Grand Traverse Academy

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2013

Dennis, Gartland & Niergarth

CONTENTS

Smart Schools

Grand Traverse Academy’s
Management's Discussion and Analysis

Smart Schools Management, Inc. in its capacity as the educational management service provider offers the following overview and analysis of the Grand Traverse Academy's financial statements.

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

FINANCIAL HIGHLIGHTS

Statement of Net Position on page 4:

Assets at June 30, 2013 totaled approximately $16.8 million, comprised of approximately $722,000 in cash deposits, $1.1 million in investments, $1.6 million in receivables from the State of Michigan, $5,500 in various receivables, $2.3 million in prepaid expenses, $1.1 million in deferred loss on debt refunding, and $10 million in land and depreciable assets.

Liabilities totaled approximately $18 million, comprised of approximately $62,000 in account payable, a $3.3 million State Aid Note Payable, $14.7 million in long term debt, and $130,000 in accrued interest.

Statement of Activities on page 5:

Revenues were $8.8 million. Expenditures were approximately $9.2 million. This resulted in an excess of expenses over revenues of approximately $400,000.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Grand Traverse Academy's basic financial statements. Grand Traverse Academy's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Academy's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

The statement of activities presents information showing how the Academy's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected state aid and earned but unused compensated absences).

The government-wide financial statements outline functions of the academy that are principally supported by intergovernmental revenues. The governmental activities of the Academy include instruction, support services, operations and maintenance of plant, capital expenditures, operation of non-instructional services and interest on debt. The government-wide financial statements can be found on pages 5 and 6 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Academy can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Academy’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Academy's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 6 and 8, respectively.

In accordance with Michigan Statutes the Academy maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General and Debt Service funds both of which are considered to be major funds. Data from the two governmental funds are combined into a single, aggregated presentation. More specific revenue and expenditure data for the General Fund is provided on page 22 of this report. The basic governmental fund financial statements can be found on pages 7 and 8 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Academy. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Academy's own programs. The accrual basis of accounting is used for fiduciary funds. The basic fiduciary fund financial statement can be found on page 9 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the date provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10 through 20 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Academy's budget process. The Academy adopts an annual expenditure budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund as required supplementary information. This required supplementary information can be found on page 22 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Academy, liabilities exceeded assets by $1.3 million as of June 30, 2013.

By far the largest portion of the Academy's assets (64 percent) reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, furniture and equipment); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.
The Academy's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Figure 1 presents a summary of the Academy's net position for the fiscal years ended June 30, 2012 and 2013. The following are significant current year transactions that have had an impact on the Statement of Net position.

- The principal retirement on long-term debt of $ 450,000.

Figure 1 - Summary of the Academy's Net Position (Deficit) Comparing Fiscal Years 2012 and 2013

	As of June 30, 2012	As of June 30, 2013
Current Assets	$ 7,712,673	$ 3,110,676
Non-Current Assets	1,094,007	3,669,961
Capital Assets	10,482,798	10,019,496
Total Assets	19,289,478	16,800,133
Current Liabilities	4,950,032	3,855,553
Long-term Debt Outstanding	15,232,163	14,278,479
Total Liabilities	20,182,195	18,134,032
Net deficit:		
Invested in Capital Assets, Net Of Related Debt	(3,514,769)	(3,576,492)
Restricted	1,321,634	1,285,658
Unrestricted	1,300,418	956,935
Total Net Deficit	$ (892,717)	$(1,333,899)

Change in Net Position

Revenues were approximately $8.8 million. Expenditures were approximately $9.2 million. This resulted in an excess of expenses over revenues of approximately $400,000. Figure 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2012 and 2013.

Figure 2 - Summary of the Changes in Net Position (Deficit) Comparing Fiscal Years 2012 and 2013

	Fiscal Year Ended June 30, 2012	Fiscal Year Ended June 30, 2013
Revenues:		
Program Revenues:		
Interest Revenues	$ 7,382	$ -
Charges for Services	-	11,854
Operating Grants and Contributions	346,700	306,116
Total Program Revenues	354,082	317,970
General Revenues:		
State Aid	8,330,064	8,382,562
Other Local	214,652	72,898
Investment and other	-	(9,148)
Total General Revenues	8,544,716	8,446,312
Total Revenues	8,898,798	8,764,282
Expenses:		
Instruction K-12	4,427,879	4,531,043
Support Services	584,081	515,212
General Administration	17,307	19,291
Executive Administration	1,073,459	1,603,987
Building Administration	333,123	354,454
Business Support Services	204,830	46,619
Operation and Maintenance	640,029	621,078
Capital Outlay	233,374	-
Other	-	3,849
Depreciation	604,705	526,199
Interest & Bond Issuance Costs	1,043,420	983,733
Total Expenses	9,162,207	9,205,465
Increase (Decrease) in Net Deficit	(263,409)	(441,183)
Beginning Net Deficit, *2012 and 2013 as restated*	(629,307)	(892,716)
Ending Net Deficit, *2012 as restated*	$ (892,716)	$ (1,333,899)

Governmental activities. Figure 3 presents the cost of the eight major Academy functional activities: instruction, support services, general administration, executive administration, building administration, business support services, operation and maintenance, and interest on debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs.) The net cost shows the financial burden that was placed on the State taxpayers by each of these functions.

Figure 3 - Cost of the Major Functional Activities

	Major Functional Costs	Program Revenues	Net Major Functional Costs	Percentage of Net Major Costs
Instruction	$ 4,531,043	$ 292,219	$4,238,824	47.69%
General Support Services	515,212	25,751	489,461	5.51%
General Administration	19,291	-	19,291	.22%
Executive Administration	1,603,987	-	1,603,987	18.05%
Building Administration	354,454	-	354,454	3.99%
Business Support Services	46,619	-	46,619	.52%
Operation and Maintenance	621,078	-	621,078	6.99%
Other	3,849	-	3,849	.04%
Depreciation	526,199	-	526,199	5.92%
Interest on long-term debt	983,733	-	983,733	11.07%
Totals	$9,205,465	$317,970	$8,887,495	100.00%

- The cost of all governmental activities this year was $9.16 million from functional expenses, $984,000 from interest and amortized bond issuance costs, and deferred loss on bond refunding, and from depreciation of $526,000.

- The Federal and State governments subsidized certain programs with grants and contributions of $306,000.

- The net cost of governmental activities of $8.85 million was covered by general revenues, which are made up of primarily State aid, miscellaneous local income and interest revenues of $8.45 million.

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

As noted earlier, the Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Academy's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Academy's financing requirements. In particular, Non-spendable, Restricted, Committed, Assigned and Unassigned fund balances may serve as a useful measure of the Academy's net resources available for spending at the end of the fiscal year.

The financial performance of the Academy as a whole is reflected in its governmental funds. As the Academy completed the year, its governmental funds reported a combined fund balance of $2.37 million, a decrease of approximately $384,000. Approximately $2.34 million of the fund balance is not in spendable form for expenses that have been prepaid. Approximately $1.41 million of the fund balance constitutes reserved fund balance for the debt service fund investments. The remaining unassigned fund deficit is $1.38 million. See Note H on page 18.

The General Fund is the principal operating fund of the Academy. The decrease of $340,410 in fund balance was a result of an excess of expenditures over revenues for the period.

The Debt Service Fund balance showed a decrease of $43,189. This resulted from less transfers received from the General Fund for the fiscal year than principal and interest expenses on the investments held in trust for debt service.

BUDGETARY HIGHLIGHTS

The 2013 budget adopted in June 2012 contemplated an excess of revenues over expenditures of $46,000. The final budget adopted in June 2013 was amended to expect a deficit of $366,000. Actual results showed a decrease of $340,000.

The Michigan Department of Education (MDE) adopted a reasonableness threshold of 1% of excess expenditures over budgeted amounts to emphasize the importance of school boards' responsibilities to monitor their budgets. The MDE is seeing a rise in deficit fund balances in the general funds of schools across the state. Grand Traverse Academy adopted this threshold policy to adhere to a 1% expenditure variance requirement on total budgeted revenues, operational expenditures and fund transfers so as to align with the Department's current recommendation. The Academy exceeded total budgeted expenditures by .23%.

A schedule showing the original and final budget amounts compared to the Academy's actual financial activity for the General Fund is provided in this report as required supplementary information on page 22. Please also see Note C on page 14.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. During the fiscal year ended June 30, 2013, the Academy invested in new depreciable capital assets.

The schedule shown in Figure 4 presents capital asset balances net of depreciation for the fiscal year ended June 30, 2012 and June 30, 2013. Additional information on the Academy's capital assets can be found in Note F on page 16 of this report.

Figure 4 - Capital Asset Balances Net of Depreciation for 2012 and 2013

	As of June 30, 2012	As of June 30, 2013
Land	$ 770,000	$ 770,000
Buildings and Improvements	9,182,842	8,889,076
Equipment, Furniture & Fixtures	529,957	360,420
Total Capital Assets	$10,482,799	$10,019,496

Debt Administration. At year-end, the Academy had $15.02 million in bonds, of which $730,000 in interest and $400,000 in principal is due within one year. Since November of 2008, the Academy has been regularly depositing money in a bond principal sinking fund in order to satisfy future principal retirement payments which started in 2010. The Academy paid its fourth payment of $315,000. The Academy also owes $35,000 due on a capital lease and $191,000 due on a note for the purchase of land. The capital lease totaling $35,000 will be paid off in fiscal year 2014. The note on the land will be paid off in fiscal year 2016.

Figure 5 presents a summary of the Academy's outstanding long-term debt for the fiscal years ended June 30, 2012 and June 30, 2013. The Academy's credit /debt rating is not rated.

Additional information on the Academy's long-term debt can be found in Note H on pages 17 and 18 of this report.

Figure 5 - Academy's Outstanding Long-Term Debt for 2012 and 2013

	As of June 30, 2012	As of June 30, 2013
Capital Leases	$ 121,441	$ 34,676
Note for Land purchase	261,940	190,635
Bonds	15,330,000	15,015,000
Unamortized Bond Premium	42,225	40,465
Unamortized Issuance Costs	(616,467)	(590,781)
Total Long-Term Debt	$15,139,139	$14,689,995

In addition to regular interest and principal payments, unamortized bond issuance cost of $25,686 is written off as an expense annually and unamortized bond premium of $1,760 is accrued as revenue annually per generally accepted accounting principles over the retirement life of the bonds. This occurs in the government-wide financial statement presentation only. At the time the 2007 bonds were issued the entire amount of bond issuance cost expenditures and the entire amount of bond premium revenues were booked in the governmental funds that fiscal year. For additional information please see Note H of page 17 of this report.

FACTORS BEARING ON THE DISTRICT'S FUTURE

While local economic conditions show some sign of improvement the Academy has decided to further delay executing its substantial expansion plans. The Academy has reached capacity in its current facilities. It is anticipated that the academy's enrollment will continue at current levels in fiscal year ending 2014.

As economic conditions continue to improve, new construction is under consideration.

The Academy has nearly completed two parts of a three part debt reduction strategy. Having placed building debt in a long-term favorable rate structure and with the last of the equipment leases terminating in January of 2014, the last target is elimination of short term annual cash flow borrowings.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Many factors were considered by the Academy's administration during the process of developing the fiscal year 2013-2014 budget. Among them:

- Academy student population
- General economic factors
- Employee salaries
- Increased cost of health insurance
- Alternative sources of revenues
- Cost cutting measures to improve efficiency and effectiveness of Academy instructional and non-instructional programs.

Building, payroll and employee benefit costs and budget reallocations influenced projected expenditures for fiscal year 2013-14. The Academy stands ready to adjust to changes as they become apparent.

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, and investors and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the resources it receives. If you have questions about this report or need additional information, contact:

Questions concerning this report may be directed to:

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Grand Traverse Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of ***Grand Traverse Academy*** (the "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 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 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 Academy'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 Academy'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 Grand Traverse Academy as of June 30, 2013, and the respective changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Prepaid Expenses

As described in Note M to the financial statements, the Academy has advanced Smart Schools Management, Inc. $2,338,980 as of June 30, 2013, resulting in deficit unassigned fund balance. The Academy has accepted a repayment plan from Smart Schools Management, Inc. in which the management company will work off the prepayment by partially reducing cash transfers for future management fees through June 30, 2016. We have reported findings related to the advance of prepaid fees, the abuse of Smart Schools Management, Inc. in their access of public funds, and the negative unassigned fund balance in our report in accordance with *Government Auditing Standards* noted below.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through ix and budgetary comparison information on page 24, 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 inquires 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 November 7, 2013 on our consideration of the 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 the Academy's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

November 7, 2013

Grand Traverse Academy

STATEMENT OF NET POSITION

June 30, 2013

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	$ 720,095
Due from other governments	1,554,128
Due from Fiduciary Fund	9,407
Accounts receivable	5,481
Current portion of prepaid expense	774,000
Current portion of deferred loss on debt refunding	47,565
Total current assets	3,110,676
Non-current assets	
Prepaid expense	1,564,980
Restricted cash and cash equivalents - bond sinking fund	2,291
Restricted investments - bond sinking fund	1,036,003
Restricted investments - repair and replacement	20,245
Deferred loss on debt refunding	1,046,442
Capital assets, net of accumulated depreciation	10,019,496
Total non-current assets	13,689,457
Total assets	$ 16,800,133
LIABILITIES AND NET POSITION	
LIABILITIES	
Current liabilities	
Accounts payable	$ 62,231
State aid note payable	3,252,729
Accrued interest	129,077
Current portion of long-term liabilities	411,516
Total current liabilities	3,855,553
Non-current portion of long-term obligations	14,278,479
Total liabilities	18,134,032
NET POSITION	
Invested in capital assets, net of related debt	(3,576,492)
Restricted for Debt Service	1,285,658
Unrestricted	956,935
Total net position (deficit)	(1,333,899)
Total liabilities and net position	$ 16,800,133

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

Grand Traverse Academy

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Functions/Program	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Net (Expense)/ Revenue and Changes in Net Position: Governmental Activities
Governmental activities				
Instruction	$ 4,531,043	$ -	$ 292,219	$ (4,238,824)
Supporting Services:				
General supporting services	515,212	11,854	13,897	(489,461)
General administration	19,291	-	-	(19,291)
Executive administration	1,603,987	-	-	(1,603,987)
Building administration	354,454	-	-	(354,454)
Business support services	46,619	-	-	(46,619)
Operations and maintenance	621,078	-	-	(621,078)
Other	3,849	-	-	(3,849)
Interest on long-term debt	983,733	-	-	(983,733)
Depreciation-unallocated	526,199	-	-	(526,199)
Total governmental activities	$ 9,205,465	$ 11,854	$ 306,116	(8,887,495)
	General purpose revenues			
	State school aid - unrestricted			8,382,562
	Other local			72,898
	Investment and other			(9,148)
	Total general purpose revenue			8,446,312
	Change in net position			(441,183)
	Net position (deficit), beginning of year, *as restated* (Note B)			(892,716)
	Net position (deficit), end of year			$ (1,333,899)

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

Grand Traverse Academy

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2013

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 346,728	$ 373,367	$ 720,095
Restricted cash and cash equivalents - bond sinking fund	-	2,291	2,291
Restricted investments - bond sinking fund	-	1,036,003	1,036,003
Restricted investments - repair and replacement	20,245	-	20,245
Due from other governments	1,554,128	-	1,554,128
Due from other funds	9,407	-	9,407
Accounts receivable	5,481	-	5,481
Prepaid expenditures	2,338,980	-	2,338,980
Total assets	$ 4,274,969	$ 1,411,661	$ 5,686,630
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ 62,231	$ -	$ 62,231
State aid note payable	3,252,729	-	3,252,729
Total liabilities	3,314,960	-	3,314,960
FUND BALANCES			
Non-spendable	2,338,980	-	2,338,980
Restricted for Debt Service	-	1,411,661	1,411,661
Unassigned (deficit)	(1,378,971)	-	(1,378,971)
Total fund balances	960,009	1,411,661	2,371,670
Total liabilities and fund balances	$ 4,274,969	$ 1,411,661	

Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Position

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, therefore, are not reported as assets in governmental funds. The cost of the assets is $15,400,104 and the accumulated depreciation is $5,380,608.		10,019,496
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and notes payable	$ 15,205,635	
Capital lease obligations	34,676	
Accrued interest on bonds	129,077	
Unamortized bond premium	40,465	
Unamortized issuance costs	(590,781)	14,819,072)
Total net position (deficit) - governmental activities		$(2,427,906)

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

Grand Traverse Academy

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2013

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues			
Local revenues	$ 84,752	$ -	$ 84,752
State revenues	8,546,880	-	8,546,880
Federal revenues	141,798	-	141,798
Interest	8	5,071	5,079
Unrealized loss on investments	-	(14,228)	(14,228)
Total revenues	8,773,438	(9,157)	8,764,281
Expenditures			
Instruction	4,531,043	-	4,531,043
Supporting Services:			
General supporting services	491,435	-	491,435
General administration	19,291	-	19,291
Executive administration	1,603,987	-	1,603,987
Building administration	354,454	-	354,454
Business support services	46,619	-	46,619
Operation and maintenance	621,078	-	621,078
Debt Service			
Principal	-	473,070	473,070
Interest	161,451	754,929	916,380
Other	-	3,849	3,849
Capital outlay	86,674	-	86,674
Total expenditures	7,916,032	1,231,848	9,147,880
REVENUES OVER (UNDER) EXPENDITURES	857,406	(1,241,005)	(383,599)
Other financing sources (uses)			
Operating transfers in	-	1,197,816	1,197,816
Operating transfers out	(1,197,816)	-	(1,197,816)
Total other financing sources (uses)	(1,197,816)	1,197,816	-
REVENUES UNDER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(340,410)	(43,189)	(383,599)
Fund balances, beginning of year	1,300,419	1,454,850	2,755,269
Fund balances, end of year	$ 960,009	$ 1,411,661	$ 2,371,670

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

Grand Traverse Academy

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Total Net Change in Fund Balances - Governmental Funds			$ (383,599)
Amounts reported for governmental activities in the statement of activities are different because:			
Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.			
	Capital outlays	$ 62,897	
	Depreciation expense	(526,199)	(463,302)
Repayment of leased equipment and bond principal are expenditures or other financing uses in the governmental funds, but reduce long-term liabilities in the statement of net position and does not affect the statement of activities.			473,070
Amortization of bond issuance costs			(25,686)
Amortization of bond premium			1,760
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds payable.			4,139
Changes in Net Position of Governmental Activities			$ (393,618)

Grand Traverse Academy

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2013

		Agency Funds
ASSETS		
Cash and cash equivalents	$	59,116
Accounts receivable		2,775
Total assets	$	61,891
LIABILITIES		
Accounts payable	$	2,092
Due to General Fund		9,407
Due to student groups		50,392
Total liabilities	$	61,891

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

Grand Traverse Academy

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Grand Traverse Academy (the "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 June 5, 1996, and began operation in April 1999.

The accounting policies of the Academy conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governments. The Academy is considered to be a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the Academy are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the Academy's financial activities for the fiscal year ended June 30, 2013.

The Financial Reporting Entity

The Academy entered into a contract with Lake Superior State University's Board of Trustees through June 30, 2016, to charter a public school academy. 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 University'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. However, the Grand Traverse Academy Board (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school academy education. The Board receives funding from State and Federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity," as defined by Governmental Accounting Standards Board ("GASB") pronouncements, since Board members have decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of GASB pronouncements, student, parent and teacher organizations are not included, except to the extent that the Academy holds assets in the capacity of an agent.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the Academy as a whole, except for its fiduciary activities. Individual funds are not displayed.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Academy's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the Academy's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Academy are prepared in accordance with generally accepted accounting principles ("GAAP").

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Academy considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for debt principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

Fund Types and Major Funds

Activities in Major Funds

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

The *Debt Service Fund* is used to account for the accumulation of resources for, and the payment of, interest, principal and other expenditures on long-term debt.

Fiduciary Funds

The *Agency Fund* accounts for assets held by the Academy as an agent for various parent and student organizations. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Cash and Equivalents

The Academy's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents. The Academy has not formally adopted any policies that limit any risks on deposits or short-term and long-term investments.

Prepaid Expenses/Expenditures

Payments made to vendors for services that will benefit periods beyond June 30, 2013, are recorded as prepaid expenses using the allocation method. An asset for the prepaid expense is recorded at the time of the purchase and an expense is recorded in the period in which services are received.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 3 to 40 years. The Academy generally capitalizes assets with costs of $5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	10-40	years
Furniture and equipment	7-15	years
Computers and software	3-10	years

Unearned Revenue

Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Long-term Debt, Deferred Debt Expense and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Fund Equity

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors, or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the School Board through approval of resolutions. Assigned fund balances is a limitation imposed by the School Board or an official body that has been delegated authority to assign amounts. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories.

When both restricted and unrestricted fund balances are available for use, it is the Academy's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the Academy's general revenues.

The Academy's most significant program revenues are Title I, Title II and At-Risk, which are reported as operating grants and contributions.

Allocation of Expenses

The Academy reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The Academy has elected to not allocate indirect expenses.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NOTE B - PRIOR PERIOD ADJUSTMENTS

The governmental activities net position was restated to reflect unrecorded accrued interest on the outstanding debt balance, and deferred loss on refunding the 2007 bonds.

Net position was restated as follows as of June 30, 2012:

	Governmental Activities
Net position, *as originally presented*	$ (1,901,072)
Record accrued interest payable	(133,216)
Record deferred loss on debt refunding	1,141,572
Net position, *as restated*	$ (892,716)

In the year ended June 30, 2012, amounts due from Smart Schools Management, Inc. were shown as accounts receivable and included as unassigned fund balance. The balance has been reclassified as prepaid expenditures and nonspendable fund balance in the year ended June 30, 2013.

NOTE C - BUDGETARY COMPLIANCE

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2013, the Academy was out of compliance with the Act as follows:

	Budget	Actual	Variance	Percentage Variance
General Fund				
General supporting services	$ 476,531	$ 491,435	$ 14,904	3.1 %
General administration	19,111	19,291	180	0.9 %
Executive administration	1,579,196	1,603,987	24,791	1.6 %
Building administration	351,625	354,454	2,829	0.8 %
Operation and maintenance	615,598	621,078	5,480	0.9 %
Capital outlay, debt service and transfers out	1,278,483	1,284,490	6,007	0.5 %

The General Fund has deficit unassigned fund balance of $1,378,971 at June 30, 2013 in violation of Michigan Public Act 621 of 1978. The Michigan Department of Education has indicated a deficit reduction plan is not required because the fund has a total positive fund balance.

NOTE D - CASH AND INVESTMENTS

At June 30, 2013, the Academy's cash and investments include the following:

	Deposits	Investments	Total
Cash and cash equivalents	$ 405,844	$ 373,367	$ 779,211
Restricted cash and cash equivalents	-	2,291	2,291
Restricted investments	-	1,056,248	1,056,248
	$ 405,844	$ 1,431,906	$ 1,837,750

Bank Deposits

All of the Academy's bank deposits are with financial institutions which provide FDIC insurance coverage.

As of June 30, 2013, $176,172 of the Academy's bank balance of $436,652 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Restricted Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments of $20,245 and $1,038,294 were restricted for repairs and replacements and bond sinking funds, respectively, at June 30, 2013.

Investments

Investments at June 30, 2013 consisted of the following:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Federal Farm Credit Bank	$ 516,332	5.000
Federal National Mortgage Association	519,672	3.129
Money market mutual funds	395,902	Current
	$ 1,431,906	4.064

Interest Rate Risk

The Academy does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair market value losses arising from increasing interest rates.

Credit Risk

State law limits investments in commercial paper and mutual bond funds to a prime or better rating issued by nationally recognized rating organizations. As of June 30, 2013 the Academy's investments in Federal Farm Credit Bank bonds, Federal National Mortgage Association bonds and Wells Fargo Government Advantage Money Market mutual funds were rated AA+, AA+ and AAAm, respectively, by Standard & Poor's.

Custodial Credit Risk - Investments

In the event of the failure of the counterparty, the Academy may not be able to recover the value of its investments. As of June 30, 2013, $931,906 of the Academy's investments were uninsured and uncollateralized.

NOTE E - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE

Intergovernmental Receivables and Unearned Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Unearned revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2013 is as follows:

Due from the State of Michigan	
State Aid	$ 1,554,128

The Academy has pledged State aid through August 2013 for the payment of the State aid anticipation note payable due on August 20, 2013. State aid receivables were $1,554,128 whereas the State aid note payable was $3,252,729 at June 30, 2013. Total State aid revenue for the year ended June 30, 2013 was approximately $8,548,000, with $4,275,000 pledged for the State aid note payments.

NOTE F - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	June 30, 2012	Additions	Retirements	June 30, 2013
Buildings and improvements	$ 11,631,949	$ -	$ -	$ 11,631,949
Furniture and equipment	2,866,667	37,545	(9,700)	2,894,512
Computers	78,291	25,352	-	103,643
Total depreciable assets	14,576,907	62,897	(9,700)	14,630,104
Less accumulated depreciation	(4,864,109)	(526,199)	9,700	(5,380,608)
Land	770,000	-	-	770,000
Total capital assets, net	$ 10,482,798	$ (463,302)	$ -	$ 10,019,496

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	$ (526,199)

NOTE G - STATE AID ANTICIPATION NOTE PAYABLE

During the year ended June 30, 2013, the Academy borrowed $4,275,000 on short-term State aid anticipation notes. The notes are secured by State aid revenue, carry an effective interest rate of 3.45% and are due August 20, 2013. Changes in State aid anticipation notes payable during the year ended June 30, 2013 were as follows:

Beginning Balance	New Debt	Payments	Ending Balance
$ 4,208,719	$ 4,275,000	$ 5,230,990	$ 3,252,729

NOTE H - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2013 were as follows:

	Beginning Balance	New Debt	Payments	Ending Balance	Current Portion
Revenue bonds	$15,330,000	$ -	$ 315,000	$15,015,000	$ 325,000
Unamortized bond premium	42,225	-	1,760	40,465	1,760
Unamortized issuance costs	(616,467)	-	(25,686)	(590,781)	(25,686)
Unamortized loss on debt refunding	(1,141,572)	-	(47,565)	(1,094,007)	(47,565)
Notes payable	261,940	-	71,305	190,635	75,766
Capital lease obligations	121,441	-	86,765	34,676	34,676
Long-term debt at June 30, 2013	$13,997,567	$ -	$ 401,579	$13,595,988	$ 363,951

Payments on revenue bonds, notes payable and capital lease obligations are made by the Debt Service Fund.

At June 30, 2013, the Academy's long-term debt consisted of the following:

$16,200,000 2007 public school academy revenue and refunding bonds used in refunding certain outstanding obligations of the Academy and construction of facilities; secured by a mortgage on Academy real and personal property; due in annual installments of $280,000 to $1,950,000 through November 2036; interest rate of 4.00% to 5.00%.	$ 15,015,000
$367,013 promissory note payable for the purchase of land; secured by mortgage of real property and commercial guaranty by Steven J. Ingersoll; due in monthly installments of $7,110 through November 2015; interest rate of 6.00%	190,635
Capital leases for equipment with a cost of $299,999; due in monthly installments of $5,892 through January 1, 2014; interest rate of 6.66%	34,676
Unamortized issuance costs	(590,781)
Unamortized bond premium	40,465
Unamortized loss on debt refunding	(1,094,007)
Total long-term debt	$ 13,595,988

Total annual requirements to amortize debt outstanding as of June 30, 2013 are as follows:

Years Ending June 30,	Revenue bonds Principal	Revenue bonds Interest	Promissory Note Principal	Promissory Note Interest
2014	$ 325,000	$ 721,605	$ 75,766	$ 9,551
2015	345,000	707,793	80,505	4,811
2016	360,000	693,130	34,364	536
2017	370,000	677,380	-	-
2018	390,000	661,100	-	-
2019-2023	2,250,000	2,994,000	-	-
2024-2028	2,850,000	2,393,438	-	-
2029-2033	3,585,000	1,661,538	-	-
2034-2038	4,540,000	653,250	-	-
	$ 15,015,000	11,163,234	190,635	$ 14,898

Interest expense for the year ended June 30, 2013 was $936,168.

Total annual requirements to amortize capital leases outstanding as of June 30, 2013 are as follows:

Year Ending June 30,	Principal	Interest
2014	$ 34,676	$ 676

Bond Covenant Compliance

Pursuant to the Bond Indenture, the Academy has a covenant that states as long as bonds remain outstanding, it will maintain an unrestricted general fund balance which equals not less than an amount calculated as a percentage of operating expenses for the prior school year as follows:

> Such percentage shall be 5.0%, 7.5%, or 10% for any school year if, in the school year immediately preceding such school year, the total of the maximum annual Debt Service plus any capital leases or any similar lease-purchase or loan payment obligations of the Academy, excluding short-term debt, were equal to or less than 10%, were greater than 10% but less than 15%, or were greater than 15%, respectively, of pledged revenues:

	Current School Year June 30, 2013	Preceding School Year June 30, 2012
Covenant percentage required	5 %	
General Fund balance - all unrestricted amounts	$ 960,009	$ 1,230,521
Operating expenses	7,916,032	7,574,429
Unassigned fund balance to operating expenses	12.13 %	16.25 %

The Academy was in compliance with its bond covenant at June 30, 2013. In the event of noncompliance, the Academy is required to retain 50% of future excess net revenue, as defined in the Bond Indenture, until adequate fund balance is accumulated.

NOTE I - 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; unemployment benefits; and natural disasters. 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 the past three years.

NOTE J - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Receivables and Payables

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payables between funds.

Fund	Interfund Receivable	Interfund Payable
General Fund	$ 9,407	$ -
Fiduciary Funds	-	9,407
	$ 9,407	$ 9,407

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The following schedule reports transfers and payments within the reporting entity:

Fund	Transfer in	Transfer out
General Fund	$ -	$ 1,197,816
Debt Service Fund	1,197,816	-
	$ 1,197,816	$ 1,197,816

NOTE K - RETIREMENT PLAN

All leased employees of the Academy are eligible to participate in a defined contribution retirement plan established by the management company which qualifies under the provision of Section 401(k). Eligible employees may contribute up to 15% of their salaries under the terms of this plan up to prescribed limits. The Academy's contributions to the plan through purchased services amounted to $307,681 as of June 30, 2013.

NOTE L - COMMITMENTS AND CONTINGENCIES

Federal and State Grants

In the normal course of operations, the Academy receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE M - RELATED PARTY ACTIVITIES

In July 2009, the Academy entered into a seven-year agreement with Smart Schools Management, Inc. Under the terms of this agreement, Smart Schools Management, Inc. provides a variety of services including financial management, leased employees, education programs and consulting, as well as teacher training. Management fees, leased employees, and curriculum material totaled $1,347,234, $4,680,661, and $300,000, respectively, equal to the amount budgeted for the year ended June 30, 2013. The contract states the maximum management fee shall not exceed $2,000,000 in any fiscal year. The Board passed a resolution on May 4, 2012 maintaining a management fee of 12% of revenue, or approximately $1,053,000. The management fee exceeded the 12% amount by approximately $294,000. The intent of the Board in the May 4, 2012 resolution was the recognition of the past and ongoing contributions of Smart Schools Management, Inc. Total payments to Smart Schools Management, Inc. during the year totaled $6,946,462 and refunds received total $1,897,805. As of June 30, 2013, the Academy carried a prepaid expense/expenditure balance of $2,338,980 for payments made to Smart Schools Management, Inc.

The prepaid expense/expenditure is expected to be received as follows:

2014	$ 774,000
2015	960,000
2016	604,980
	$ 2,338,980

GTAS, LLC provides janitorial services for the Academy. During the year ended June 30, 2013, $232,000 in janitorial service fees were incurred and paid by the Academy.

The Academy pays Lake Superior State University's Board of Trustees three percent of State aid as administrative fees. Total administrative fees paid for the year ended June 30, 2013 were $256,753.

NOTE N - SUBSEQUENT EVENT

The Academy borrowed a State aid anticipation note of $3.4 million subsequent to June 30, 2013. The note, plus interest of 3.3%, will be due August 2014 and is secured by fiscal year 2013 - 2014 State aid.

REQUIRED SUPPLEMENTARY INFORMATION

Grand Traverse Academy

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
Revenues					
Local sources	$ 876,000	$ 48,000	$ 84,752	$ (828,000)	$ 36,752
State revenues	8,335,200	8,326,463	8,546,880	(8,737)	220,417
Federal revenues	149,000	352,483	141,798	203,483	(210,685)
Other	-	-	8	-	8
Total revenues	9,360,200	8,726,946	8,773,438	(633,254)	46,492
Expenditures					
Instruction	5,095,337	4,544,789	4,531,043	550,548	13,746
Supporting services:					
General supporting services	-	476,531	491,435	(476,531)	(14,904)
General administration	19,000	19,111	19,291	(111)	(180)
Executive administration	1,500,056	1,579,196	1,603,987	(79,140)	(24,791)
Building administration	362,354	351,625	354,454	10,729	(2,829)
Business support services and interest	256,336	227,190	208,070	29,146	19,120
Operation and maintenance	645,000	615,598	621,078	29,402	(5,480)
Other:					
Capital outlay, debt service and transfers out	1,436,335	1,278,483	1,284,490	157,852	(6,007)
Total expenditures and transfers	9,314,418	9,092,523	9,113,848	221,895	(21,325)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	45,782	(365,577)	(340,410)	(411,359)	25,167
Fund balance, beginning of year	1,300,419	1,300,419	1,300,419	-	-
Fund balance, end of year	$ 1,346,201	$ 934,842	$ 960,009	$ (411,359)	$ 25,167

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INDEPENDENT AUDITORS' 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*

Board of Education
Grand Traverse 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 ***Grand Traverse Academy*** (the "Academy") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise theAcademy's basic financial statements, and have issued our report thereon dated November 7, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

2013-1 Preparation of Financial Statements

Criteria: The preparation of financial statements is the responsibility of the Academy management and requires internal controls over both (1) recording, processing and summarizing financial data (i.e., maintaining internal books and records) and (2) reporting this financial data in the form of financial statements, including all related note disclosures (i.e., external financial reporting).

Condition: As is the case with many small schools, the Academy is relying on their independent external auditors to assist with the preparation of the financial statements and related note disclosures as part of its external financial reporting process.

Cause: This condition was caused by the Academy's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Academy to perform this task internally.

Effect: The Academy's ability to adjust its books and records and prepare financial statements is based, in part, on its reliance on its external auditors who cannot, by definition, be considered a part of the Academy's internal controls.

Management's Response: The Academy has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Academy to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

2013-2 Segregation of Duties

Criteria: Adequate segregation of duties for the Academy is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

Condition: As is the case with many small schools, the Academy has not achieved a complete segregation of duties among employees who have both access to assets and accounting responsibilities.

Cause: The small size of the business office staff creates an inherent lack of segregation of duties.

Effect: As a result of this condition, the Academy lacks proper segregation of duties and is exposed to an increased risk of misstatement of its financial statements.

Management's Response: The Academy has evaluated the manner in which they segregate duties and has implemented certain measures. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below to be a significant deficiency:

2013-3 Budgetary Control

Criteria: The Academy is required to legally adopt budgets that are to be adhered to and adjusted to avoid exceeding budgeted line items and to maintain a balanced or surplus budget. The Michigan Department of Education ("MDE") has adopted a 1% threshold for reasonableness in regard to excess expenditures over budgeted expected expenditures.

Condition: During the fiscal year audit ended June 30, 2013, it was discovered that budgeted line items had actual expenditures that exceeded budgeted amounts.

Cause: Budget modifications did not consider year-end information that was not known at the time the final budget was approved.

Effect: Infrequent or insufficient budget modifications could lead to unwise use of resources, operational inefficiencies, poor decision making and potential to experience a deficit budget.

Management's Response: The Academy was within the 1% variance recommended by the Michigan Department of Education with the exception of general supporting services (3.1%) and executive administration (1.6%). Both functional categories beyond the 1% threshold were the result of audit adjustments made after the last budget amendment of the fiscal year.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards as follows.

2013-4 Prepaid Expenses

Criteria: The Revised School Code does not authorize local or intermediate school districts, including a public school academy, to advance monies to private entities.

Condition: As of June 30, 2013, $2,338,980 of management fees pledged back to the Academy have been advanced to Smart Schools Management, Inc.

Cause: The contract with Smart Schools Management, Inc. sets a ceiling for the management fee, but does not include an objective measure to calculate the fee annually. Smart Schools Management, Inc. had the ability to transfer funds between the Academy's and Smart Schools Management, Inc.'s bank accounts. Smart Schools Management, Inc. took cash advances for their management fee each year in the beginning of the school year based on the budgeted figure without further Board action. Prior to 2013, budgeted amounts have exceeded what the Academy could ultimately afford. At the time it was realized Grand Traverse Academy could not afford the management fee, the fee was adjusted downward on the general ledger, but the advances were not repaid.

Effect: Smart Schools Management, Inc.'s ability to prepay their fee and withhold payment of overpaid fees enables Smart Schools Management, Inc. to abuse their access to public funds. Further, the Academy is out of compliance with the Revised School Code.

Management's Response: Smart Schools Management, Inc. ("SSM") agrees that it owed Grand Traverse Academy an amount classified as a prepaid balance on June 30, 2013. Similar fiscal year-end balances were always paid by SSM. The current balance will also be paid in full as described in Management's Response to 2013-5. As these balances have always been paid in full, management believes that no "abuse" has ever occurred or currently exists.

2013-5 Deficit Fund Balance

Criteria: The Uniform Accounting and Budgeting Act, Michigan Public Act 621 of 1978, does not allow a local unit of government to have deficit fund balance.

Condition: The General Fund has deficit unassigned fund balance of $1,378,971 at June 30, 2013.

Cause: The deficit unassigned fund balance resulted from non-spendable fund balance of $2,338,980 for the prepaid balance with Smart Schools Management, Inc. The total fund balance of $960,009 consists of deficit unassigned fund balance of $1,378,971 and positive non-spendable fund balance of $2,338,980.

Effect: The Academy is out of compliance with the Michigan Uniform Accounting and Budgeting Act. The deficit fund balance is reported on page 6 of our financial statements.

Management's Response: The Academy's fund balance at fiscal year-end 2013 was $960,009. No deficit elimination plan was required and fund balance covenant was met. The unassigned deficit fund balance reported on the government-wide financial statement resulted from a non-spendable asset of $2,338,980. The unassigned fund balance deficit will be eliminated midway through fiscal year 2014-15 as Smart Schools Management, Inc. applies $774,000 of fiscal year 2013-14 and $960,000 of fiscal year 2014-15 anticipated management fee earnings against the non-spendable asset. The remaining balance of $604,980 will be retired in fiscal year 2015-16.

Academy's Response to Deficiencies

The Academy's response to the deficiencies identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted additional matters which were communicated to the Academy's Board of Education in our memo dated October 17, 2013 and Audit Related Communications dated November 7, 2013.

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 Academy'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.

Dennis, Gartland & Niergarth, P.C.

November 7, 2013