Noncurrent:			
Investments - Debt Service			517,604
Total Unrestricted Deposits and Restricted Investments			$ 642,027

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, 2012, 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, 2012, none of the Academy's bank balance of $126,398 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 $517,604 the Academy has a custodial credit risk exposure of $517,604 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:

	General
Receivables:	
State Aid	$ 350,636
Federal	394
Net total receivables	$ 351,030

All receivables were deemed collectible as of June 30, 2012.

Note 5. Capital Assets

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

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated				
Land	$ 100,000	$ -	$ -	$ 100,000
Subtotal	100,000	-	-	100,000
Capital assets being depreciated				
Furniture, fixtures, and equipment	243,818	2,300	-	246,118
Computers	17,464	1,484	-	18,948
Building and building improvements	5,242,425		-	5,242,425
Subtotal	5,503,707	3,784	-	5,507,491
Total capital assets	5,603,707	3,784	-	5,607,491
Less: Accumulated depreciation for:				
Furniture, fixtures, and equipment	128,684	11,581	-	140,265
Computers	7,274	3,729	-	11,003
Building and building improvements	881,682	105,886	-	987,568
Subtotal	1,017,640	121,196	-	1,138,836
Capital assets, net of depreciation	$ 4,586,067	$ (117,412)	$ -	$ 4,468,655

Depreciation expense for the fiscal year ended June 30, 2012, amounted to $121,196

Depreciation expense was allocated as follows:

Instruction	$ 6,939
Support	41,761
Unallocated	72,496
Total depreciation	$ 121,196

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

Note 6. Interfund Transfers

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

	Debt Service Fund
Transfer out:	
General Fund	$ 343,098

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	$ 4,095,000	$ -	$ 70,000	$ 4,025,000	$ 75,000
Mortgage note payable	2,100,000	-	-	2,100,000	2,100,000
Total	$ 6,195,000	$ -	$ 70,000	$ 6,125,000	$ 2,175,000

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

	Governmental Activities		
Fiscal Year Ending,	Principal	Interest	Total
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	95,000	229,792	324,792
2018-2022	585,000	1,045,958	1,630,958
2023-2027	800,000	830,025	1,630,025
2028-2032	1,080,000	536,445	1,616,445
2033-2036	1,135,000	148,208	1,283,208
Total	$ 6,125,000	$ 3,852,224	$ 9,977,224

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%	$ 4,025,000
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	$ 6,125,000

Interest expense for the year amounted to $485,199.

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, 2012, 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, 2012, was $378,836.

Note 8. Revenue Anticipation Note

Marshall Academy has an outstanding revenue anticipated note of $470,000 with an interest rate of 3.45% 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, 2012 was $84,383 with a maturity date of August 20, 2012. A new note was obtained by the Academy in the amount of $300,000 with an interest rate of 2.52% until maturity date of August 20, 2012.

Year	Beginning Balance	Additions	Deletions	Ending Balance
2010-2011	$ 121,668		$ 121,668	$ -
2010-2011	250,000		250,000	-
2011-2012	-	470,000	385,617	84,383
2011-2012	-	300,000	180,000	120,000
Total	$ 371,668	$ 770,000	$ 937,285	$ 204,383

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.

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, 2012 the Academy incurred expense of approximately $55,058 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, 2012, was $154,000.

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. Subsequent Events

In August of 2012, the Academy issued a Revenue Anticipation Note in the amount of $309,000 to assist with operational cash flows prior to the receipt of state aid payments for the 2012 – 2013 school year. The note is secured by the future receipt of state aid payments.

On December 2012 a balloon payment of $2,100,000 is due from the Academy on its loan from Harley & Duke Properties Group, LLC as mentioned in Note 11. The parties involved are certain that an extension will be granted prior to December 2012.

REQUIRED SUPPLEMENTARY INFORMATION

Marshall Academy
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with final budget Favorable (Unfavorable)
Revenues:				
Local sources	$ 5,000	$ 5,000	$ 20,220	$ 15,220
Intermediate sources	50,000	50,000	63,355	13,355
State sources	1,924,093	1,937,923	1,931,345	(6,578)
Federal sources	56,298	64,550	108,331	43,781
Total revenues	2,035,391	2,057,473	2,123,251	65,778
Expenditures:				
Current:				
Instruction:				
Basic programs	779,591	796,446	755,006	41,440
Added needs	158,730	161,319	155,483	5,836
Total instruction	938,321	957,765	910,489	47,276
Support services:				
Improvement of instruction	2,393	2,393	366	2,027
General administration	198,423	195,638	186,131	9,507
School administration	177,810	200,893	197,574	3,319
Business and fiscal services	54,750	38,500	35,361	3,139
Operation & maintenance	138,550	127,400	109,654	17,746
Central	27,500	38,500	36,736	1,764
Athletics	12,000	12,000	3,721	8,279
Total support services	611,426	615,324	569,543	45,781

	Original Budget	Final Budget	Actual	Variance with final budget Favorable (Unfavorable)
Expenditures (concluded):				
Debt service:				
Interest and fiscal charges	168,000	210,000	154,000	56,000
Total debt service	168,000	210,000	154,000	56,000
Total expenditures	1,717,747	1,783,089	1,634,032	149,057
Excess (deficiency) of revenues over expenditures	317,644	274,384	489,219	214,835
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	(331,490)	(331,490)	(343,098)	(11,608)
Total other financing sources (uses)	(331,490)	(331,490)	(343,098)	(11,608)
Net change in fund balance	(13,846)	(57,106)	146,121	203,227
Fund balance:				
Beginning of year	232,715	232,715	232,715	-
End of year	$ 218,869	$ 175,609	$ 378,836	$ 203,227

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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 (the Academy) as of and for the year ended June 30, 2012, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated September 18, 2012. 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

Management of the Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 Academy's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2012-01, that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Academy, in a separate letter dated September 18, 2012.

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

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.

Darnell & Meyering, P.C.

September 18, 2012

MARSHALL ACADEMY
Schedule of Findings and Responses
June 30, 2012

FINANCIAL STATEMENT AUDIT FINDING

Reference Number	Finding
2012-01	**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. This person also received the unopened bank statements. In addition, accruals for accounts payable and prepaid expenses are done only at year-end.

Recommendations: We believe certain steps could be taken to implement both segregation of duties and compensating controls. We understand that the Academy has contracted with a CPA as a consultant, and this individual has been integrated into the Academy's internal controls. The bank reconciliation process could be improved by obtaining 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. A review of the accruals for accounts payable and prepaid expenses can be updated quarterly.

View of Responsible Officials and Planned Corrective Actions:

We have contracted with a highly-qualified and experienced CPA to provide additional oversight and improve financial statement reporting. We will continue to use this person to strengthen our internal controls and implement the above recommendations.

MARSHALL ACADEMY
(A Charter Public School)

COMMENTS AND RECOMMENDATIONS

Year Ended June 30, 2012

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September 18, 2012

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

In planning and performing our audit of the financial statements of Marshall Academy (the Academy) as of and for the year ended June 30, 2012, 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 our auditing procedures 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 2012-01 in our audit report schedule of findings and responses dated September 18, 2012 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 September 18, 2012, 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 have been corrected

- Adopting significant new accounting policies.

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

<u>2012-02 - Deferred Revenue - Title I Part A Grant</u>

Finding: The Academy has $7,399 in deferred revenue as of 6/30/12. 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.

Recommendation: 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.

<u>2012-03 - Authorized Check Signers</u>

Finding: Again, with respect to authorized check signers, we found several former board members as authorized check signers according to the bank's records.

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

2012-04 - Fixed Assets Inventory

Finding: 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.

2012-05 - 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 2010 budget amendment posted. The pie charts of the Academy's expenditures were from the 2009-2010 fiscal year. Lastly, the most recent audit report and management letter posted on the web was for the June 30, 2010 fiscal year ended. Health benefits information was from the fiscal year 2011.

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.

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.

Darnell & Meyering, P.C.

DARNELL & MEYERING, P.C.

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September 18, 2012

To the 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 (the Academy) for the year ended June 30, 2012. 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 30, 2012. 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. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2012. 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 financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define 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 September 18, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the 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 Information in Documents Containing Audited Financial Statements

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.

Upcoming Accounting Pronouncements

The Academy is currently evaluating the impact the following standards will have on the financial statements when adopted in future fiscal years 2013 through 2015.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* was issued in December 2010. This statement incorporates into the GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,* was issued by the GASB in June 2011 and will be effective for the Academy's 2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* was issued by the GASB in March 2012 and will be effective for the Academy's 2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement provides supplemental guidance when implementing GASB Statement 63.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* was issued by the GASB in June 2012 and will be effective for the Academy's 2015 fiscal year. The statement requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense.

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.

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