

SUCCESS MILE ACADEMY
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2014

SUCCESS MILE ACADEMY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Success Mile Academy
Warren, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Success Mile Academy (the Academy) as of and for the year ended June 30, 2014, 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 Responsible 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 of 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.

Independent Auditors' Report
(Continued)

Auditor's Responsibility (Continued)

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 the governmental activities, each major fund, and the aggregate remaining fund information of the Academy as of June 30, 2014 and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

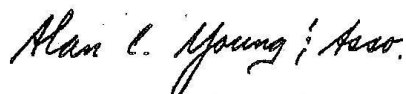
Other Matters

Required Supplement Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2014 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of law, 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.



Detroit, MI
October 28, 2014

SUCCESS MILE ACADEMY

Management Discussion and Analysis (MD&A) June 30, 2014

As management of Success Mile Academy (the “Academy”), we offer readers of the Academy’s basic financial statements this narrative overview and analysis of the financial activities of the Academy for the initial year ended June 30, 2014. Since this is the first year of operations, prior year comparative information is not available. Comparative information will be provided in future years.

Management’s discussion and analysis is included at the beginning of the Academy’s basic financial statements to provide, in layman’s terms, the current position of the Academy’s financial condition. This summary should not be taken as a replacement for the audit, which consists of the basic financial statements.

FINANCIAL HIGHLIGHTS

Our basic financial statements provide these insights into the results of the initial year’s operations.

- As of June 30, 2014, the Academy’s fund balances were \$10,225.
- As of June 30, 2014, the Academy had net position (deficit) of \$ (110,014), of which \$ (116,409) represents net investment in capital assets (deficit) and \$ 6,395 is unrestricted.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Academy’s basic financial statements. The Academy’s basic financial statements are comprised of three components: 1) academy-wide basic financial statements, 2) fund basic financial statements, and 3) notes to the basic financial statements.

Academy-Wide Financial Statements

The academy-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, liabilities, and deferred inflows/outflows of resources, 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 year. All changes in net position are reported as soon as the underlying event giving rise to the change 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 revenues and services rendered but unpaid).

SUCCESS MILE ACADEMY

Management Discussion and Analysis (MD&A) (Continued)

June 30, 2014

Academy-Wide Financial Statements (Continued)

The academy-wide financial statements include all governmental activities that are principally supported by grants and entitlements from the state for full-time equivalent funding. The Academy does not have any business-type activities. The governmental activities of the Academy primarily include instruction and instructional support services.

The academy-wide basic financial statements can be found on pages 1 and 2 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the academy-wide financial statements. However, unlike the academy-wide basic financial statements, governmental fund basic financial statements focus on near-term inflows and outflows of spendable resources, as well as 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 academy-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the academy-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 change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Academy maintains several individual governmental funds. Information is presented in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances. The General Fund is the Academy's major fund and the Food Service Fund is considered to be a non-major fund.

The Academy adopts an annual budget for its governmental funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

SUCCESS MILE ACADEMY

Management Discussion and Analysis (MD&A) (Continued) June 30, 2014

Governmental Funds (Continued)

The governmental fund financial statements can be found on pages 3 and 5 of this report.

Agency Fund

In addition, the Academy has one agency fund which is a student activity fund. This fund is formed for educational and Academy purposes.

The Agency Fund financial statement can be found on page 7 of this report. The assets and liabilities of this Fund are not included in the academy-wide statement of net position.

Notes to Basic Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the academy-wide and fund financial statements. The notes to basic financial statements can be found on pages 8 through 15 of this report.

ACADEMY-WIDE FINANCIAL ANALYSIS

This is the Academy's initial year of operations; therefore, comparative academy-wide data cannot be presented. The Academy's net position (deficit) was \$ (110,014) at June 30, 2014. This amount represents net investment in capital assets (deficit) of \$ (116,409) and unrestricted of \$ 6,395.

Our analysis in the table below focuses on the net position of the Academy's governmental activities:

	<u>2014</u>
Assets	
Current and Other Assets	\$ 744,973
Capital Assets, Net of Depreciation	501,528
Total Assets	<u>1,246,501</u>
Liabilities	
Current Liabilities	874,551
Long-term Liabilities	481,964
Total Liabilities	<u>1,356,515</u>
Net Position	
Net Investment in Capital Assets (Deficit)	(116,409)
Unrestricted	6,395
Total Net Assets	<u>\$ (110,014)</u>

SUCCESS MILE ACADEMY

Management Discussion and Analysis (MD&A) (Continued) June 30, 2014

Governmental Activities

The results of the initial year's operations for the Academy as a whole are reported in the statement of activities on page 2. The table below provides a condensed presentation of the Academy's revenues and expenses for the initial year ended June 30, 2014:

	<u>2014</u>
REVENUES:	
General Revenues	\$ 2,763,856
Program Revenues	256,805
Total Revenues	<u>3,020,661</u>
FUNCTIONS/PROGRAM EXPENSES:	
Instruction	1,104,307
Instruction Support Services	2,026,368
Total Expenses	<u>3,130,675</u>
Change in Net Position	<u>\$ (110,014)</u>

GOVERNMENTAL FUND EXPENDITURE

In the table below, we have presented the cost of the largest functions/programs as a percentage of total governmental expenditures:

<u>Functions/Programs</u>	<u>2014</u>	
	<u>Expenditures</u>	<u>Percent</u>
Governmental Expenditures:		
Instructional Expenditures	\$ 932,950	26%
School Administrative Services	228,944	6%
Operations and Maintenance	1,304,100	36%
Central Services	303,273	9%
Capital Outlay	669,055	18%
All Other Functions/Programs	190,051	5%
Total Governmental Expenditures	<u>\$ 3,628,373</u>	<u>100%</u>

SUCCESS MILE ACADEMY

Management Discussion and Analysis (MD&A) (Continued)
June 30, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the Academy had capital assets of \$ 501,528, net of accumulated depreciation, invested in furniture and fixtures and computer hardware.

Debt

At June 30, 2014, the Academy had outstanding debt of \$ 617,937. Additional information on the Academy's debt can be found in Notes 7 on page 14.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The State of Michigan is projecting a 3.2% funding increase in per student revenue for the next fiscal year. This increase is reflected in the per student Michigan State Aid funding for the Academy.

Expenditures are budgeted to rise in proportion to the expected growth at the Academy. A 2% merit pay increase pool has been built into the budgets for all eligible Academy staff.

REQUESTS FOR INFORMATION

If you have questions about this report or need additional information, please contact Hillary Daigle, Controller; Charter School's USA; 800 Corporate Drive, Suite 124; Fort Lauderdale, Florida 33334.

SUCCESS MILE ACADEMY

Statement of Net Position (Deficit) June 30, 2014

	Governmental Activities
Assets	
Cash and Cash Equivalents (Note 3)	\$ 122,614
Due From Other Governmental Units (Note 4)	312,318
Due From Management Company (Note 6)	266,370
Other Receivables	27,898
Deposits	5,548
Prepaid Expenses	10,225
Capital Assets, Net of Accumulated Depreciation (Note 5)	<u>501,528</u>
Total Assets	<u>1,246,501</u>
Liabilities	
Accounts Payable (Note 6)	634,528
Accrued Payroll	100,220
Capital Lease Payable , Current Portion (Note 7)	139,803
Capital Lease Payable, Net of Current Portion	478,134
Compensated Absences Payable (Note 8)	<u>3,830</u>
Total Liabilities	<u>1,356,515</u>
Net Position (Deficit)	
Investment in Capital Assets, net of Related Debt	(116,409)
Unrestricted	<u>6,395</u>
Total Net Position (Deficit)	<u>\$ (110,014)</u>

The accompanying notes are an integral part of these financial statements

SUCCESS MILE ACADEMY

Statement of Activities Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenues and changes in Net Position
Governmental Activities				
Basic Instruction	\$ 970,587	\$ -	\$ 92,702	\$ (877,885)
Instruction - Added Needs	133,720	-	-	(133,720)
Supporting Services				
Pupil Support Services	445	-	-	(445)
Instructional Staff Services	15,385	-	-	(15,385)
School Administration Services	228,944	-	54,718	(174,226)
Business Services	49,855	-	-	(49,855)
Operations and Maintenance	1,304,100	-	27,898	(1,276,202)
Central Services	303,273	-	-	(303,273)
Food Services	97,607	7,076	55,240	(35,291)
After Care	26,759	19,171	-	(7,588)
Total Governmental Activities	3,130,675	26,247	230,558	(2,873,870)
			<u>General Revenues</u>	
			State Aid - Formula Grants	1,413,518
			Other Revenue	1,350,338
			Total General Revenues	2,763,856
			Change in Net Position	(110,014)
			Net Position - July 1, 2013	-
			Net Position (Deficit) - June 30, 2014	\$ (110,014)

The accompanying notes are an integral part of these financial statements

SUCCESS MILE ACADEMY

Governmental Funds Balance Sheet June 30, 2014

	General Fund	Food Service Fund	Total
ASSETS			
Cash and Cash Equivalents (Note 3)	\$ 122,614	\$ -	\$ 122,614
Due From Other Governmental Units (Note 4)	312,318	-	312,318
Due From Management Company (Note 6)	266,370	-	266,370
Other Receivables	27,898	-	27,898
Deposits	5,548	-	5,548
Prepaid Expense	10,225	-	10,225
Total Assets	\$ 744,973	\$ -	\$ 744,973
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable (Note 6)	\$ 634,528	\$ -	\$ 634,528
Accrued Payroll	100,220	-	100,220
Total Liabilities	734,748	-	734,748
Fund Balance			
Nonspendable	10,225	-	10,225
Unassigned	-	-	-
Total Fund Balance	10,225	-	10,225
Total Liabilities and Fund Balances	\$ 744,973	\$ -	\$ 744,973

The accompanying notes are an integral part of these financial statements

SUCCESS MILE ACADEMY

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position (Deficit) June 30, 2014

Total Fund Balances - Governmental Funds \$ 10,225

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, not reported as assets in governmental funds.

Cost of Capital Assets	649,014	
Accumulated Depreciation	<u>(147,486)</u>	501,528

Capital leases used in governmental activities are not financial resources and therefore, not reported as liabilities in governmental funds. (617,937)

Employee compensated absences are payable over a period of time beyond one year and do not represent a claim on current financial resources; therefore they are not reported as fund liabilities. (3,830)

Total Net Position (Deficit) - Governmental Activities \$ (110,014)

The accompanying notes are an integral part of these financial statements

SUCCESS MILE ACADEMY

Statement of Revenue, Expenditures and Changes in Fund Balance Year Ended June 30, 2014

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Total</u>
Revenue			
Federal Sources	\$ 75,673	\$ 55,240	\$ 130,913
State Sources	1,485,265	-	1,485,265
Local Sources	1,397,407	7,076	1,404,483
Total Revenue	<u>2,958,345</u>	<u>62,316</u>	<u>3,020,661</u>
Expenditures			
Basic Instruction	799,230	-	799,230
Instruction - Added Needs	133,720	-	133,720
Supporting Services:			
Pupil Support Services	445	-	445
Instructional Staff Services	15,385	-	15,385
School Administration Services	228,944	-	228,944
Business Services	49,855	-	49,855
Operations and Maintenance	1,304,100	-	1,304,100
Central Services	303,273	-	303,273
Food Services	-	97,607	97,607
Capital Outlay	669,055	-	669,055
After Care	26,759	-	26,759
Total Expenditures	<u>3,530,766</u>	<u>97,607</u>	<u>3,628,373</u>
Excess of Revenue Over (Under) Expenditures	<u>(572,421)</u>	<u>(35,291)</u>	<u>(607,712)</u>
Other Financing Sources Proceeds from Capital Lease	617,937	-	617,937
Operating Transfer In/(Out)	<u>(35,291)</u>	<u>35,291</u>	<u>-</u>
Net Change in Fund Balances	10,225	-	10,225
Fund Balance - July 1, 2013	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - June 30, 2014	<u>\$ 10,225</u>	<u>\$ -</u>	<u>\$ 10,225</u>

The accompanying notes are an integral part of these financial statements

SUCCESS MILE ACADEMY

Reconciliation of the Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balance to the Statement of Activities Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds \$ 10,225

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

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(147,486)	
Capitalized Capital Outlay Expense	<u>649,014</u>	501,528

Governmental funds record capital leases as other financing sources at inception capital leases are recorded as a liability on the statement of net assets. (617,937)

Employee compensated absences are payable over a period of time beyond one year and do not represent a claim on current financial resources; therefore they are not reported as fund liabilities. (3,830)

Change in Net Position (Deficit) - Governmental Activities \$ (110,014)

The accompanying notes are an integral part of these financial statements

SUCCESS MILE ACADEMY

Statement of Assets & Liabilities -
Agency Fund
June 30, 2014

	<u>Student Activities</u>
ASSETS:	
Cash and Cash Equivalents	<u>\$ 7,867</u>
Total Assets	<u><u>\$ 7,867</u></u>
LIABILITIES:	
Due to Students	<u>\$ 7,867</u>
Total Liabilities	<u><u>\$ 7,867</u></u>

The accompanying notes are an integral part of these financial statements

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Success Mile Academy (the Academy) conform to generally accepted accounting principles as applicable to schools. The following is a summary of the significant policies:

Reporting Entity

Success Mile Academy is a nonprofit corporation and a public school academy corporation organized under the Michigan Nonprofit Corporation Act, as amended, Act No. 162 of the Public Acts of 1982, being Sections 450.2101 to 450.3192 of the Michigan Compiled Laws. Notwithstanding any provision of the Michigan Nonprofit Corporation Act, as amended, the Academy shall not take any action inconsistent with the provisions of Part 6A of the Code or other Applicable Law.

On July 1, 2013 the Academy entered into a seven year contract with the Grand Valley University Board of Trustees to Charter a Public School Academy. The Grand Valley University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the Contract and all applicable laws and other related activities for which compensation is permissible. By agreement between Grand Valley University and the Academy, the Academy pays the Grand Valley University Board of Trustees 3 percent of the Academy's State School Aid Payments as an administrative fee. The total administrative fees paid for the year ended June 30, 2014 to Grand Valley University were approximately \$42,000.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Academy-Wide and Fund Financial Statements

The academy-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Academy. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue. The Academy operates a General Fund and a Food Service Fund.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Academy-Wide Financial Statements – The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing to related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When an expense is incurred for purposes for which both restricted and unrestricted net assets or fund balance are available, the Academy's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the Academy's policy to spend funds in this order: committed, assigned, and unassigned.

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Unrestricted State aid and intergovernmental grants, associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

General Fund - The Academy's major fund is the General Fund. This fund is used to account for all operational activities of the Academy. The General Fund includes the current operating expenditures of the Academy. Revenues are derived primarily from the State of Michigan.

Food Service Fund - The Food Service Fund accounts for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes of the Academy's Food Service Program.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables and Payables – Receivables are shown net of an allowance for uncollectible amounts. The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts has been recorded.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Capital Assets – Capital assets, which include furniture and equipment and computer hardware, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$750 and a useful life greater than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Cost of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

All the Academy's assets are depreciated using the straight-line method over the following useful lives:

Furniture and Equipment	3-5 years
Computer Hardware	3 years

Deferred Outflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy has no deferred outflows of resources at year-end.

Deferred Inflows of Resources – In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, from grants receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

MPSERS Liability – The Academy contracted with an outside organization to provide all staffing personnel during the year under audit. Consequently, all staffing costs are treated as purchased services in these financial statements. The Academy has no obligation to fund the Michigan Public School Employees Retirement System for the year 2014, and no such funding was made for the year.

Long-Term Obligations – In the Academy-wide financial statements, the Academy has a capital lease and compensated absences payable that are shown as long-term liabilities.

Fund Balance – GASB 54 provides for two major types of fund balances, which are non-spendable and spendable. Non-spendable 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.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**Fund Balance (Continued)**

In addition to non-spendable 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.

Use of Estimates - The preparation of the 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 of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statement, and the reported revenues and expenses during the reporting period. Actual results may differ from those estimates.

2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General Fund. All annual appropriations lapse at fiscal year ended.

The budget document presents information by fund, function, and object. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the object level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits schools to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner.

SUCCESS MILE ACADEMY

Notes to Financial Statements (Continued)
June 30, 2014

2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Excess of Expenditures over Appropriations in Budgeted Funds

During the year the Academy incurred expenditures in the general fund, which were used in excess of the amounts budgeted as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Instructional Services	\$ 780,243	\$ 799,230	\$ 18,987
Added Needs	50,572	133,720	83,148
Instructional Staff Services	12,445	15,385	2,940
School Administration Services	213,194	228,944	15,750
Business Services	14,203	49,855	35,652
Operations and Maintenance	530,634	1,304,100	773,466
Central Services	237,938	303,273	65,335
Capital Outlay	2,574	669,055	666,481

Grants – Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, would become a liability of the General Fund. In the Academy's opinion, no disallowed claims are expected and would not have a material effect on the financial statements as of and for the year ended June 30, 2014.

3) DEPOSITS AND INVESTMENTS

The Academy has designated one bank for deposit of its funds.

The Academy's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned to it. At the year end, the Academy had a deposit balance of \$153,227, all of which was covered by federal depository insurance.

The Academy evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

SUCCESS MILE ACADEMY

Notes to Financial Statements (Continued)
June 30, 2014

3) DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that value of investments will decrease as a result of a rise in interest rates. The Academy does not have investments with interest rate risk.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Academy held no such investment at June 30, 2014.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. State law prohibits investment in foreign currency.

4) DUE FROM OTHER GOVERNMENTAL UNITS

Receivables from other governmental units as of year-end for the Academy include approximately \$267,000 from the State of Michigan and approximately \$45,000 from Federal grants.

5) CAPITAL ASSETS

Capital assets activity of the Academy's governmental activities was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2014</u>
Furniture & Fixtures	\$ -	\$ 634,272	\$ -	\$ 634,272
Less: Accumulated Depreciation	-	(143,303)	-	(143,303)
	<u>-</u>	<u>490,969</u>	<u>-</u>	<u>490,969</u>
Computer Hardware	-	14,742	-	14,742
Less: Accumulated Depreciation	-	(4,183)	-	(4,183)
	<u>-</u>	<u>10,559</u>	<u>-</u>	<u>10,559</u>
Net Governmental Capital Assets	<u>\$ -</u>	<u>\$ 501,528</u>	<u>\$ -</u>	<u>\$ 501,528</u>

Total depreciation expense was \$147,486 for the year ended June 30, 2014. All depreciation has been allocated to Basic Instruction in the Statement of Activities.

SUCCESS MILE ACADEMY

Notes to Financial Statements (Continued)
June 30, 2014

6) MANAGEMENT COMPANY AGREEMENT

The Academy has entered into a contract with Charter Schools USA. Under the direction of the Academy's Board, Charter Schools USA shall be responsible for all of the management, operation, administration, and education at the Academy, by providing certain services directly to the Academy, subcontracting for certain services, and overseeing other contractors. The management contract may be terminated under various circumstances as defined in the management agreement. The agreement runs through June 30, 2020. For services rendered, Charter School USA is entitled to a fixed percentage of the Academy's revenues as agreed to by Charter Schools USA and the Academy, with the fee equal to at least 9% of revenues, but not to exceed 15%.

At June 30, 2014, the Academy owed a net balance of \$237,340 to Charter Schools USA for payroll and other purchases made by Charter Schools USA on behalf of the Academy costs incurred. Charter Schools USA contributed approximately \$713,000 to the Academy for the year ended June 30, 2014 and waived all management fees for the year. A portion of the Charter School USA contribution was not collected as of June 30, 2014 and is shown as due from Management Company.

The Academy leases its School building from Red Apple at Warren, LLC a related party to Charter Schools USA. The lease was entered into on April 2013 and has a term of 20 years with 4 additional 5 year options to extend the lease. The Annual rent is based upon the greater of \$1,000 per student enrolled at the Charter School operating on the premises or the landlord's debt service on the building, plus 10%. Rent expense for the year was approximately \$637,000 and was waived by Red Apple and is recorded as Contribution income.

7) CAPITAL LEASES

The Academy entered into a capital lease for furniture and equipment. The lease was through Red Apple at Warren, LLC and requires 12 interest only payments of \$3,347, followed by 48 payments of \$14,654 with the last payment to be made in June 2018. Future maturities of the capital lease are as follows:

2015	\$	139,803
2016		149,165
2017		159,155
2018		169,814
Total	\$	617,937

8) COMPENSATED ABSENCES

At year-end the Academy had \$3,830 in accrued time off earned by employees to be used at a future time. As this is not expected to be liquidated within the current year, it is included as liability in the statement of net position, but not at the fund level.

SUCCESS MILE ACADEMY

Notes to Financial Statements (Continued)
June 30, 2014

9) INTERFUND TRANSFERS

The General Fund transferred \$35,291 to the Food Service Fund to fund additional costs incurred by the Food Service Fund in excess of revenues.

10) DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description – The Academy currently does not participate in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan. During the year ended June 30, 2014, the Academy offered all of its full-time employees, who had attained 21 years of age, a retirement plan under Internal Revenue Code, Section 401(k). The employee is allowed to contribute up to a maximum of 20% of their annual gross compensation, subject to certain limitations. No employees participated in the plan during the year end June 30, 2014.

Post-employment Benefits – Currently, the Academy does not offer any post-employment benefits.

11) SUBSEQUENT EVENTS

The Academy has evaluated all subsequent events through October 28, 2014, the date the financial statements were available to be issued. No subsequent event was noted that required adjustments or disclosures on the financial statements.



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

To the Board of Directors of
Success Mile Academy
Warren, MI

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 Success Mile Academy (the Academy) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 28, 2014.

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 statement, 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.

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 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. Given these limitations, during our audit we did identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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
(Continued)

Compliance and Other Matters

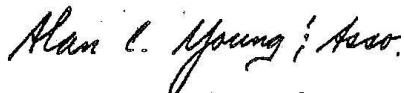
As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*. This noncompliance is detailed in item number 2014-1 in the attached Exhibit A.

Response to Findings

The Academy's response to the finding identified in our audit is described in the accompanying Exhibit A. The Academy's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This 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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Detroit, MI
October 28, 2014

**Reference
Number**

Findings

2014-1

Condition – Expenses in Excess of Budget

For the year ended June 30, 2014 the Academy’s expenses exceeded the final budgeted level for pupil instructional services, added needs, instructional staff services, school administration services, business services, operations and maintenance, central services, and capital outlays. Expenditures in excess of budgeted amounts are a violation of Michigan Law.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Instructional Services	\$ 780,243	\$ 799,230	\$ 18,987
Added Needs	50,572	133,720	83,148
Instructional Staff Services	12,445	15,385	2,940
School Administration Services	213,194	228,944	15,750
Business Services	14,203	49,855	35,652
Operations and Maintenance	530,634	1,304,100	773,466
Central Services	237,938	303,273	65,335
Capital Outlay	2,574	669,055	666,481

Recommendation – We recommend that the Academy assess variances between actual and budgeted figures for expenditures in the previous figures as a guide.

Response – The Board will continue to maintain budgetary oversight of the Academy’s activities through monthly reviews of the financial statements. If necessary, the Board will revise the budget to ensure any expenditure that exceeds the budget are formally approved and documented appropriately.

REQUIRED SUPPLEMENTAL INFORMATION

SUCCESS MILE ACADEMY

Budgetary Comparison Schedule General Fund Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Federal Sources	\$ 300,000	\$ 185,000	\$ 75,673	\$ (109,327)
State Sources	4,793,704	1,489,280	1,485,265	(4,015)
Local Sources	142,366	265,814	1,397,407	1,131,593
Total Revenue	<u>5,236,070</u>	<u>1,940,094</u>	<u>2,958,345</u>	<u>1,018,251</u>
Expenditures				
Instructional Services	2,188,679	780,243	799,230	18,987
Added Needs	127,577	50,572	133,720	83,148
Supporting Services:				
Pupil Support Services	190,969	14,654	445	(14,209)
Instructional Staff Services	27,280	12,445	15,385	2,940
School Administration Services	423,927	213,194	228,944	15,750
Business Services	1,630,330	14,203	49,855	35,652
Operations and Maintenance	839,459	530,634	1,304,100	773,466
Central Services	733,991	237,938	303,273	65,335
Capital Outlay	13,689,463	2,574	669,055	666,481
After Care	83,107	51,696	26,759	(24,937)
Total Expenditure	<u>19,934,782</u>	<u>1,908,153</u>	<u>3,530,766</u>	<u>1,622,613</u>
Excess (Deficiency) of Revenue over Expenditures	(14,698,712)	31,941	(572,421)	(604,362)
Other Financing Sources (Uses)				
Proceeds from Capital Lease	-	-	617,937	617,937
Proceeds from Issuance of Debt	15,261,293	-	-	-
Outgoing Transfers and Other Transactions	(35,191)	(31,941)	(35,291)	(3,350)
Total Other Financing Sources (Uses)	<u>15,226,102</u>	<u>(31,941)</u>	<u>582,646</u>	<u>614,587</u>
Net Change in Fund Balance	527,390	-	10,225	10,225
Fund Balance - July 1, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - June 30, 2014	<u>\$ 527,390</u>	<u>\$ -</u>	<u>\$ 10,225</u>	<u>\$ 10,225</u>