

Madison Academy

Flint, Michigan

Audited Financial Statements

June 30, 2013

CROSKEY LANNI, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Madison Academy

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are the 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 opinion.

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iv - ix and 22 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 provided any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Madison Academy's basic financial statements. The introductory section, combining and individual non-major fund financial statements and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements are the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2013, on our consideration of Madison 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 Madison Academy's internal control over financial reporting and compliance.



Croskey Lanni, PC

October 28, 2013
Rochester, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

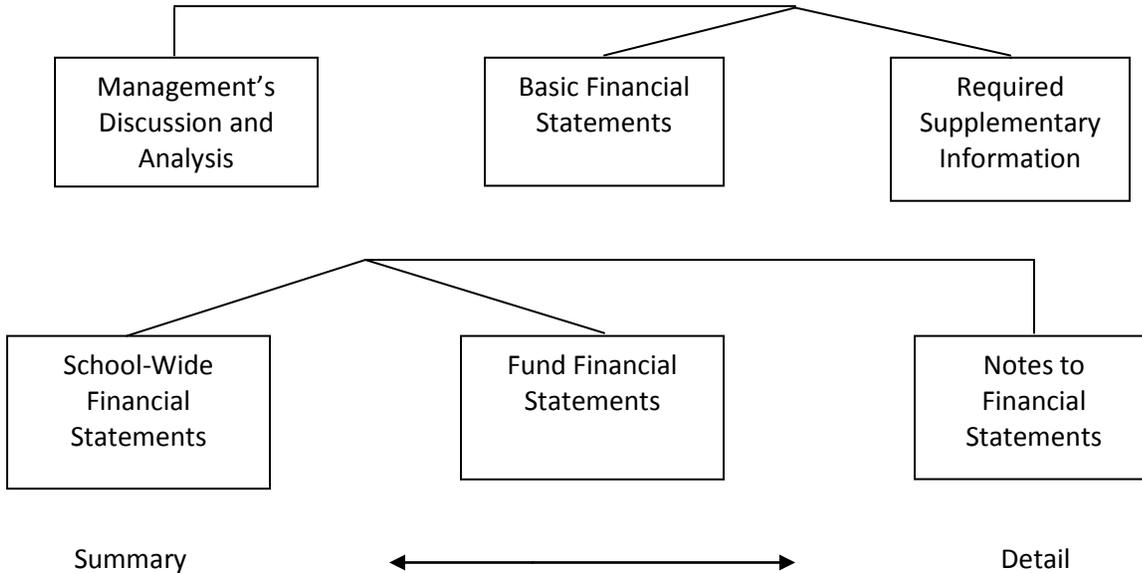
- ❖ The school's financial status remains stable.
 - The total cost of basic programs was \$2,017,211.
- ❖ Revenues were at \$5,021,126 while expenditures were \$4,024,801 in the General Fund.
 - Blended enrollment used for state aid purposes was 604.89.
- ❖ The school has a positive fund balance of \$610,086.

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 school:

- The first two statements are school-wide financial statements that provide both short-term and long-term information about the school's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the school, reporting the school's operations in more detail.
- The governmental fund statements tell how basic services like regular and special education were financed.
- Fiduciary funds statements provide information about the financial relationships in which the school acts solely as a trustee or agent for the benefit of others. These consist of student activity funds held by the school on behalf of the student group.

**Figure A-1
Organization of Madison’s Annual Financial Report**



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 school’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-2
Major Features of School-Wide and Fund Financial**

Fund Financial Statements			
	School-Wide Statements	Government Funds	Fiduciary Funds
Scope	Entire school (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the school administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required Financial Statements	*Statement of net position *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of fiduciary net assets *Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic 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	All assets and liabilities, both short-term and long-term
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	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the school’s financial statements, including the portion of the school’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.

SCHOOL-WIDE STATEMENTS

The school-wide statements report information about the school as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the school’s assets, deferred outflows, liabilities, and deferred inflows. 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 school-wide statements report the school’s net position and how it has changed. Net position – the difference between the school’s assets, deferred outflows, liabilities, and deferred inflows – are one way to measure the school’s financial health or position.

- ❖ Over time, increases or decreases in the school’s position is an indicator of whether its financial position is improving or deteriorating, respectively.
- ❖ To assess the overall health of the school, you need to consider additional non-financial factors such as changes in the school’s enrollment and the condition of school buildings and other facilities.

FUND FINANCIAL STATEMENTS

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

- ❖ *Governmental activities* – Most of the school’s basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.
- ❖ The school establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues.

The school has one kind of fund:

- ❖ *Governmental funds* – Most of the school’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 school’s programs. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information with governmental funds statements that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The school's financial position is the product of many factors.

General Fund Budgetary Analysis

Over the course of the year, the school reviewed the annual operating budget several times.

Financial Outlook

Madison Academy's financial forecast continues to be optimistic heading into the 2013/2014 school year.

- ❖ Enrollment is expected to remain constant for the 2013-2014 school year.

**Figure A-3
Madison Academy Net Position**

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 2,546,135	\$ 2,858,062
Capital assets	<u>9,695,550</u>	<u>10,030,841</u>
Total assets and deferred outflows	<u>12,241,685</u>	<u>12,888,903</u>
Long-term debt outstanding	2,009,611	11,220,965
Other liabilities	<u>11,023,874</u>	<u>2,302,260</u>
Total liabilities and deferred inflows	13,033,485	13,523,225
Net position:		
Restricted	(60,711)	150,904
Unrestricted	<u>(731,089)</u>	<u>(785,226)</u>
Total net position	<u>\$ (791,800)</u>	<u>\$ (634,322)</u>

Figure A-4
Changes in Madison Academy's Net Position

	2013	2012
Revenues:		
Program revenues:		
Charges for services	\$ 19,267	\$ 29,317
Federal and state operating grants	811,812	907,283
General revenues:		
State aid - unrestricted	4,195,711	4,370,399
Miscellaneous	232,002	29,723
	<u>5,258,792</u>	<u>5,336,722</u>
Expenses:		
Instruction	2,017,211	2,118,319
Support services	2,123,187	2,082,837
Interest on long-term debt	940,581	955,476
Unallocated depreciation	335,291	387,602
	<u>5,416,270</u>	<u>5,544,234</u>
Change in net position	<u>\$ (157,478)</u>	<u>\$ (207,512)</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2013, the school had invested \$9,695,550 in capital assets, including a land, building and equipment, net of accumulated depreciation. See figure A-5 below for a listing of capital assets, and the accumulated depreciation.

Figure A-5
Madison Academy's Capital Assets

	2013	2012
Land and building	\$ 10,268,209	\$ 10,268,209
Furniture and equipment	793,356	793,356
	<u>11,061,565</u>	<u>11,061,565</u>
Subtotal	11,061,565	11,061,565
Accumulated depreciation	1,366,015	1,030,724
	<u>9,695,550</u>	<u>10,030,841</u>
Net book value of capital assets	<u>\$ 9,695,550</u>	<u>\$ 10,030,841</u>

FACTORS BEARING ON THE SCHOOL'S FUTURE

- Continuation of positive enrollment trends
- State aid foundation grant stabilization

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

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

The Romine Group 7877 Stead, Utica, MI 48317 (586)731-5300

MADISON ACADEMY

STATEMENT OF NET POSITION

JUNE 30, 2013

See Independent Auditor's Report

ASSETS AND DEFERRED OUTFLOWS

Current Assets

Cash and cash equivalents	\$	221,635
Investments - restricted for debt service and capital projects		1,267,613
Due from other governmental units		1,007,801
Prepaid expenses		49,086
		<hr/>
Total current assets		2,546,135

Capital Assets - Net of Accumulated Depreciation

9,695,550

Total assets and deferred outflows

\$ 12,241,685

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

Current Liabilities

Accounts payable	\$	562,994
Notes payable		166,538
Due to other governmental units		1,022,866
Other accrued expenses		225,378
Long-term debt - current portion		209,320
		<hr/>
Total current liabilities		2,187,096

Long-Term Debt - Long-Term Portion

10,814,554

Deferred Inflows

Grant funds received in advance of meeting timing requirements		31,835
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Net Position

Net investment in capital assets		(1,328,324)
Restricted for debt services and capital projects		1,267,613
Unrestricted		(731,089)
		<hr/>
Total net position		(791,800)
		<hr/>
Total liabilities, deferred inflows and net position	\$	<u>12,241,685</u>

See accompanying notes to financial statements



MADISON ACADEMY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013
See Independent Auditor's Report

		Program Revenues		Net (Expense) Revenues and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants	Government Type Activities
Functions				
Instruction				
Basic programs	\$ 1,603,595	\$ -	\$ 87,291	\$ (1,516,304)
Added needs	413,616	-	381,408	(32,208)
Support services				
Pupil support services	106,665	-	106,665	-
Instructional staff support services	21,995	-	12,403	(9,592)
General administration	556,805	-	-	(556,805)
School administration	370,179	-	-	(370,179)
Business support services	41,053	-	-	(41,053)
Operations and maintenance	633,394	-	-	(633,394)
Pupil transportation services	142,869	-	-	(142,869)
Central support services	4,771	-	-	(4,771)
Athletic activities	9,547	5,646	-	(3,901)
Food services	235,909	13,621	224,045	1,757
Unallocated depreciation	335,291	-	-	(335,291)
Unallocated interest	940,581	-	-	(940,581)
Total primary government	\$ 5,416,270	\$ 19,267	\$ 811,812	(4,585,191)
General Purpose Revenues				
State school aid - unrestricted				4,195,711
Miscellaneous revenues				232,002
Total general purpose revenues				4,427,713
Change in net position				\$ (157,478)

See accompanying notes to financial statements



MADISON ACADEMY

RECONCILIATION OF NET POSITION

JUNE 30, 2013

See Independent Auditor's Report

Net position - July 1, 2012	\$ 45,222
Prior period adjustment	
Changes were made to reflect the effect of implementing GASB Statement No. 65 - <i>Items Previously Reported as Assets and Liabilities</i> . This statement requires that bond issue costs be shown as current period outflows of resources (expenses).	<u>(679,544)</u>
July 1, 2012, as adjusted	(634,322)
Change in net position	<u>(157,478)</u>
Net position - June 30, 2013	<u><u>\$ (791,800)</u></u>

See accompanying notes to financial statements



MADISON ACADEMY

COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS

JUNE 30, 2013

See Independent Auditor's Report

ASSETS

	General	Debt Service	Non-Major Special Revenue	Total
Cash and cash equivalents	\$ 221,635	\$ -	\$ -	\$ 221,635
Investments	244,747	1,022,866	-	1,267,613
Due from other governmental units	1,007,801	-	-	1,007,801
Due from other funds	-	-	1,757	1,757
Prepaid expenses	49,086	-	-	49,086
	\$ 1,523,269	\$ 1,022,866	\$ 1,757	\$ 2,547,892

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 562,994	\$ -	\$ -	\$ 562,994
Notes payable	166,538	-	-	166,538
Due to other governmental units	-	1,022,866	-	1,022,866
Due to other funds	1,757	-	-	1,757
Unearned revenue	31,835	-	-	31,835
Other accrued expenses	150,059	-	-	150,059
	913,183	1,022,866	-	1,936,049

Fund Balance

Nonspendable	49,086	-	-	49,086
Restricted	-	-	1,757	1,757
Unassigned	561,000	-	-	561,000
	610,086	-	1,757	611,843
	\$ 1,523,269	\$ 1,022,866	\$ 1,757	\$ 2,547,892

See accompanying notes to financial statements

MADISON ACADEMY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION
OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2013

See Independent Auditor's Report

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

Total Governmental Fund Balances	\$ 611,843
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$11,061,565 and the accumulated depreciation is \$1,366,015.	9,695,550
Interest is not payable until due in governmental activities and, therefore, is not recorded in the funds.	(75,319)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(11,023,874)</u>
Net Position of Governmental Activities	<u>\$ (791,800)</u>

MADISON ACADEMY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013
See Independent Auditor's Report

	General	Debt Service	Non-Major Special Revenue	Total
Revenues				
Local sources	\$ 237,648	\$ -	\$ 13,621	\$ 251,269
State sources	4,419,068	-	8,668	4,427,736
Federal sources	331,207	-	215,377	546,584
Interdistrict sources	33,203	-	-	33,203
Total governmental fund revenues	5,021,126	-	237,666	5,258,792
Expenditures				
Instruction				
Basic programs	1,603,595	-	-	1,603,595
Added needs	413,616	-	-	413,616
Support services				
Pupil support services	106,665	-	-	106,665
Instructional staff support services	21,995	-	-	21,995
General administration	556,805	-	-	556,805
School administration	370,179	-	-	370,179
Business support services	41,053	-	-	41,053
Operations and maintenance	633,394	-	-	633,394
Pupil transportation services	142,869	-	-	142,869
Central support services	4,771	-	-	4,771
Athletic activities	9,547	-	-	9,547
Food services	-	-	235,909	235,909
Debt principal and interest	120,312	1,018,067	-	1,138,379
Total governmental fund expenditures	4,024,801	1,018,067	235,909	5,278,777
Excess (deficiency) of revenues over expenditures	996,325	(1,018,067)	1,757	(19,985)
Other Financing Sources (Uses)				
Operating transfers in	-	865,031	-	865,031
Operating transfers out	(865,031)	-	-	(865,031)
Total other financing sources (uses)	(865,031)	865,031	-	-
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	131,294	(153,036)	1,757	(19,985)
Fund balance - July 1, 2012	478,792	153,036	-	631,828
Fund balance - June 30, 2013	\$ 610,086	\$ -	\$ 1,757	\$ 611,843

See accompanying notes to financial statements

MADISON ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013
See Independent Auditor's Report

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

Net Change in Fund Balances - Total Governmental Funds	\$	(19,985)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period.

Depreciation and amortization expense		(335,291)
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The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general loan obligations is as follows:

Repayment of loan principal	\$ 197,091	
Interest expense	707	
		197,798

Change in Net Position of Governmental Activities	\$	(157,478)
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MADISON ACADEMY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
See Independent Auditor's Report

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Madison Academy (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

Madison Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 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, as amended, on March 25, 2004, and began operation in July 2004.

In August 2004, the Academy entered into an eight-year contract with the Bay Mills Community College Board of Trustees to charter a public school academy. The contract has been subsequently renewed. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The College's Board of Control 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 the Bay Mills Community College Board of Trustees three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2013 were approximately \$133,500.

In July 2008, the Academy entered into a three-year agreement with The Romine Group Inc., "TRG". That agreement has been subsequently renewed. Under the terms of this agreement, TRG provides a variety of services including financial management, educational programs and consulting as well as teacher training. The Academy is obligated to pay TRG eleven percent of its state aid. The total paid for these services amounted to approximately \$370,400 for the year ended June 30, 2013.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school Academy. Based on application of criteria, the Academy does not contain component units.

Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

MADISON ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2013
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation – Fund Accounting

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories.

Governmental Funds

A governmental fund is a fund 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 a governmental fund.

General Fund - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Fund - The special revenue fund is used to account for the food service program operations. The special revenue fund is a subsidiary operation and is an obligation of the general fund. Therefore any shortfall in the special revenue fund will be covered by an operating transfer from the general fund.

Debt Service Fund - The debt service fund is used to record certain revenue and the payment of interest, principal and other expenditures on long-term debt.

Capital Projects Fund - The capital projects fund, which the Academy does not currently maintain, accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities.

Fiduciary Fund - The fiduciary fund is used to account for assets held by the Academy in a trustee capacity or as an agent. The agency fund is custodial in nature and does not involve the measurement of results of operations.

Activity (Agency) Fund - The Academy presently maintains an activity fund to record the transactions of a student group for school and school-related purposes. The fund is segregated and held in trust for the students.

Governmental and agency funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

MADISON ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2013
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. 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 sixty days of the end of the current fiscal period.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

Government-Wide Financial Statements

The government-wide financial statements (i.e. the statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self financing or draws from the general revenues of the Academy. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first.

MADISON ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2013
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net position should be reported as restricted when constraints placed on net position's use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government - wide financial statements.

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. The Academy held investments in mutual funds that invest solely in U.S. Treasury obligations. The funds are held in trust for debt service and capital projects. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and 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 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.

Receivables

Receivables at June 30, 2013 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2013 and are considered current for the purposes of these financial statements.

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and expenditure is reported in the year in which services are consumed.

MADISON ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2013
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 – 50 years
Furniture and equipment	5 – 15 years
Computers and software	3 – 10 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

Net position represents the difference between assets, deferred outflows, and liabilities, and deferred inflows. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

Fund Equity

The Academy has adopted GASB 54 as part of its fiscal year reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Academy's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on those resources.

MADISON ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2013
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. This category typically includes prepaid items and inventories.

In addition to nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- a. *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.
- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

The Academy follows the policy that restricted, committed, or assigned amounts will be considered to have been spent when an expenditure is incurred for purposes for which both unassigned and restricted, committed, or assigned fund balances are available.

Accounting Change

Effective July 1, 2012, the Academy implemented the provisions of Governmental Accounting Standards Board No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. This statement did not have significant impact on the Academy's financial statements.

Effective July 1, 2012, the Academy implemented the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provided a new statement of net position, format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. This statement impacted the format and report of the balance sheet at the government-wide and also the fund level.

MADISON ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2013
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Also effective July, 1, 2012, the Academy implemented the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt general and school service fund budgets. During the year ended June 30, 2013 the budget was amended in a legally permissible manner. The Academy had expenditures in certain budgetary functions that were insignificantly in excess of the amounts appropriated for the year ended June 30, 2013 as detailed on page 22 of these financial statements.

MADISON ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2013
See Independent Auditor's Report

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2013, the Academy had the following investments:

<u>Type</u>	<u>S&P Rating</u>	<u>Maturities</u>	<u>Carrying Value</u>
Deposits:			
Demand deposits			\$ 221,635
Investments:			
U.S. Treasury and agency obligations	AAAm	Various	<u>1,267,613</u>
Total deposits and investments			<u>\$ 1,489,248</u>

The above amounts are reported in the financial statements as follows:

Deposits:			
Cash - General Fund			\$ 221,635
Investments:			
Investments - General Fund			244,747
Investments - Debt Service			<u>1,022,866</u>
Total deposits and investments			<u>\$ 1,489,248</u>

Interest Rate Risk

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2013, the Academy's investments were rated AAAM by Standards & Poor's and Aaa by Moody's Investors Service.

MADISON ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2013
See Independent Auditor's Report

NOTE 3 - DEPOSITS AND INVESTMENTS

Concentration of Credit Risk

The district will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the Academy's investments are in pooled investment accounts which represent 100% of the Academy's total investments.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2013, \$178,654 of the Academy's cash was exposed to custodial credit risk because it was uninsured. All cash balances were uncollateralized as of June 30, 2013.

Custodial Credit Risk - Investments

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

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign Currency Risk

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

NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

Local sources	\$ 6,445
State sources	811,756
Federal sources	<u>189,600</u>
Total	<u>\$ 1,007,801</u>

MADISON ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2013
See Independent Auditor's Report

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Academy's governmental activities 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 not subject to depreciation				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Capital assets subject to depreciation				
Building	10,238,209	-	-	10,238,209
Equipment	793,356	-	-	793,356
Sub-total	11,061,565	-	-	11,061,565
Accumulated depreciation				
Building	712,143	255,955	-	968,098
Equipment	318,581	79,336	-	397,917
Sub-total	1,030,724	335,291	-	1,366,015
Total net capital assets	<u>\$ 10,030,841</u>	<u>\$ (335,291)</u>	<u>\$ -</u>	<u>\$ 9,695,550</u>

Depreciation and amortization expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

MADISON ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
 FOR THE YEAR ENDED JUNE 30, 2013
 See Independent Auditor's Report

NOTE 6 – NOTES PAYABLE

Notes payable as of June 30, 2012 can be summarized as follows:

Loan Information

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Other</u>
Loan 1	2.95%	August, 2013	Issued to provide Academy with funds to finance school operations; secured by future state aid payments.
Loan 2	2.90%	August, 2012	Paid in full

Loan Activity

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2013</u>
Loan 1	\$ -	\$ 926,000	\$ 759,462	\$ 166,538
Loan 2	140,677	-	140,677	-
	<u>\$ 140,677</u>	<u>\$ 926,000</u>	<u>\$ 900,139</u>	<u>\$ 166,538</u>

NOTE 7 – ACCRUED EXPENSES

Accrued expenses may be summarized as follows:

	<u>Net Position</u>	<u>Funds</u>
Accrued expenses	\$ 21,254	\$ 21,254
Management fee	104,700	104,700
University oversight fee	24,105	24,105
Interest	75,319	-
Total accrued expenses	<u>\$ 225,378</u>	<u>\$ 150,059</u>

MADISON ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
 FOR THE YEAR ENDED JUNE 30, 2013
 See Independent Auditor's Report

NOTE 8 - LONG-TERM OBLIGATIONS PAYABLE

Long-term obligations as of June 30, 2012 can be summarized as follows:

Loan Information

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Other</u>
Capital lease 2	7.00%	May, 2015	Monthly payment of \$8,768, secured by equipment.
Revenue bond 1	8.29%	June, 2040	Collateralized by a mortgage on the Academy's facility as well as a pledge for 20% of the state school aid payments and funds held in trust for debt service. MPEFA contribution of \$668,856.
Revenue bond 2	8.25%	June, 2040	Collateralized by a mortgage on the Academy's facility as well as a pledge for 20% of the state school aid payments and funds held in trust for debt service. MFA contribution of \$354,010.

Loan Activity

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2013</u>	<u>Due Within One Year</u>
Capital lease 2	\$ 265,965	\$ -	\$ 87,091	\$ 178,874	\$ 94,320
Revenue bond 1	7,110,000	-	65,000	7,045,000	75,000
Revenue bond 2	3,845,000	-	45,000	3,800,000	40,000
	<u>\$ 11,220,965</u>	<u>\$ -</u>	<u>\$ 197,091</u>	<u>\$ 11,023,874</u>	<u>\$ 209,320</u>

Following are maturities of long-term obligations for principal and interest for the next five years and in total:

	<u>Principal</u>	<u>Interest</u>
2014	\$ 209,320	\$ 910,267
2015	209,554	893,206
2016	135,000	880,016
2017	145,000	869,178
2018 - 2022	930,000	4,148,178
2023 - 2027	1,390,000	3,684,656
2028 - 2032	2,110,000	2,973,084
2033 - 2037	3,205,000	1,869,975
2038 - 2040	2,690,000	355,969

MADISON ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2013
See Independent Auditor's Report

NOTE 8 - LONG-TERM OBLIGATIONS PAYABLE - Continued

Following are minimum future lease agreements under capital leases for the next two years and in total:

2014	\$	105,221
2015		<u>87,684</u>
Subtotal		192,905
Less amount representing interest		<u>14,031</u>
Present value of minimum lease payments	\$	<u><u>178,874</u></u>

NOTE 9 - RETIREMENT PLAN

All employees leased by the Academy are eligible to participate in a retirement plan established by TRG which qualifies under the provisions of Section 401(k) of the Internal Revenue Code. The employer under this plan will contribute 4% of salaries regardless of the amount of the employee contribution. The employer will additionally match up to 4% of employee contributed funds. Eligible employees may contribute up to 15% of their salaries under the terms of this plan.

NOTE 10 - INTERFUND TRANSFERS

During the normal course of the school year the Academy transferred amounts between its major funds as follows:

	<u>General</u>	<u>Debt Service</u>
Transfer In	\$ -	\$ 865,031
Transfer Out	865,031	-

As stipulated by the Academy's revenue bond agreement as described in Note 8, the Academy must transfer 20% of its state aid to a trustee. The trustee retains the required portion for debt service and returns the remainder to the Academy. These above transactions account for the major activity in the Academy's interfund transfer accounts.

MADISON ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2013
See Independent Auditor's Report

NOTE 11 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

SUPPLEMENTAL INFORMATION

MADISON ACADEMY

REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013
See Independent Auditor’s Report

	Original Budget	Final Budget	Actual	Variance
Revenues				
Local sources	\$ 60,200	\$ 234,126	\$ 237,648	\$ 3,522
State sources	4,455,358	4,462,678	4,419,068	(43,610)
Federal sources	361,054	413,989	331,207	(82,782)
Interdistrict sources	-	26,000	33,203	7,203
Total governmental fund revenues	4,876,612	5,136,793	5,021,126	(115,667)
Expenditures				
Instruction				
Basic programs	1,575,122	1,704,961	1,603,595	(101,366)
Added needs	535,441	481,330	413,616	(67,714)
Support services				
Pupil support services	-	109,857	106,665	(3,192)
Instructional staff support services	16,151	33,447	21,995	(11,452)
General administration	528,904	559,081	556,805	(2,276)
School administration	379,230	413,936	370,179	(43,757)
Business support services	32,000	3,200	41,053	37,853
Operations and maintenance	420,470	664,338	633,394	(30,944)
Pupil transportation services	150,000	143,000	142,869	(131)
Central support services	500	6,500	4,771	(1,729)
Athletic activities	-	9,100	9,547	447
Community services	-	1,500	-	(1,500)
Debt principal and interest	120,221	120,221	120,312	91
Total governmental fund expenditures	3,758,039	4,250,471	4,024,801	(225,670)
Excess (deficiency) of revenues over expenditures	1,118,573	886,322	996,325	110,003
Other Financing Sources (Uses)				
Operating transfers out	(1,037,790)	(967,790)	(865,031)	102,759
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	80,783	(81,468)	131,294	212,762
Fund balance - July 1, 2012	478,792	478,792	478,792	-
Fund balance - June 30, 2013	\$ 559,575	\$ 397,324	\$ 610,086	\$ 212,762

MADISON ACADEMY

SCHEDULE OF REVENUES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2013 See Independent Auditor’s Report

Local Sources

Authorizer grant	\$	2,000
Other local revenues		<u>235,648</u>
Total local sources		237,648

State Sources

At risk		149,843
Special education		73,514
State aid		<u>4,195,711</u>
Total state sources		4,419,068

Federal Sources

IDEA		150,261
Title I		160,729
Title II A		9,577
Other program revenue		<u>10,640</u>
Total federal sources		331,207

Interdistrict Sources

		<u>33,203</u>
Total general fund revenues	\$	<u><u>5,021,126</u></u>

MADISON ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2013 See Independent Auditor's Report

Basic Programs

Purchased services	\$ 1,510,505
Supplies and materials	76,484
Other expenditures	16,606
	<hr/>
Total basic programs	1,603,595

Added Needs

Purchased services	393,036
Supplies and materials	20,580
	<hr/>
Total added needs	413,616

Pupil Support Services

Guidance services	73,835
Social work services	32,830
	<hr/>
Total pupil support services	106,665

Instructional Staff Support Services

Purchased services	12,491
Supplies and materials	9,504
	<hr/>
Total instructional staff support services	21,995

General Administration

Purchased services	26,908
Management fees	370,426
University oversight	133,539
Other purchased services	24,915
Other expenditures	1,017
	<hr/>
Total general administration	556,805

School Administration

Purchased services	357,402
Supplies and materials	6,744
Other expenditures	6,033
	<hr/>
Total school administration	370,179

MADISON ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2013
See Independent Auditor's Report

Business Support Services

Purchased services	28,619
Other expenditures	12,434
	<hr/>
Total business support services	41,053

Operations and Maintenance

Purchased services	194,289
Repairs and maintenance	288,128
Other purchased services	32,116
Supplies and materials	111,172
Non-depreciable capital assets	4,384
Other expenditures	3,305
	<hr/>
Total operations and maintenance	633,394

Pupil Transportation Services

Other expenditures	142,869
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Central Support Services

Other expenditures	4,771
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Athletic Activities

Other expenditures	9,547
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Debt Principal and Interest

120,312

Total general fund expenditures \$ 4,024,801

APPENDIX

Federal Awards

Supplemental Information

INDEPENDENT AUDITOR'S REPORT OF COMPLIANCE AND 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
of Madison 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, each major fund, and the aggregate remaining fund information of Madison Academy as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Madison Academy's basic financial statements, and have issued our report thereon dated October 28, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Madison 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 Madison Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Madison Academy's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Madison Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grand 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*.

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.

A handwritten signature in blue ink that reads "Crosby Lanni, PC". The signature is written in a cursive style.

Croskey Lanni, PC

October 28, 2013
Rochester, Michigan

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

**To the Board of Directors
of Madison Academy**

Report on Compliance for Each Major Federal Program

We have audited Madison Academy's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Madison Academy's major federal programs for the year ended June 30, 2013. Madison Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Madison Academy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Madison Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Madison Academy's compliance.

Opinion on Each Major Federal Program

In our opinion, Madison Academy, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Madison Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Madison Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Madison Academy's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Croskey Lanni, PC

October 28, 2013
Rochester, Michigan

MADISON ACADEMY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

Program Title/Project Number Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2012	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2013
US Department of Agriculture								
Passed through Michigan								
Department of Education:								
Child Nutrition Cluster								
School Breakfast Program	10.553	\$ 41,245	\$ -	\$ -	\$ -	\$ 41,245	\$ 43,486	\$ 2,241
National School Lunch Program	10.555	149,943	-	-	(2,400)	146,948	155,645	11,097
Entitlement 11-12	10.555	13,846	-	-	-	13,846	13,846	-
Total US Department of Agriculture, Passed through Michigan Department of Education		205,034	-	-	(2,400)	202,039	212,977	13,338
US Department of Education								
Passed through Genesse County ISD								
I.D.E.A. Cluster								
120450 1112	84.027	138,752	94,943	42,082	-	43,809	1,727	-
100455 1213		158,116	-	-	-	82,019	148,534	66,515
Total US Department of Education Passed through Genesse County ISD		296,868	94,943	42,082	-	125,828	150,261	66,515

MADISON ACADEMY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued FOR THE YEAR ENDED JUNE 30, 2013

Program Title/Project Number Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	(Deferred) Revenue at July 1, 2012	Adjustments and Transfers	Payments In-kind Received	Expenditures	(Deferred) Revenue at June 30, 2013
US Department of Education Passed through the Michigan Department of Education								
Title I	84.010							
121530 1112		207,228	170,829	73,121	-	75,472	2,351	-
131530 1213		238,349	-	-	-	80,586	158,378	77,792
Total Title I Cluster		445,577	170,829	73,121	-	156,058	160,729	77,792
Education Jobs Fund								
	84.410A							
112545 1011		131,227	127,592	127,592	-	127,592	-	-
112545 1112		10,640	-	-	-	10,640	10,640	-
Title II A								
	84.367							
120520 1112		13,242	6,806	6,806	-	6,806	-	-
130520 1213		14,947	-	-	-	4,069	9,577	5,508
Total US Department of Education Passed through from Michigan Department of Education		615,633	305,227	207,519	-	305,165	180,946	83,300
Total federal awards		<u>\$ 1,117,535</u>	<u>\$ 400,170</u>	<u>\$ 249,601</u>	<u>\$ (2,400)</u>	<u>\$ 633,032</u>	<u>\$ 544,184</u>	<u>\$ 163,153</u>

MADISON ACADEMY

RECONCILIATION OF BASIC FINANCIAL STATEMENTS FEDERAL RECEIVABLES AND REVENUE WITH SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

Revenues to Expenditures

Revenue from federal sources - As reported on financial statements
(includes all funds):

General Fund	\$ 331,207
Special Revenue Fund	<u>215,377</u>
Subtotal	546,584
Recognition difference between modified accrual and full accrual methods	<u>(2,400)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 544,184</u></u>

Receivables

Receivables from federal sources - As reported on financial statements	\$ 189,600
Timing differences between MDE payment and Academy receipt	<u>26,447</u>
Federal receivables per the schedule of expenditures of federal awards	<u><u>\$ 163,153</u></u>

MADISON ACADEMY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Madison Academy under programs of the federal government for the year ended June 30, 2013. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-87, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the Schedule presents only a selected portion of the operations of Madison Academy, it is not intended to and does not present the financial position, changes in net assets, or cash flows, if applicable, of Madison Academy. Pass-through entity identifying numbers are presented where available.

NOTE 2 - NONCASH ASSISTANCE

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

NOTE 3 - GRANT AUDITOR'S REPORT

Management has utilized the Grant Auditor's report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

MADISON ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2013

SECTION I - SUMMARY OF THE AUDITOR'S RESULTS

Financial Statements

Internal control over financial reporting:

- Material weakness(es) identified? ___yes _X_no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? ___yes _X_no
- Noncompliance material to financial statements noted? ___yes _X_no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___yes _X_no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? ___yes _X_no

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ___yes _X_no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
#84.010	Title I

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _X_yes ___no

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None