

**THREE OAKS PUBLIC SCHOOL ACADEMY**

**REPORT ON FINANCIAL STATEMENTS  
(with required supplementary information)**

**YEAR ENDED JUNE 30, 2009**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Three Oaks Public School Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Three Oaks Public School Academy (the Academy), as of and for the year ended June 30, 2009, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Three Oaks Public School 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, each major fund, and the aggregate remaining fund information of Three Oaks Public School Academy as of June 30, 2009 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 15, 2009, on our consideration of Three Oaks Public School Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through x and 18, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Maney Costeiran PC*

September 15, 2009

## MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Three Oaks Public School Academy’s (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, 2009. Please read it in conjunction with the Academy’s financial statements, which immediately follow this section.

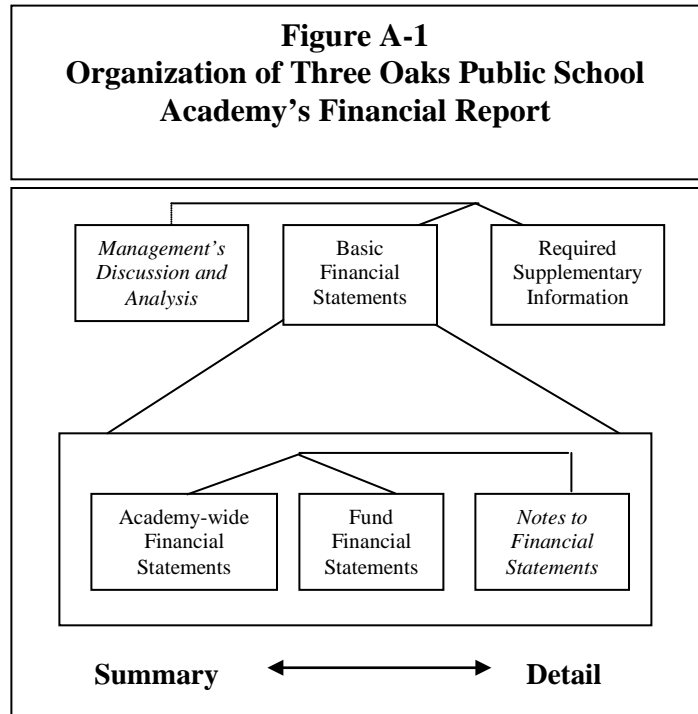
### Financial Highlights

- The Academy had a decrease in the fund balance in the general fund of \$119,666 compared to a budgeted decrease of \$130,977. This gives the Academy a general fund balance of \$105,268.

## 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 academy-wide *financial statements* that provide both short-term and long-term information about the Academy’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy’s operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special 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-2 summarized 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 Academy-wide and Fund Financial Statements**

	Academy-wide 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

**Academy-wide statements**

The Academy-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 Academy-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.

Governmental activities - The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

### **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 has a general fund and special revenue fund.

- Governmental funds - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds 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 funds statement that explains the relationship (or differences) between them.

### **Financial analysis of the Academy as a whole**

Net assets - the Academy's combined net assets of \$242,491 declined by \$34,214 during the year. See Figures A-3 and A-4.

The total revenues increased by 92.8% to \$2,732,866. This is mainly due to the dramatic increase in the number of students enrolled in the school. This large increase in enrollment was caused by the absorption of students in the 08/09 year from another charter school in the local area that closed at the end of the 07/08 school year and students from the local school district. However, the state aid foundation allowance included in revenue from state sources accounts for approximately 71% of the Academy's revenue.

The total cost of instruction increased by 94.8% to \$1,223,137. Total support service increased by 97.1% to \$1,338,699. Both increases are due to the increase in student enrollment.

**Academy governmental activities**

<b>Figure A-3</b>		
<b>Three Oaks Public School Academy's Net Assets</b>		
	2009	2008
Current assets	\$ 718,874	\$ 361,703
Capital assets, net	137,223	51,771
Total assets	856,097	413,474
Current liabilities	613,606	136,769
Net assets:		
Invested in capital assets, net of related debt	137,223	51,771
Unrestricted	105,268	224,934
Total net assets	\$ 242,491	\$ 276,705

<b>Figure A-4</b>		
<b>Changes in Three Oaks Public School Academy's Net Assets</b>		
	2009	2008
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 641,891	\$ 401,595
Charges for services	62	2,033
General revenues:		
State aid - unrestricted	1,939,266	965,994
Federal - unrestricted	101,193	-
Other	50,454	47,601
Total general revenues	2,090,913	1,013,595
Total revenues	2,732,866	1,417,223
Expenses:		
Instruction	1,223,137	627,925
Support services	1,338,699	679,151
Community service	101	114
Food service	188,628	85,319
Interest on long-term debt	-	357
Unallocated depreciation	16,515	9,715
Total expenses	2,767,080	1,402,581
Change in net assets	\$ (34,214)	\$ 14,642

## Financial analysis of the Academy's funds

The Academy's fund balance decreased by \$119,666 to \$105,268. Instruction expenses increased by \$595,212 and support service expenses increased by \$755,512 due to the significant increase in enrollment.

### General fund budgetary highlights

Over the course of the year, the Academy revised the general fund annual operating budget when necessary. Changes were made in both revenue and expenditures which reflected anticipated increases in state aid and actual salary figures for staff.

The Academy's final budget for the general fund anticipated expenditures would exceed revenues by \$130,977, the actual results for the year showed expenditures over revenues of \$119,666.

Actual revenues were \$35,450 less than budgeted, due primarily to unspent state and federal grants.

Actual expenditures were \$62,047 less than budget, due primarily to the unspent state and federal grants and savings in operations and maintenance and school administration.

### Capital asset and debt administration

#### Capital assets

By the end of the year ended June 30, 2009, the Academy had invested \$137,223 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents an increase of \$86,150 from the beginning of the year. Total depreciation expense for the year was \$16,515. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

	<b>2009</b>			<b>2008</b>
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>	<b>Net book value</b>
Furniture and equipment	\$ 204,016	\$ 81,528	\$ 122,488	\$ 44,412
Leasehold improvements	21,250	6,515	14,735	7,359
Total	<u>\$ 225,266</u>	<u>\$ 88,043</u>	<u>\$ 137,223</u>	<u>\$ 51,771</u>

### **Factors bearing on the Academy's future**

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

- A decrease of \$500 to \$6,816 per pupil has been budgeted. Funds received from federal sources under the American Recovery and Reinvestment Act of 2009 are expected to make up \$390 of this budget shortfall.
- The American Recovery and Reinvestment Act of 2009 is providing additional Title I monies to be expended over 2009/2010 and 2010/2011. This is to save and create jobs, and provide benefits to the students beyond the life of the grant.
- The Academy has adopted a general fund budget for 2009 in which revenues exceed expenditures by approximately \$143,000.

The Board of Directors and management have taken appropriate steps to reduce cost. Considering the factors noted, necessary reductions touched every segment of the operation. Primary consideration was given to maintaining the educational integrity of the program.

### **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 Management Company, Choice Schools Associates, LLC at P.O. Box 141493, Grand Rapids, Michigan, 49514, phone (616) 785-8440.

## **BASIC FINANCIAL STATEMENTS**

**THREE OAKS PUBLIC SCHOOL ACADEMY  
STATEMENT OF NET ASSETS  
JUNE 30, 2009**

	<u>Governmental activities</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 135,086
Due from other governmental units	560,445
Prepaid expenses	<u>23,343</u>
<b>TOTAL CURRENT ASSETS</b>	<u>718,874</u>
<b>NONCURRENT ASSETS:</b>	
Capital assets	225,266
Less accumulated depreciation	<u>(88,043)</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>137,223</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 856,097</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 29,241
Unearned revenue	17,655
Accrued salaries and related items	314,602
State aid note payable	<u>252,108</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>613,606</u>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	137,223
Unrestricted	<u>105,268</u>
<b>TOTAL NET ASSETS</b>	<u>242,491</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 856,097</u></u>

**THREE OAKS PUBLIC SCHOOL ACADEMY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2009**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net assets</u>
Governmental activities:				
Instruction	\$ 1,223,137	\$ -	\$ 494,049	\$ (729,088)
Support services	1,338,699	-	7,987	(1,330,712)
Community service	101	-	-	(101)
Food service	188,628	62	139,855	(48,711)
Depreciation (unallocated)	16,515	-	-	(16,515)
Total governmental activities	<u>\$ 2,767,080</u>	<u>\$ 62</u>	<u>\$ 641,891</u>	<u>(2,125,127)</u>
General revenues:				
State sources - unrestricted				1,939,266
Federal ARRA sources - unrestricted				101,193
Incoming transfer from Muskegon ISD				44,514
Other				5,940
Total general revenues				<u>2,090,913</u>
<b>CHANGE IN NET ASSETS</b>				(34,214)
<b>NET ASSETS, beginning of year</b>				<u>276,705</u>
<b>NET ASSETS, end of year</b>				<u>\$ 242,491</u>

See notes to financial statements.

**THREE OAKS PUBLIC SCHOOL ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009**

	General fund	Non-major governmental (special revenue) fund	Total governmental funds
<b>ASSETS</b>			
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 135,086	\$ -	\$ 135,086
Due from other governmental units	560,445	-	560,445
Prepaid expenses	23,343	-	23,343
<b>TOTAL ASSETS</b>	<b>\$ 718,874</b>	<b>\$ -</b>	<b>\$ 718,874</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 29,241	\$ -	\$ 29,241
Unearned revenue	17,655	-	17,655
Accrued salaries and related items	314,602	-	314,602
State aid note payable	252,108	-	252,108
<b>TOTAL LIABILITIES</b>	<b>613,606</b>	<b>-</b>	<b>613,606</b>
<b>FUND BALANCES:</b>			
Reserved for prepaid expenditures	23,343		23,343
Unreserved, undesignated	81,925	-	81,925
<b>TOTAL FUND BALANCES</b>	<b>105,268</b>	<b>-</b>	<b>105,268</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 718,874</b>	<b>\$ -</b>	<b>\$ 718,874</b>
<b>Total governmental fund balances</b>			<b>\$ 105,268</b>
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 the capital assets is		\$ 225,266	
Accumulated depreciation is		(88,043)	137,223
<b>Net assets of governmental activities</b>			<b>\$ 242,491</b>

**THREE OAKS PUBLIC SCHOOL ACADEMY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2009**

	<b>General fund</b>	<b>Non-major governmental (special revenue) fund</b>	<b>Total governmental funds</b>
<b>REVENUES:</b>			
Local sources:			
Food sales	\$ -	\$ 62	\$ 62
Other local revenue	5,940	-	5,940
Total local sources	5,940	62	6,002
State sources	2,272,266	2,123	2,274,389
Federal sources	270,229	137,732	407,961
Incoming transfers	44,514	-	44,514
Total revenues	2,592,949	139,917	2,732,866
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Basic programs	963,564	-	963,564
Added needs	259,573	-	259,573
Total instruction	1,223,137	-	1,223,137
Support services:			
Pupil	107,833	-	107,833
Instructional staff	66,515	-	66,515
General administration	412,068	-	412,068
School administration	204,383	-	204,383
Business services	17,557	-	17,557
Operation and maintenance	416,228	-	416,228
Pupil transportation	154,054	-	154,054
Central support services	62,028	-	62,028
Total support services	1,440,666	-	1,440,666
Community service	101	-	101
Food service	-	188,628	188,628
Total expenditures	2,663,904	188,628	2,852,532
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(70,955)</b>	<b>(48,711)</b>	<b>(119,666)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers from other funds	-	48,711	48,711
Operating transfers to other funds	(48,711)	-	(48,711)
Total other financing sources (uses)	(48,711)	48,711	-
<b>NET CHANGE IN FUND BALANCES</b>	<b>(119,666)</b>	<b>-</b>	<b>(119,666)</b>
<b>FUND BALANCES:</b>			
Beginning of year	224,934	-	224,934
End of year	\$ 105,268	\$ -	\$ 105,268

See notes to financial statements.

**THREE OAKS PUBLIC SCHOOL 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, 2009**

**Net change in fund balances total governmental funds** \$ (119,666)

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	101,967
Depreciation expense	<u>(16,515)</u>

**Change in net assets of governmental activities** \$ (34,214)

**THREE OAKS PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Three Oaks Public School Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

**A. Reporting Entity**

The Three Oaks Public School Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Bay Mills Community College is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 2011. The Academy's Board of Directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. The Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 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 (a) is presented on a consolidated basis, and (b) 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.

**THREE OAKS PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and fund financial statements (Concluded)**

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 district 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.

**Other Non-major fund**

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service activity in the special revenue fund.

**THREE OAKS PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 Governmental 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, 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 when received within 60 days of year end. 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, 2009, the foundation allowance was based on pupil membership counts taken in February and September of 2008.

**THREE OAKS PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)**

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The State revenue is recognized during the foundation period and is funded through payments from October 2008 to August 2009. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

**D. Other Accounting Policies**

1. Cash and equivalents include amounts in demand deposits accounts.

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 No. 40, *Deposits 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.

**THREE OAKS PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

2. Receivables and payables

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 "advances 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 uncollectibles.

3. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

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

The Academy's capitalization policy is to capitalize individual amounts exceeding \$5,000.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Furniture and equipment	4 - 15 years
Leasehold improvements	4 years

**THREE OAKS PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**D. Other Accounting Policies (Concluded)**

4. Long-term obligation

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

In the fund financial statements, governmental fund types recognize bond 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.

5. Use of estimates

The process of preparing 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.

6. Fund balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

**THREE OAKS PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)**

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

1. The Chief Administrative Officer submits to the Board of Directors 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 and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). 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, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. The Chief Administrative Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2009. The Academy does not consider these amendments to be significant.

**THREE OAKS PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - CASH DEPOSITS - CREDIT RISK**

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2009, none of the Academy's bank balance of approximately \$209,000 was exposed to custodial credit risk because it was not covered by federal depository insurance and was not collateralized.

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in the Academy's capital assets follows.

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Governmental activities:				
Furniture and equipment	\$ 113,207	\$ 90,809	\$ -	\$ 204,016
Leasehold improvements	10,092	11,158	-	21,250
	<u>123,299</u>	<u>101,967</u>	<u>-</u>	<u>225,266</u>
Accumulated depreciation:				
Furniture and equipment	68,795	12,733	-	81,528
Leasehold improvements	2,733	3,782	-	6,515
	<u>71,528</u>	<u>16,515</u>	<u>-</u>	<u>88,043</u>
Net governmental capital assets	<u>\$ 51,771</u>	<u>\$ 85,452</u>	<u>\$ -</u>	<u>\$ 137,223</u>

Depreciation for the fiscal year ended June 30, 2009 amounted to \$16,515. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**THREE OAKS PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - NOTE PAYABLE**

At June 30, 2009, the Academy has amounts outstanding from its state aid anticipation notes. The first note, dated October 1, 2008, has an interest rate of 5.75% maturing on August 28, 2009. The second note, dated April 28, 2009, has variable interest rate maturing July 23, 2009. The notes are secured by future state school aid payments.

Balance July 1, 2008	Additions	Payments	Balance June 30, 2009
\$ 26,066	\$ 700,000	\$ (473,958)	\$ 252,108

**NOTE 6 - INTERFUND TRANSFERS**

Operating transfers out		Operating transfers in	
General fund	\$ 48,711	Special revenue fund	\$ 48,711

Operating transfers were made from the general fund to the school lunch fund to make up for the shortage of revenues under expenditures during the year.

**NOTE 7 - OVERSIGHT FEES**

The Academy pays an administrative oversight fee of 3% of its state school aid to the Bay Mills Community College, 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, 2009, the Academy incurred expense of approximately \$70,000 for oversight fees.

**NOTE 8 - MANAGEMENT AGREEMENT**

The Academy had entered into a five year (through June 2013) management agreement with Choice Schools Associates, LLC (Choice Schools) for operations of the Academy. Under the terms of the management agreement, Choice Schools' compensation for operating the Academy was \$324,998 for the fiscal year 2009.

**THREE OAKS PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 - PURCHASED SERVICES**

The Academy leases all employee services from Choice Schools. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Choice Schools. The amount due to Choice Schools Associates at June 30, 2009 was approximately \$161,000.

**NOTE 10 - 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 employees and natural disasters. To minimize the risk, the Academy carries commercial insurance.

**NOTE 11 - BUILDING LEASE**

The Academy leases a building for the use of classrooms under a non-cancelable operating lease through July 2011. The monthly lease payments were based on the February and September 2008 pupil count for the current fiscal year. The building lease expense for the year ended June 30, 2009 was approximately \$158,000.

Future minimum rental payments are as follows.

Year ending June 30	
2010	\$ 165,020
2011	165,020
2012	<u>13,752</u>
	<u>\$ 343,792</u>

**NOTE 12 - THE AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)**

During the year ended June 30, 2009, the Academy received \$101,193 of ARRA funds to offset shortage in the State of Michigan foundation funding. It is uncertain if the Academy will receive ARRA funds in the future.

**REQUIRED SUPPLEMENTARY INFORMATION**

**THREE OAKS PUBLIC SCHOOL ACADEMY  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2009**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
<b>REVENUES:</b>				
Local	\$ 4,500	\$ 4,900	\$ 5,940	\$ 1,040
State sources	1,372,258	2,316,185	2,272,266	(43,919)
Federal sources	141,831	272,314	270,229	(2,085)
Incoming transfers	35,000	35,000	44,514	9,514
Total revenues	<u>1,553,589</u>	<u>2,628,399</u>	<u>2,592,949</u>	<u>(35,450)</u>
<b>EXPENDITURES:</b>				
Instruction:				
Basic programs	460,384	982,915	963,564	19,351
Added needs	297,000	292,923	259,573	33,350
Total instruction	<u>757,384</u>	<u>1,275,838</u>	<u>1,223,137</u>	<u>52,701</u>
Support services:				
Pupil	60,000	97,700	107,833	(10,133)
Instructional staff	34,300	59,407	66,515	(7,108)
General administration	209,710	415,007	412,068	2,939
School administration	149,700	216,768	204,383	12,385
Business	8,400	17,800	17,557	243
Operation and maintenance	235,089	434,704	416,228	18,476
Pupil transportation	3,600	160,000	154,054	5,946
Central support services	51,850	48,227	62,028	(13,801)
Total support services	<u>752,649</u>	<u>1,449,613</u>	<u>1,440,666</u>	<u>8,947</u>
Community service activities	500	500	101	399
Total expenditures	<u>1,510,533</u>	<u>2,725,951</u>	<u>2,663,904</u>	<u>62,047</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	43,056	(97,552)	(70,955)	26,597
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers (out)	(20,000)	(33,425)	(48,711)	(15,286)
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 23,056</u>	<u>\$ (130,977)</u>	(119,666)	<u>\$ 11,311</u>
<b>FUND BALANCE:</b>				
Beginning of year			224,934	
End of year			<u>\$ 105,268</u>	

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Three Oaks Public School Academy

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Three Oaks Public School Academy as of and for the year ended June 30, 2009, which collectively comprise Three Oaks Public School Academy's basic financial statements and have issued our report thereon dated September 15, 2009. 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 Three Oaks Public School 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 *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Three Oaks Public School 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*.

This report is intended for the information and use of the Board of Directors, management, 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.

*Maney Costeiran PC*

September 15, 2009