

CANIFF LIBERTY ACADEMY

Hamtramck, Michigan

Financial Statements

June 30, 2013



**Gardner | Provenzano
Thomas & Luplow**

CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor's Report	
Management's Discussion and Analysis	1
Academy Wide Statement of Net Position	6
Academy Wide Statement of Activities	7
Governmental Funds Balance Sheet	8
Reconciliation of Balance Sheet of Governmental Funds to Net Position	9
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	11
Notes to Financial Statements	12
Required Supplemental Information	
Budgetary Comparison	23
Additional Supplemental Information	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25



Frederick C. Gardner
Giacamo Provenzano
Heather A. Thomas
Brett A. Luplow

INDEPENDENT AUDITOR'S REPORT

October 15, 2013

To the Board of Directors
Caniff Liberty Academy

Report of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Caniff Liberty Academy as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Caniff Liberty Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Caniff Liberty Academy as of June 30, 2013 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
Caniff Liberty Academy
Page Two

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2013, on our consideration of Caniff Liberty 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Caniff Liberty Academy's internal control over financial reporting and compliance.

Murdock, Provengano, Thomas & Lyttle

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

CANIFF LIBERTY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Introduction

This section of the annual financial report presents management's discussion and analysis of Caniff Liberty Academy's financial results for the fiscal year ended June 30, 2013. Please read this along with the financial statements that follow for a comprehensive understanding of the financial position of the Academy.

Using This Report

The annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Academy as a whole (government-wide statements) and also in more detail (governmental fund statements) showing the year's activity by fund.

Academy Wide Financial Statements

The Academy Wide Financial Statements appear first and report all assets and liabilities using the accrual basis of accounting, similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statement of activities covers all of the Academy's services including instruction and support services which are financed through Unrestricted State Aid and State and Federal grants. In addition, revenue less expense results in the change in net position, which can either increase or decrease on an annual basis.

Fund Financial Statements

The Fund Financial Statements are reported on a modified accrual basis and are formatted to comply with the legal requirements of the Michigan Department of Education's Accounting Manual. The Academy uses funds to help control and manage money for specific purposes or to meet legal responsibilities for certain grants. Funds provide a detailed short-term view of the operations and services of the Academy, show how money flows through and out of funds, and the balances left at year-end. Reviewing the funds helps the reader consider whether the Academy is accountable for the resources taxpayers and others provide and gives insight into the Academy's overall financial health.

The relationship between governmental activities (Academy Wide Financial Statements) and governmental fund activities (Fund Financial Statements) will be reconciled later in the report.

**CANIFF LIBERTY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**Condensed Financial Statements
Analysis of Overall Financial Position and Results of Operations**

The table below provides a summary of the Academy's net position as of June 30, 2013.

	2013
Assets	
Current and other assets	\$ 500,665
Capital assets - net of accumulated depreciation	34,740
Total assets	535,405
Liabilities	
Current liabilities	307,468
Total liabilities	307,468
Net position	
Invested in capital assets	34,740
Unrestricted	193,197
Total net position	\$ 227,937

The Academy's net position was \$227,937 at June 30, 2013. Capital assets, net of accumulated depreciation, totaling \$34,740 was computed by taking the original cost of the assets and subtracting the depreciation expense. The remaining amount of net position \$193,197 is unrestricted and represents the accumulation of the current years' operations. The operating results of the general fund will have a significant impact on the change in unrestricted net position from year to year.

The Academy's results of operations for the year ended June 30, 2013 are reported below.

	2013
Revenue	
Program revenue	
Grants and contributions	\$ 469,176
General revenue	
State foundation allowance	1,947,067
Other	24,448
Total revenue	2,440,691
Function/program expenses	
Instruction	789,216
Support services	1,261,781
Food service	161,757
Total expenses	2,212,754
Increase (decrease) in net position	\$ 227,937

**CANIFF LIBERTY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Analysis of Overall Financial Position and Results of Operations (cont.)

Funding for the above activities comes from a variety of sources. Some activities are partially funded by those who benefit from the programs or by grants and categoricals from governments and organizations. The remaining activities are paid for by the State Foundation Allowance and other revenues from local sources.

Budget Highlights

Caniff Liberty Academy's budget was developed according to the Uniform Budget Act of the State of Michigan requirements. The Act requires that the original budget for the upcoming fiscal year be approved prior to July 1, the start of the fiscal year.

<u>General fund</u>	<u>Original</u>	<u>Final</u>	<u>Variance</u>	<u>Actual</u>	<u>Variance</u>
Total revenue	\$1,883,950	\$2,903,966	35.12%	\$2,294,597	-26.56%
Total expenditures	1,844,207	2,880,251	35.97%	2,074,685	-38.83%
Excess revenue/expenditures	<u>\$ 39,743</u>	<u>\$ 23,715</u>	<u>-67.59%</u>	<u>\$ 219,912</u>	<u>89.22%</u>

Changes to the original General Fund budget were as follows:

- When establishing the original 2012/13 revenue and expenditure budget in the summer of 2012 only estimates could be used due to the uncertain state of the amount of the per-pupil foundation grant and uncertainties regarding enrollment. Once student enrollment became known and State aid amounts became certain, in the fall of 2012 new budgets were prepared to reflect an increase in the number of students served from the original estimate. While an increase in the number of students results in more revenue to the Academy, an increase in students results in required expenditures increasing as well.

Final vs. Actual Budget

- Management believes that the final budget to actual results variances were not significant.

Academy's Funds

General Fund

The General Fund is the primary operating fund for the Academy. For fiscal year ending June 30, 2013, the fund increased by \$197,147.

Food Service Fund

The Academy maintained the school lunch program for the fiscal year. The general fund subsidized the food service fund during the year ended June 30, 2013 in the amount of \$22,765.

CANIFF LIBERTY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Capital Assets

As of June 30, 2013, the Academy has \$34,740 in capital assets including furniture and equipment, less depreciation.

	<u>2013</u>
Equipment and furniture	\$ 36,414
Less accumulated depreciation	<u>(1,674)</u>
Net capital assets	<u>\$ 34,740</u>

Conditions Affecting Next Year's Budget

Our Board members and administration consider many factors when setting the Academy's 2013/14 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2013/14 fiscal year is 10 percent and 90 percent of the February 2012 and October 2013 student counts, respectively. The 2014 budget was adopted in June 2013, based on an estimate of students that will be enrolled in September 2013. Approximately 85 percent of the total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2013/14 school year, we anticipate that the fall student count will be lower than the estimates used in creating the 2013/14 budget. Once the final student count and related per pupil funding is validated, State law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation. The overall State economy remains a cause for concern, and the Academy will continue to be properly cautious in fiscal matters.

Requests for Information

This report is designed to provide our stakeholders with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Academy Business Office, 26999 Central Park Blvd., Southfield, Michigan 48076.

BASIC FINANCIAL STATEMENTS

CANIFF LIBERTY ACADEMY
Academy Wide
Statement of Net Position
June 30, 2013

	Governmental Activities
Assets	
Cash	\$ 108,392
Receivables	392,273
Capital assets less accumulated depreciation	34,740
Total Assets	\$ 535,405
 Liabilities	
Current liabilities	
Accounts payable	\$ 34,061
Due to management company	252,522
Unearned revenue	20,885
Total Liabilities	307,468
 Net Position	
Invested in capital assets	34,740
Unrestricted	193,197
Total Net Position	\$ 227,937

The accompanying notes are an integral part of these financial statements.

CANIFF LIBERTY ACADEMY
Academy Wide
Statement of Activities
For the Year Ended June 30, 2013

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Position</u>
Functions/Programs				
Instruction	\$ 789,216	\$ -	\$ 295,117	\$ (494,099)
Support services	1,261,781	-	27,965	(1,233,816)
Food service	161,757	-	146,094	(15,663)
Totals	<u>\$ 2,212,754</u>	<u>\$ -</u>	<u>\$ 469,176</u>	<u>(1,743,578)</u>
General revenues:				
State aid - unrestricted				1,947,067
Other				24,448
Total General Revenues				<u>1,971,515</u>
Change in Net Position				227,937
Net Position - Beginning of Year				-
Net Position - End of Year				<u>\$ 227,937</u>

The accompanying notes are an integral part of these financial statements.

CANIFF LIBERTY ACADEMY
 Governmental Funds
 Balance Sheet
 June 30, 2013

	<u>General Fund</u>	<u>Food Service</u>	<u>Totals (Memorandum Only)</u>
<u>Assets</u>			
Cash	\$ 108,392	\$ -	\$ 108,392
Due from other governmental units	392,273	-	392,273
Total Assets	<u><u>\$ 500,665</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 500,665</u></u>
 <u>Liabilities and Fund Balance</u>			
Liabilities			
Accounts payable	\$ 34,061	\$ -	\$ 34,061
Due to management company	248,572	-	248,572
Unearned revenue	20,885	-	20,885
Total Liabilities	<u><u>303,518</u></u>	<u><u>-</u></u>	<u><u>303,518</u></u>
 Fund balance			
Unassigned	<u>197,147</u>	<u>-</u>	<u>197,147</u>
Total Fund Balance	<u><u>197,147</u></u>	<u><u>-</u></u>	<u><u>197,147</u></u>
Total Liabilities and Fund balance	<u><u>\$ 500,665</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 500,665</u></u>

The accompanying notes are an integral part of these financial statements.

CANIFF LIBERTY ACADEMY
Reconciliation of Balance Sheet of Governmental Funds to Net Position
June 30, 2013

Total Fund Balances - Governmental Funds	\$ 197,147
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets are:	36,414
Accumulated depreciation is:	(1,674)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Compensated absences	<u>(3,950)</u>
Total Net Position - Governmental Activities (Academy Wide)	<u><u>\$ 227,937</u></u>

The accompanying notes are an integral part of these financial statements.

CANIFF LIBERTY ACADEMY
Governmental Funds
Statement of Revenue, Expenses, and Changes in Fund Balances
For the Year Ended June 30, 2013

	General	Food Service	Totals (Memorandum Only)
Revenue			
Local	\$ 24,448	\$ -	\$ 24,448
State	2,078,750	-	2,078,750
Federal	191,399	146,094	337,493
Total Revenue	2,294,597	146,094	2,440,691
Expenditures			
Instruction			
Basic programs	571,211	-	571,211
Special education	214,805	-	214,805
Support Services			
Pupil services	43,369	-	43,369
Staff	138,954	-	138,954
General administration	437,735	-	437,735
School administration	124,656	-	124,656
Business	52,494	-	52,494
Operation and maintenance	404,294	-	404,294
Transportation	40,170	-	40,170
Central services	46,997	-	46,997
Food service	-	168,859	168,859
Total Expenditures	2,074,685	168,859	2,243,544
Excess (Deficiency) of Revenues over Expenditures	219,912	(22,765)	197,147
Other Financing Sources (Uses)			
Sources	-	22,765	22,765
Uses	(22,765)	-	(22,765)
Total Other Financing Sources (Uses)	(22,765)	22,765	-
Net Change in Fund Balances	197,147	-	197,147
Fund Balance, Beginning of Year	-	-	-
Fund Balance, End of Year	\$ 197,147	\$ -	\$ 197,147

The accompanying notes are an integral part of these financial statements.

CANIFF LIBERTY ACADEMY
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in
 Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2013

Net Change in Fund Balances - Governmental Funds \$ 197,147

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

Governmental funds report capital outlay as expenditures;
 in the statement of activities, these costs are capitalized
 and depreciated over their estimated useful lives.

Capital outlay	36,414
Depreciation expense	(1,674)

In the statement of activities, liabilities at the end of the period for compensated absences are adjusted for their current balance, whereas in governmental funds, an expenditure is reported when paid.	(3,950)
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Change in Net Position of Governmental Activities (Academy Wide)	\$ 227,937
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The accompanying notes are an integral part of these financial statements.

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1—Summary of Significant Accounting Policies

Caniff Liberty Academy was formed as a Charter School Academy pursuant to the Michigan School Code of 1976, as amended by Act 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982.

In June 2012, the Academy entered into a five-year agreement with Oakland University to operate as a public school academy. The Academy began operations as a public school academy in the 2012/2013 school year. The Academy is required to act exclusively as a governmental agency and is prohibited to take any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Oakland University is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Oakland University three percent of state aid as administrative fees. The total administrative fees incurred to Oakland University for the year ended June 30, 2013 was \$62,989.

Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate component units of the Academy. The Academy has no component units.

B. Academy-Wide Statements

The statement of net position and the statement of activities display information about the Academy as a whole. The usual purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all activities of the Academy are considered to be governmental.

The Academy-wide statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. This basis is different from the manner in which the governmental fund financial statements are prepared. Therefore reconciliations are included to identify the relationship between the Academy-wide statements and the statements for the governmental funds.

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

B. Academy-Wide Statements (continued)

The Academy-wide statement of activities presents a comparison between program expenses and program revenues; revenues that are not classified as direct program revenues are presented as general revenues. The comparison of program expenses and revenues identifies the extent to which each program is self-financed or draws resources from the Academy.

The Academy-wide approach is focused more on the sustainability of the Academy as an entity and the change in the Academy's net position from the current year's activities.

C. Fund Financial Statements

The accounts of the Academy are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following fund types are used by the Academy:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting. The fund approach is focused on the currently available resources and changes in the currently available resources of the Academy.

General Fund is the general operating fund of the Academy. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for a specified purpose. The Special Revenue Fund maintained by the Academy is the Food Service Fund. The Food Service Fund is intended to be self-supporting; however, this year expenditures exceeded revenues. The general fund made transfers to offset the deficit.

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Accounting basis relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

The full accrual basis of accounting requires recognition of revenues when earned and expenses when incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. This method is used for the Academy-Wide statements.

Modified Accrual

The modified accrual basis recognizes revenues when they are measurable and available, available means collectible within the current period or within 60 days after year-end. Expenditures are still recognized when incurred; however, principal and interest on long-term debt is recognized when payment is due. This method is used for the Fund Level statements.

The most significant difference between the full accrual basis of accounting and the modified accrual basis of accounting is the way in which capital assets and long-term debt are recognized. The full accrual basis of accounting recognizes purchases of capital assets as an asset and long-term debt proceeds as a liability (similar to a for-profit business). The modified accrual basis of accounting recognizes the purchase of capital assets as expenditures and long-term debt proceeds as other revenue sources.

E. Financial Statement Amounts

Cash

Cash includes cash on hand and demand deposits.

Receivables

Receivables consist of all revenues earned at year-end but not yet received.

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of \$2,500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The Academy does not possess infrastructure type assets.

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

Computer equipment	3 years
Furniture and Equipment	5-7 years

Accounts Payable

Accounts payable consist of items from which the Academy benefited during the current fiscal year but has not yet paid.

Unearned Revenue

Unearned revenue represents amounts for which the Academy has received or is due to receive but has not yet earned. Unearned revenue is usually caused by the receipt of grant program revenues in excess of expenses/expenditures related to the grant. The unearned revenues are deferred until the proceeds have been fully expensed/expended at which time they will be reclassified to earned revenues.

Due to Management Company

Due to Management Company consists of administrative fees and unreimbursed expenses/expenditures that are due and payable for the current fiscal year.

Inter-fund Activity

Inter-fund activity is reported as transfers and is eliminated upon consolidation.

Fund Balance -- In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Fund Balance (continued)

based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications – nonspendable, restricted, committed, assigned, and unassigned

In the fund financial statements, governmental funds report the following components of fund balance:

- Nonspendable – Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- Restricted – Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.
- Committed – Amounts that have been formally set aside by the Board of the Academy for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of the Academy.
- Assigned – Intent to spend resources on specific purposes expressed by the Board of the Academy.
- Unassigned – Amounts that are available for any purpose.

The Academy did not have any nonspendable, restricted, committed, or assigned fund balance as of June 30, 2013.

Comparative Data/Reclassification – Comparative data is not included in the Academy's financial statements.

Net position flow assumption

Sometimes the Academy will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Fund balance flow assumptions

Sometimes the Academy will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

GASB Statements No. 62, 63 and 65

For the year ended June 30, 2013 the Academy implemented the following new pronouncements:

GASB Statement 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

Summary:

The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure

GASB Statement 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and 65 Items previously reported as Assets and Liabilities.

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

GASB Statements No. 62, 63 and 65 (continued)

Summary:

These Statements provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statements No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. As of June 30, 2013, the Academy does not report any amounts for deferred outflows or inflows.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement 65 also states that bond issuance costs should be expensed in the year in which they are incurred.

Subsequent Events – The financial statements and related disclosures include evaluation of events up through and including October 15, 2013, which is the date the financial statements were available to be issued.

NOTE 2--Stewardship, Compliance, and Accountability

The Academy formally adopted a General Fund budget by activity for the year ended June 30, 2013. State law requires the Academy to have its budget in place before July 1. Unexpended appropriations lapse at year-end; encumbrances are not formally recorded.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. Budgeted amounts presented in the financial statements are amended by the Board of Directors.

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2--Stewardship, Compliance, and Accountability (continued)

State law permits Academies to amend their budgets during the year. The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. Expenditures in excess of amounts budgeted are a violation of Michigan law.

The Academy's expenditure budget variances are illustrated in the required supplemental information.

NOTE 3--Deposits and Investments

The Academy is authorized, by the State of Michigan, to deposit its funds in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The Academy is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks, and
- f. Mutual funds – investments which local unit can make directly.

As of year-end, the carrying amount of the Academy deposits was \$108,392 and the bank balance was \$329,993. All cash is deposited in a federally insured financial institution. The Academy had uninsured bank balances of \$79,993 at June 30, 2013. The Academy has not adopted an investment policy and does not hold any investments.

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4--Capital Assets and Accumulated Depreciation

Capital asset activity of the Academy was as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets subject depreciation				
Equipment and furniture	\$ -	\$ 36,414	\$ -	\$ 36,414
Total Capital Assets	<u>-</u>	<u>36,414</u>	<u>-</u>	<u>36,414</u>
Accumulated depreciation				
Equipment and furniture	-	1,674	-	1,674
Total Accumulated Depreciation	<u>-</u>	<u>1,674</u>	<u>-</u>	<u>1,674</u>
Total Net Capital Assets	<u>\$ -</u>	<u>\$ 34,740</u>	<u>\$ -</u>	<u>\$ 34,740</u>

Depreciation totaling \$1,674 has been allocated to support services (\$926 and food service (\$748).

NOTE 5--Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2013, the Academy carried commercial insurance.

NOTE 6--Management Contract

On June 14, 2012, the Academy entered into a management agreement with Education and Management Networks, Inc. (EMAN). The agreement covers five academic years and will end on August 31, 2017. The Academy's Board shall provide notice to EMAN in writing at least 60 days prior to the expiration of the agreement of its intent to terminate or renegotiate the agreement. In the event that the Board does not provide notice to EMAN at least 60 days prior to the expiration of the agreement, the agreement will automatically renew for an additional five year academic period.

Under the direction of the Academy's Board, EMAN is responsible for all of the management, operation, administration, and education at the Academy. EMAN is responsible for the implementation and administration of the educational program; recruiting, hiring and employing the principal, teachers, other professional staff at the Academy; all human resources and professional development for the Academy's staff; and development, review, and implementation of the Academy's curriculum; and all other functions which are typically associated with the operation and administration of a public school and a public school district.

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6--Management Contract (continued)

Management fees are calculated based on 12% of all funds received by the Academy either directly or indirectly, attributable to a school year during which EMAN provides services under the management agreement with the exception of donations made to the Academy. The total management fee incurred by the Academy for the year ended June 30, 2013 was \$291,903.

NOTE 7--Due to Management Company

The Academy owed EMAN \$248,572 at June 30, 2013. The amounts owed to the management company are summarized below:

	Balance June 30, 2013
Management fees	\$ 85,852
Accrued expenses	162,720
Total due to management company	\$ 248,572

NOTE 8--Lease Commitment

The Academy rents its school building from Princeton Education Management, LLC, under a five year agreement. The agreement began on July 1, 2012 and expires on June 30, 2017. The monthly rent amount is based on a percentage of the Academy's State Foundation Grant. The percentage is based on student enrollment as illustrated below.

Lease rate	Student Enrollment
10%	0-150
12%	150-300
13%	300-500
15%	Above 500

The Academy incurred rental expense for its building of \$217,171 for the year ended June 30, 2013.

REQUIRED
SUPPLEMENTAL INFORMATION

CANIFF LIBERTY ACADEMY
Budgetary Comparison
For the Year Ended June 30, 2013

	General Fund				Food Service		
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual
Revenue							
Local	\$ -	\$ 5,000	\$ 24,448	\$ 19,448	\$ -	\$ -	\$ -
State	1,883,950	2,634,542	2,078,750	(555,792)	-	-	-
Federal	-	264,424	191,399	(73,025)	154,440	154,440	146,094
Incoming transfers and other	-	-	-	-	-	-	22,765
Total revenue	<u>1,883,950</u>	<u>2,903,966</u>	<u>2,294,597</u>	<u>(609,369)</u>	<u>154,440</u>	<u>154,440</u>	<u>168,859</u>
Instruction							
Basic programs	676,836	1,052,312	571,211	481,101	-	-	-
Special education	67,719	359,001	214,805	144,196	-	-	-
Support Services							
Pupil services	21,271	70,910	43,369	27,541	-	-	-
Staff	38,090	74,549	138,954	(64,405)	-	-	-
General administration	372,861	181,768	437,735	(255,967)	-	-	-
School administration	135,270	148,973	124,656	24,317	-	-	-
Business	51,208	350,125	52,494	297,631	-	-	-
Operation and maintenance	364,034	529,000	404,294	124,706	-	-	-
Transportation	84,000	85,795	40,170	45,625	-	-	-
Central services	32,918	25,918	46,997	(21,079)	-	-	-
Community services	-	2,000	-	2,000	-	-	-
Food service	-	-	-	-	169,943	172,638	168,859
Outgoing transfers and other	-	-	-	-	-	-	-
Total expenditures	<u>1,844,207</u>	<u>2,880,351</u>	<u>2,074,685</u>	<u>805,666</u>	<u>169,943</u>	<u>172,638</u>	<u>168,859</u>
Excess (Deficiency) of revenues over expenditures	39,743	23,615	219,912	196,297	(15,503)	(18,198)	18,198
Fund Balance - Beginning of Year	-	-	-	-	-	-	-
Fund Balance - End of Year	<u>\$ 39,743</u>	<u>\$ 23,615</u>	<u>\$ 219,912</u>	<u>\$ 196,297</u>	<u>\$ (15,503)</u>	<u>\$ (18,198)</u>	<u>\$ 18,198</u>

ADDITIONAL
SUPPLEMENTAL INFORMATION



Frederick C. Gardner
Giacamo Provenzano
Heather A. Thomas
Brett A. Luplow

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

October 15, 2013

To the Board of Directors
Caniff Liberty Academy

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Caniff Liberty Academy's basic financial statements and have issued our report thereon dated October 15, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Caniff Liberty Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Caniff Liberty Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Caniff Liberty Academy's internal control.

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

To the Board of Directors
Caniff Liberty Academy
Page Two

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Caniff Liberty 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*.

Caniff Liberty Academy's Response to Findings

Caniff Liberty Academy's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Caniff Liberty Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gardner, Provenzano, Thomas & Taylor

Certified Public Accountants