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Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITOR'S REPORT

November 17, 2011

To the Board of Directors
International Academy of Saginaw

We have audited the accompanying financial statements of the governmental activities of International Academy of Saginaw, as of and for the year ended June 30, 2011, which comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of International Academy of Saginaw's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

During the year, the Academy implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as discussed in Note 1. As a result of this required implementation, fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB Statement No. 54.

To the Board of Directors
International Academy of Saginaw
Page Two

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the International Academy of Saginaw as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2011, on our consideration of International Academy of Saginaw's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents is 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.

Martini, Provenzano, Schuman & Thomas

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND
ANALYSIS

**INTERNATIONAL ACADEMY OF SAGINAW
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Introduction

This section of the annual financial report presents management's discussion and analysis of International Academy of Saginaw's financial results for the fiscal year ended June 30, 2011. Please read this along with the financial statements that follow for a comprehensive understanding of the financial position of the Academy.

Using This Report

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

Academy Wide Financial Statements

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

Fund Financial Statements

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

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

**INTERNATIONAL ACADEMY OF SAGINAW
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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

The table below provides a summary of the Academy's net assets as of June 30, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Assets		
Current and other assets	\$ 578,183	\$ 521,585
Capital assets - net of accumulated depreciation	<u>80,865</u>	<u>114,104</u>
Total assets	<u><u>659,048</u></u>	<u><u>635,689</u></u>
Liabilities		
Current liabilities	<u>595,718</u>	<u>533,590</u>
Total liabilities	<u><u>595,718</u></u>	<u><u>533,590</u></u>
Net assets		
Invested in capital assets	80,865	114,104
Unrestricted (deficit)	<u>(17,535)</u>	<u>(12,005)</u>
Total net assets	<u><u>\$ 63,330</u></u>	<u><u>\$ 102,099</u></u>

The Academy's net assets were \$63,330 at June 30, 2011. Capital assets, net of accumulated depreciation, totaling \$80,865 was computed by taking the original cost of the assets and subtracting the depreciation expense. The remaining amount of net assets \$(17,535) is unrestricted and represents the accumulation of the current years' operations. The operating results of the general fund will have a significant impact on the change in unrestricted net assets from year to year.

The Academy's results of operations for the years ended June 30, 2011 and 2010 are reported below.

	<u>2011</u>	<u>2010</u>
Revenue		
Program revenue		
Grants and contributions	\$ 534,289	\$ 440,905
Charges for services	11,274	9,250
General revenue		
State foundation allowance	1,997,778	1,514,773
Other	<u>56,796</u>	<u>360,613</u>
Total revenue	<u><u>2,600,137</u></u>	<u><u>2,325,541</u></u>
Function/Program expenses		
Instruction	1,426,336	1,274,577
Support services	1,073,738	917,579
Food service	<u>138,832</u>	<u>126,748</u>
Total expenses	<u><u>2,638,906</u></u>	<u><u>2,318,904</u></u>
Increase (decrease) in Net Assets	<u><u>\$ (38,769)</u></u>	<u><u>\$ 6,637</u></u>

**INTERNATIONAL ACADEMY OF SAGINAW
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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

Funding for the above activities comes from a variety of sources. Some activities are partially funded by those who benefit from the programs or by grants and categoricals from governments and organizations. The remaining activities are paid for by the State Foundation Allowance and other revenues such as donations from the management company and income from the extended day program.

Budget Highlights

International Academy of Saginaw's budget was developed according to the Uniform Budget Act of the State of Michigan requirements. The Act requires that the original budget for the upcoming fiscal year be approved prior to July 1, the start of the fiscal year. During the fiscal year ended June 30, 2011, the Academy amended the budget on April 12, 2011.

<u>General fund</u>	<u>Original</u>	<u>Final</u>	<u>Variance</u>	<u>Actual</u>	<u>Variance</u>
Total revenue	\$2,839,604	\$2,457,382	-15.55%	\$2,487,033	1.19%
Total expenditures	2,870,607	2,484,891	-15.52%	2,464,801	-0.82%
Excess revenue/expenditures	<u>\$ (31,003)</u>	<u>\$ (27,509)</u>	<u>-12.70%</u>	<u>\$ 22,232</u>	<u>223.74%</u>

Changes to the original General Fund budget were as follows:

- When establishing the original 2010/11 revenue and expenditure budget in the spring of 2010 only estimates could be used due to the uncertain state of the amount of the per-pupil foundation grant and uncertainties regarding enrollment. Once student enrollment became known and State aid amounts became certain, in the fall of 2010 new budgets were prepared to reflect an increase in the number of students served when compared to the prior year. While an increase in the number of students results in more revenue to the Academy, an increase in students results in required expenditures increasing as well.

Final vs. Actual Budget

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

Academy's Funds

General Fund

The General Fund is the primary operating fund for the Academy. For fiscal year ending June 30, 2011, the fund increased by \$22,232. The increase in fund balance was due to the school's management company forgiving amounts owed to the management company totaling \$53,109.

**INTERNATIONAL ACADEMY OF SAGINAW
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Food Service Fund

The Academy maintained the school lunch program for the fiscal year. While various attempts were made to increase the utilization of the program, these efforts were not successful, resulting in a decrease on the food service fund balance of \$22,232.

Capital Assets

As of June 30, 2011, the Academy has \$80,865 in capital assets including computers and furniture and equipment, less depreciation.

	<u>2011</u>	<u>2010</u>
Computers	\$ 30,194	\$ 30,194
Equipment and furniture	157,801	157,801
Less accumulated depreciation	<u>(107,130)</u>	<u>(73,891)</u>
Net capital assets	<u>\$ 80,865</u>	<u>\$ 114,104</u>

Conditions Affecting Next Year's Budget

Our Board members and administration consider many factors when setting the Academy's 2011/12 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2011/12 fiscal year is 10 percent and 90 percent of the February 2011 and October 2011 student counts, respectively. The 2012 budget was adopted in April 2011, based on an estimate of students that will be enrolled in September 2011. Approximately 75 percent of the total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2011/12 school year, we anticipate that the fall student count will be lower than the estimates used in creating the 2011/12 budget. Once the final student count and related per pupil funding is validated, State law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

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

**INTERNATIONAL ACADEMY OF SAGINAW
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Requests for Information

This report is designed to provide our stakeholders with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Academy Business Office, 1944 Iowa Avenue, Saginaw, Michigan 48601.

BASIC FINANCIAL STATEMENTS

INTERNATIONAL ACADEMY OF SAGINAW
 Academy Wide
 Statement of Net Assets
 June 30, 2011

	Governmental Activities
Assets	
Cash	\$ 142,371
Receivables	426,707
Prepays	9,105
Capital assets less accumulated depreciation	80,865
Total Assets	\$ 659,048
Liabilities	
Current liabilities	
Accounts payable	\$ 31,648
Accrued liabilities	147,444
Due to management company	416,626
Total Liabilities	595,718
Net Assets	
Invested in capital assets	80,865
Unrestricted (deficit)	(17,535)
Total Net Assets	\$ 63,330

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

INTERNATIONAL ACADEMY OF SAGINAW
Academy Wide
Statement of Activities
For the Year Ended June 30, 2011

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
Functions/Programs				
Instruction	\$ 1,426,336	\$ -	\$ 401,281	\$ (1,025,055)
Support services	1,073,738	5,040	26,138	(1,042,560)
Food service	138,832	6,234	106,870	(25,728)
Totals	<u>\$ 2,638,906</u>	<u>\$ 11,274</u>	<u>\$ 534,289</u>	<u>(2,093,343)</u>
General revenues:				
State aid - unrestricted				1,997,778
Other				56,796
Total General Revenues				<u>2,054,574</u>
Change in Net Assets				(38,769)
Net Assets - Beginning of Year				102,099
Net Assets - End of Year				<u>\$ 63,330</u>

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

INTERNATIONAL ACADEMY OF SAGINAW
 Governmental Funds
 Balance Sheet
 June 30, 2011

	<u>General Fund</u>	<u>Food Service</u>	<u>Totals (Memorandum Only)</u>
<u>Assets</u>			
Cash	\$ 142,371	\$ -	\$ 142,371
Due from other governmental units	426,707	-	426,707
Prepays	9,105	-	9,105
Due from other funds	96,230	-	96,230
Total Assets	\$ 674,413	\$ -	\$ 674,413
<u>Liabilities and Fund Balance</u>			
Liabilities			
Accounts payable	\$ 31,648	\$ -	\$ 31,648
Accrued expenditures	129,909	-	129,909
Due to other funds	-	96,230	96,230
Due to management company	416,626	-	416,626
Total Liabilities	578,183	96,230	674,413
Fund Balance			
Non spendable			
Prepaid items	9,105	-	9,105
Assigned (deficit)	-	(96,230)	(96,230)
Unassigned	87,125	-	87,125
Total Fund Balance	96,230	(96,230)	-
Total Liabilities and Fund Balance	\$ 674,413	\$ -	\$ 674,413

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

INTERNATIONAL ACADEMY OF SAGINAW
Reconciliation of Balance Sheet of Governmental Funds to Net Assets
June 30, 2011

Total Fund Balances - Governmental Funds	\$ -
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets are:	187,995
Accumulated depreciation is:	(107,130)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Compensated absences	<u>(17,535)</u>
Total Net Assets - Governmental Activities (Academy Wide)	<u>\$ 63,330</u>

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

INTERNATIONAL ACADEMY OF SAGINAW
Governmental Funds
Statement of Revenue, Expenses, and Changes in Fund Balances
For the Year Ended June 30, 2011

	<u>General</u>	<u>Food Service</u>	<u>Totals (Memorandum Only)</u>
Revenue			
Local	\$ 61,836	\$ 6,234	\$ 68,070
State	2,137,723	3,303	2,141,026
Federal	287,474	103,567	391,041
Total revenue	<u>2,487,033</u>	<u>113,104</u>	<u>2,600,137</u>
Expenditures			
Instruction			
Basic programs	1,024,552	-	1,024,552
Special education	381,735	-	381,735
Support Services			
Pupil services	560	-	560
Staff	18,732	-	18,732
School administration	293,704	-	293,704
General administration	332,760	-	332,760
Operation and maintenance	412,758	-	412,758
Food service	-	135,336	135,336
Total expenditures	<u>2,464,801</u>	<u>135,336</u>	<u>2,600,137</u>
Excess (Deficiency) of revenues over expenditures	22,232	(22,232)	-
Fund Balance, Beginning	<u>73,998</u>	<u>(73,998)</u>	<u>-</u>
Fund Balance, Ending (deficit)	<u>\$ 96,230</u>	<u>\$ (96,230)</u>	<u>\$ -</u>

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

INTERNATIONAL ACADEMY OF SAGINAW
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2011

Net Change in Fund Balances - Governmental Funds	\$ -
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are capitalized and depreciated over their estimated useful lives.	
Depreciation expense	(33,239)
In the statement of activities, liabilities at the end of the period for compensated absences are adjusted for their current balance, whereas in governmental funds, an expenditure is reported when paid.	<u>(5,530)</u>
Change in Net Assets of Governmental Activities (Academy Wide)	<u>\$ (38,769)</u>

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

INTERNATIONAL ACADEMY OF SAGINAW
Statement of Fiduciary Net Assets
June 30, 2011

Assets	
Cash, Parents organization	\$ 2,378
Total Assets	<u>\$ 2,378</u>

Liabilities	
Due to Parents organization	\$ 2,378
Total Liabilities and Equity	<u>\$ 2,378</u>

The accompanying notes are an integral part of these financial statements

INTERNATIONAL ACADEMY OF SAGINAW NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

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

In 2007, the Academy entered into an eight-year contract with Bay Mills Community College 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 Bay Mills Community College 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. The Academy pays the Bay Mills Community College Board of Trustees three percent of state aid as administrative fees. The total administrative fees incurred to the Bay Mills Community College Board of Trustees for the year ended June 30, 2011, was \$64,969.

Reporting Entity

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

B. Academy-Wide Statements

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

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

INTERNATIONAL ACADEMY OF SAGINAW
NOTES TO THE FINANCIAL STATEMENTS

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

B. Academy-Wide Statements (continued)

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

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

C. Fund Financial Statements

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

The following fund types are used by the Academy:

Governmental Funds

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

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

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

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others; therefore these funds are not available to support Academy programs. The emphasis in fund financial statements is on the major funds. The Academy has opted to display information for all funds without regard to the criteria for determination of major funds. The Academy's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used for activities or obligations of the government, these funds are not incorporated in the government-wide statements.

INTERNATIONAL ACADEMY OF SAGINAW
NOTES TO THE FINANCIAL STATEMENTS

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

D. Basis of Accounting

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

Full Accrual

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

Modified Accrual

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

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

E. Financial Statement Amounts

Cash

Cash includes cash on hand and demand deposits.

Receivables

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

INTERNATIONAL ACADEMY OF SAGINAW
NOTES TO THE FINANCIAL STATEMENTS

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

E. Financial Statement Amounts (continued)

Prepaid

Prepaid amounts consist of payments for which the Academy will have a future benefit and will be used up at a date beyond the current year-end.

Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The Academy does not possess infrastructure type assets.

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

Computers	3 years
Furniture and equipment	5-7 years

Accounts Payable

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

Accrued Expenses

Accrued expenses consist of wages, benefits, and payroll taxes owed to the Academy's employees at the end of the fiscal year.

Due to Management Company

Due to Management Company consists of amounts loaned by the management company to the Academy for cash flow purposes, building rental, and management and licensing fees that are due and payable for the current fiscal year.

Deferred Revenue

Deferred revenue represents amounts for which the Academy has received, but has not yet earned. Deferred revenue is usually caused by the receipt of grant program revenues in excess of expenses/expenditures related to the grant. The revenues are deferred until the proceeds have been fully expensed/expended.

INTERNATIONAL ACADEMY OF SAGINAW
NOTES TO THE FINANCIAL STATEMENTS

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

E. Financial Statement Amounts (continued)

Inter-fund Activity

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

Fund Balance – In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications – nonspendable, restricted, committed, assigned, and unassigned. The Academy implemented GASB Statement No. 54 during the year.

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

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

The Academy did not have any restricted or committed fund balance as of June 30, 2011.

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

Accounting Change – Effective July, 2010, the Academy implemented the provisions of Governmental Accounting Standards Board Statement No. 54. The implementation included changes in fund balance discussed above.

INTERNATIONAL ACADEMY OF SAGINAW
NOTES TO THE FINANCIAL STATEMENTS

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

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was released by the GASB in June 2011 and will be effective for the School District's 2012-2013 fiscal year. The statements incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net positions, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

Subsequent Events – The financial statements and related disclosures include evaluation of events up through and including November 17, 2011, which is the date the financial statements were available to be issued.

NOTE 2--Stewardship, Compliance, and Accountability

The Academy formally adopted a General Fund budget by activity for the year ended June 30, 2011. State law requires the Academy to have its budget in place before July 1. Unexpended appropriations lapse at year-end; encumbrances are not formally recorded.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. Budgeted amounts presented in the financial statements are amended by the Board of Directors. State law permits Academies to amend their budgets during the year. The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. Expenditures in excess of amounts budgeted are a violation of Michigan law.

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

NOTE 3--Deposits and Investments

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

The Academy is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,

INTERNATIONAL ACADEMY OF SAGINAW
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3--Deposits and Investments (continued)

- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks, and
- f. Mutual funds – investments which local unit can make directly.

As of year-end, the carrying amount of the Academy deposits was \$142,357 and the bank balance was \$345,764. All cash is deposited in a federally insured financial institution and since the total is greater than \$250,000, the Academy had uninsured cash balances of \$95,674 at June 30, 2011. The Academy has not adopted an investment policy and does not hold any investments.

NOTE 4--Capital Assets and Accumulated Depreciation

Capital asset activity of the Academy was as follows:

	Balance July 1, 2010	Additions	Disposals	Balance June 30, 2011
Capital assets subject depreciation				
Computers	\$ 30,194	\$ -	\$ -	\$ 30,194
Equipment and furniture	157,801	-	-	157,801
Total Capital Assets	<u>187,995</u>	<u>-</u>	<u>-</u>	<u>187,995</u>
Accumulated depreciation				
Computers	18,443	6,598	-	25,041
Equipment and furniture	55,448	26,641	-	82,089
Total Accumulated Depreciation	<u>73,891</u>	<u>33,239</u>	<u>-</u>	<u>107,130</u>
Total Net Capital Assets	<u>\$ 114,104</u>	<u>\$(33,239)</u>	<u>\$ -</u>	<u>\$ 80,865</u>

Depreciation totaling \$33,239 has been allocated to instruction \$(20,048), support services \$(9,695), and food services \$(3,496).

NOTE 5--Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of employee injuries and medical benefits for employees of the management company are covered by insurance held by the management company. The Academy has purchased commercial insurance for all other claims.

INTERNATIONAL ACADEMY OF SAGINAW
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6--Management Contract

The Academy has entered into a management agreement with Cincinnati Education Management LLC, a for-profit company. The management company provides the Academy with management and executive administration, fiscal services, and curriculum services.

The management company provides the Academy with the use of SABIS proprietary pedagogical materials and systems for its students. The Academy pays a licensing fee of 6% of State aid to the management company for use of the SABIS system. Licensing fees expensed by the Academy for the year ended June 30, 2011 was \$117,365.

Management fees are calculated based on 8% of the State aid received by the Academy. Management fees expensed by the Academy for the year ended June 30, 2011 were \$156,486. The Academy also leases its school building and modular classrooms from the management company. The lease agreement began in September 2007 and ends June 30, 2012. The lease agreement calls for monthly rental payments of \$21,009. The amount expensed for lease payments totaled \$234,772 for the year ended June 30, 2011.

NOTE 7--Due to Management Company

The Academy owed Cincinnati Education Management LLC \$416,626 at June 30, 2011. The amounts owed to the management company are summarized below:

	Balance June 30, 2011
Licensing fees	\$ 206,269
Management fees	210,357
Total due to management company	<u>\$ 416,626</u>

NOTE 8--Total Columns

Total columns on combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America; nor is such data comparable to consolidation.

INTERNATIONAL ACADEMY OF SAGINAW
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9--Inter-Fund Activity

The makeup of inter-fund activity is as follows:

<u>Due to:</u>		<u>Due from:</u>	
General fund	\$ 96,230	Food service	\$ 96,230
Total	<u>\$ 96,230</u>	Total	<u>\$ 96,230</u>

The amount due to the general fund from the food service fund is due to the general fund subsidizing the food service fund.

NOTE 10--Lease Commitments

The Academy has a lease agreement for copiers. The amounts expensed under the lease for the fiscal year was \$9,402. Monthly payments are in the amount of \$750. Minimum annual future payments are as follows:

For the Year Ended	<u>Payments</u>
<u>June 30,</u>	
2012	\$ 9,000
2013	9,000
2014	9,000
	<u>\$ 27,000</u>

NOTE 11--Pension Plan

Defined Benefit Plan

The International Academy of Saginaw contributes to the Michigan Public School Employee's Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Public School Employee's Retirement System. MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing the MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

Effective January 1, 1987, employees who were MPERS members could have elected to contribute on a tax deferred basis to a Member Investment Plan (MIP). MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced

INTERNATIONAL ACADEMY OF SAGINAW
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11--Pension Plan (continued)

Funding Policy (continued)

to 3.9%. Employees first hired January 1, 1990 or later will automatically be included in the MIP and will contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and employees hired between January 1, 1990 and June 30, 2008 will contribute 4.3% of all wages over \$15,000; and employees hired after June 30, 2008 will contribute 6.4% of wages over \$15,000. For a limited period ending January 1, 1993, an active basic plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Effective September 2010, employees who first work on or after July 1, 2010 are eligible to be enrolled in the MPSERS Pension Plus Plan (PPP). The employer pays a reduced rate for MIP for employees that participate in PPP.

During the plan fiscal year 2010, employer contributions were 16.94% of covered compensation as Public School Academies were responsible for the entire pension and health insurance contribution. After September 30, 2010, the contribution rate increased to 20.66% of covered compensation, except for PPP members. Contributions for PPP members are at a reduced rate of 19.16%. The contribution requirements of plan members and International Academy of Saginaw are established and may be amended by the MPSERS Board. The Academy's contributions to MPSERS for the years ending June 30, 2011, 2010 and 2009 were \$215,062, \$167,583 and \$137,577, respectively, equal to the required contributions for each year.

The MPSERS also provided for death and disability benefits which are established by state statute. Under the MPSERS Act, all retirees have the option of continuing health, dental, and vision insurance coverage. All health care benefits under the MPSERS are on a self-insured pay-as-you-go basis. Retirees electing these coverages pay a portion of the premium for this coverage from their monthly pension benefit.

Deferred Compensation Plans

The Academy offers its employees participation in the Tax-Deferred Payments (TDP) program through MPSERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program, they must continue until completion of the purchase of the service credit or termination of employment from International Academy of Saginaw. Payments into the program are vested once 10 years of service credit have been earned through MPSERS.

INTERNATIONAL ACADEMY OF SAGINAW
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11--Pension Plan (continued)

Defined Contribution Plan

Plan Description

The School District's defined contribution pension plan provides retirement benefits to plan members and beneficiaries. The plan covers employees hired on or after July 1, 2010. The plan is affiliated with the Michigan Public School Employee's Retirement System (MPERS) Pension Plus Plan of Michigan. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. The plan services are provided by The Office of Retirement Services, exclusively through ING as the plan administrator. MPERS issues a publicly available financial report that included financial statements and requires supplementary information for MPERS. The report may be obtained by writing the MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

The School District employees are required to contribute 2% of their earnings for the plan year, unless they elect out of the plan, subject to the limitations of sections 457 of the Internal Revenue Code. Employees can elect to contribute more than 2% in full percent increments. For employees that elect to participate, the employer will match 50% of the contribution up to 1%. Employer contributions are considered a section 401(a) contribution.

Vesting

Employees become 100% vested after four years of service.

REQUIRED
SUPPLEMENTAL INFORMATION

INTERNATIONAL ACADEMY OF SAGINAW
 Budgetary Comparison
 For the Year Ended June 30, 2011

	General Fund			Food Service				
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Revenue								
Local	\$ 238,628	\$ 151,484	\$ 61,836	\$ (89,648)	\$ -	\$ -	\$ 6,234	\$ 6,234
State	2,383,891	2,018,234	2,137,723	119,489	-	-	3,303	3,303
Federal	217,085	287,664	287,474	(190)	172,702	129,409	103,567	(25,842)
Total revenue	<u>2,839,604</u>	<u>2,457,382</u>	<u>2,487,033</u>	<u>29,651</u>	<u>172,702</u>	<u>129,409</u>	<u>113,104</u>	<u>(16,305)</u>
Instruction								
Basic programs	1,456,518	1,179,807	1,024,552	155,255	-	-	-	-
Special education	377,071	419,499	381,735	37,764	-	-	-	-
Support Services								
Pupil services	-	-	560	(560)	-	-	-	-
Staff	-	-	18,732	(18,732)	-	-	-	-
School administration	265,421	213,200	293,704	(80,504)	-	-	-	-
General administration	140,207	140,427	332,760	(192,333)	-	-	-	-
Operation and maintenance	631,390	531,958	412,758	119,200	-	-	-	-
Food service	-	-	-	-	141,699	101,900	135,336	(33,436)
Total expenditures	<u>2,870,607</u>	<u>2,484,891</u>	<u>2,464,801</u>	<u>20,090</u>	<u>141,699</u>	<u>101,900</u>	<u>135,336</u>	<u>(33,436)</u>
Excess (Deficiency) of revenues over expenditures	(31,003)	(27,509)	22,232	49,741	31,003	27,509	(22,232)	(49,741)
Fund Balance - Beginning of Year	73,998	73,998	73,998	-	(73,998)	(73,998)	(73,998)	-
Fund Balance - End of Year	<u>\$ 42,995</u>	<u>\$ 46,489</u>	<u>\$ 96,230</u>	<u>\$ 49,741</u>	<u>\$ (42,995)</u>	<u>\$ (46,489)</u>	<u>\$ (96,230)</u>	<u>\$ (49,741)</u>

ADDITIONAL
SUPPLEMENTAL INFORMATION



Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

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

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

November 17, 2011

To the Board of Directors
International Academy of Saginaw

We have audited the financial statements of the governmental activities, each major fund, and the remaining fund information of International Academy of Saginaw as of and for the year ended June 30, 2011, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated November 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered International Academy of Saginaw's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

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

To the Board of Directors
International Academy of Saginaw
Page Two

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether International Academy of Saginaw's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the Academy, federal awarding agencies and the pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gardner, Pruzman, Schuman & Thomas

Certified Public Accountants