



June 19, 2023

North Star Public School Academy
Board of Directors and
Melissa Bowers, Board President
3030 Wright Street
Marquette, Michigan 49855

We are engaged to audit the primary government financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Star Public School Academy (the School District) for the year ended June 30, 2023. Professional standards require that we provide you with the following information related to our audit. We would also appreciate the opportunity to meet with you to discuss this information further since a two-way dialogue can provide valuable information for the audit process.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated June 19, 2023, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we will consider the internal control of the School District. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will also perform tests of the School District's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the required supplementary information (as listed in our engagement letter), which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on supplementary information (as listed in our engagement letter), which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope, Timing of Audit, Significant Risks, and Other

Audit Planning Process

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.

Two-way Communication

Effective two-way communication between Anderson, Tackman & Company, PLC and members of the Board of Education is important to understanding matters related to the audit and in developing a constructive working relationship.

Your insights may assist us in understanding the School District and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events. We may discuss with you your oversight of the effectiveness of internal control and any areas where you request additional procedures to be undertaken. We expect that you will timely communicate with us any matters you consider relevant to the audit. Such matters might include strategic decisions that may significantly affect the nature, timing, and extent of audit procedures, your suspicion or detection of fraud, or any concerns you may have about the integrity or competence of management.

We will timely communicate to you any fraud involving management and other fraud that causes a material misstatement of the financial statements, illegal acts that come to our attention (unless they are clearly inconsequential), and disagreements with management and other serious difficulties encountered in performing the audit. We also will communicate to you and to management any significant deficiencies or material weaknesses in internal control that become known to us during the course of the audit. Other matters arising from the audit that are, in our professional judgment, significant and relevant to you in your oversight of the financial reporting process will be communicated to you in writing after the audit.

Independence

Our independence policies and procedures are designed to provide reasonable assurance that our firm and its personnel comply with applicable professional independence standards. Our policies address financial interests, business and family relationships, and non-audit services that may be thought to bear on independence. For example, without our permission no partner or professional employee of Anderson, Tackman & Company, PLC is permitted to own any direct financial interest or a material indirect financial interest in a client or any affiliates of a client. Also, if an immediate family member or close relative of a partner or professional employee is employed by a client in a key position, the incident must be reported and resolved in accordance with Firm policy. In addition, our policies restrict certain non-audit services that may be provided by

Anderson, Tackman & Company, PLC and require audit clients to accept certain responsibilities in connections with the provision of permitted non-attest services.

Timing of the Audit

We have worked with management to determine a mutually agreeable timetable for the various phases of our audit. Key dates are as follows:

Preliminary fieldwork: September 2023
Year-end fieldwork: September 2023
Final: October 31, 2023

Management's adherence to its closing schedule and timely completion of information used by us in performance of the audit is essential to timely completion of the audit. Please utilize this timetable to relate any matters relevant to the audit.

Addressing Risk in the Audit

We will use the knowledge and understanding about your entity gathered in the audit planning process, together with other factors, to first assess the risk that errors or fraud may cause a material misstatement at the financial statement level. The assessment of the risks of material misstatement at the financial statement level provides us with parameters within which to design the audit procedures for specific account balances and classes of transactions. Our risk assessment process at the account-balance or class-of-transactions level consists of:

- An assessment of inherent risk (the susceptibility of an assertion relating to an account balance or class of transactions to a material misstatement, assuming there are no related controls); and
- An evaluation of the design and effectiveness of internal control over financial reporting and our assessment of control risk (the risk that a material misstatement could occur in an assertion and not be prevented or detected on a timely basis by the company's internal control).

We will then determine the nature, timing, and extent of tests of controls and substantive procedures necessary given the risks identified and the controls as we understand them.

Internal Control Relevant to the Audit

Our audit of the financial statements will include obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Our review and understanding of your organization's internal control is not undertaken for the purpose of expressing an opinion on the effectiveness of internal control.

Materiality in Planning and Executing the Audit

In planning the audit, the materiality limit is viewed as the maximum aggregate misstatements, which if detected and not corrected, would cause us to modify our opinion on the financial statements. The materiality limit is an allowance not only for misstatements that will be detected

and not corrected but also for misstatements that may not be detected by the audit. Our assessment of materiality throughout the audit will be based on both quantitative and qualitative considerations. Because of the interaction of quantitative and qualitative considerations, misstatements of a relatively small amount could have a material effect on the current financial statements as well as financial statements of future periods. At the end of the audit, we will inform you of all individual unrecorded misstatements aggregated by us in connection with our evaluation of our audit test results.

Areas with Higher Assessed Risks of Material Misstatements

Risk of material misstatement is the risk that the financial statements have been misstated by a material amount. As part of our audit planning process, we assess the risk of material misstatement on the various audit areas. The risk of material misstatement can be expressed as an equation where:

$$\text{Risk of Material Misstatement (RMM)} = \text{Inherent Risk (I/R)} \times \text{Control Risk (C/R)}$$

Inherent risk in an audit refers to the susceptibility of a misstatement that is due to reasons other than the failure of internal controls. Factors of inherent risk can include things like the complexity of accounting for transactions, the volume of transactions recorded, the extent of judgment involved in accounting for a transaction or audit area, the complexity of calculations, and presence of misstatements or noncompliance in prior audit. The auditor cannot perform procedures to reduce inherent risk.

Conversely, control risk in an audit is the susceptibility of a misstatement due to the failure of an entity's internal controls. The failure in internal control is the result of the design or operation of a control that does not allow management or employees to prevent and/or detect and correct a misstatement on a timely, in the normal course of performing their assigned functions. The auditor can perform procedures to reduce control risk.

As part of planning the audit we determine if the risk of material misstatement can be appropriately reduced by performing procedures designed to test the operating effectiveness of the entity's internal control structure. If deemed appropriate we will perform tests of controls on areas of the audit that we deem significant such as receipts, disbursements, payroll, utility billing, grant expenditures, and financial statement close. Typically, such testing, if deemed necessary, is done as part of our preliminary fieldwork to allow us sufficient time to adjust our audit plan should the results of such testing identify deficiencies.

Communication of Deficiencies

Generally, we communicate deficiencies identified during the audit at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. When circumstances dictate that immediate communication is necessary we will discuss the matter orally with the appropriate level of management. We will also communicate such matters formally at the end of the audit in a letter addressed to the Board of Education. That letter will also communicate any other internal control related matters that are required to be communicated under professional standards.

Nature and Extent of Specialized Skills Needed for the Audit

Our planning process includes the assessment of whether the audit will require any specialized skills in order to obtain reasonable assurance for forming our opinions. This is done through assessing the required skills needed and assigning appropriate staff to meet those needs. A specialist may be needed to provide appropriate documentation for certain financial statement items and disclosures. We have not deemed it necessary to hire a specialist to assist with the audit; however, we may rely on information provided by management's specialist(s) such as an actuary for providing the required information for inclusion in the footnotes related to the entity's pension and other post-employment benefit pension plans, if applicable. If management has hired such a specialist we will require management to make certain representations to us regarding the use of a specialist.

Key Audit Matters (KAMs)

In accordance with AU-C Section 701 key audit matters (KAMs) are defined as "those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements for the current period." If engaged to report on KAMs we will take into account various factors for determining what items are considered KAMs, including consideration of areas with higher assessed risk of material misstatement, areas of the financial statements that may rely on significant judgment by management, areas of the financial statements that require significant disclosures, and/or significant events that may have occurred during the current year.

We have not been engaged to report on key audit matters.

Significant Changes in Financial Condition, Environment, or Activities

Throughout the course of the audit, we review known facts about the entity as part of our process for determining the accounting procedures that are appropriate for the circumstances. Significant changes in the financial condition, environment, or activities of the entity may result in a higher assessed risk of material misstatement. As we are made aware of these changes we adapt our audit procedures to address any added risk. As part of our final audit procedures, we review our initial risk assessments, preliminary materiality amounts, and other analytical procedures to determine if additional procedures are deemed necessary in order for us to provide an opinion on the financial statements.

Significant Risks

We have identified the following significant risk(s) of material misstatement as part of our audit planning:

- Management override of controls is always presumed a significant risk in accordance with Generally Accepted Auditing Standards
- Revenue recognition is always presumed a significant risk in accordance with Generally Accepted Auditing Standards
- Fraud risks (discussed in the next section of this letter) including, actual or suspected fraud disclosed by MARESA
- Oversight of services provided by third parties, including MARESA

- Recording and reporting of federal expenditures; including the proper classification and expenditures of COVID-related funding.
- Defined benefit pension plan financial statement amounts and disclosures
- Defined benefit OPEB plan financial statement amounts and disclosures
- Implementation of new GASB standards, if applicable

Consideration of Fraud in a Financial Statement Audit

Auditing Standards Board's AU Section 316, *Consideration of Fraud in a Financial Statement Audit*, defines fraud as "an intentional act that results in a material misstatement in the financial statements that are the subject of an audit." Two types of misstatements are considered relevant to the audit:

- 1) *Misstatements arising from fraudulent financial reporting* are intentional misstatements or omissions of amounts or disclosures in financial statements designed to deceive financial statement users where the effect causes the financial statements not to be presented, in all material respects in conformity with generally accepted accounting principles (GAAP).
- 2) *Misstatements arising from misappropriation of assets* (sometimes referred to as theft or defalcation) involve the theft of an entity's assets where the effect of the theft causes the financial statements, in all material respects in conformity with GAAP.

It is important that you understand the three conditions that are generally present when fraud occurs: (1) incentive/pressure, (2) opportunity, and (3) rationalization. Management is responsible to design and implement controls to prevent, deter, and detect fraud. Management and the governing board are also responsible for helping set a tone-at-the-top that promotes honesty and high ethical standards. When management and the governing board fulfill their responsibilities the opportunity to commit fraud is significantly reduced. However, management has a unique ability to perpetrate fraud due to management's knowledge of the internal control structure and the ability to circumvent those controls. For that reason, it is essential that the Board of Education be cognizant of the potential for fraud.

As part of our audit procedures AU Section 316 requires us to evaluate the risk of material misstatement due to fraud and to make certain inquiries about fraud:

- Your knowledge of any actual fraud or suspicions of fraud affecting the entity.
- Whether you are aware of any allegation of fraud or suspected fraud affecting the entity.
- Your understanding of the risks of fraud in the entity, including any areas in which you feel are at greater risk or transactions that questionable in nature.
- Your understanding on the programs and controls that have been implemented by management and the governing board to mitigate specific fraud risks the entity has identified, or that otherwise help or prevent, deter and detect fraud, and how management and the governing board monitors those programs and controls.

- How you communicate to each other, management, and employees the importance of ethical behavior and business practices.
- How you monitor multiple locations or business segments and whether any of them possess a higher degree of fraud risk, if applicable.
- Your overall knowledge of your organization's compliance with the applicable laws and regulations.

AU Section 316 requires us to maintain appropriate documentation regarding our inquiries related to these matters. This can be done through either a personal meeting (via in-person, phone, Zoom or equivalent) or through written communication.

Closing

Generally speaking, the intent of this letter is to assist you in understanding your role in governance for preventing, deterring, and detecting fraud within the entity. We ask that you provide a copy of this letter to others on the governing body and that you confirm to us your understanding of the information provided in this by signing and returning a copy to us. In your response we ask that you disclose to us your knowledge of any fraud or suspected fraud within the entity so that we can tailor our audit to be responsive to those concerns, if any.

We expect to begin our year-end audit fieldwork on approximately September 5, 2023 and issue our report on approximately October 31, 2023. Michael A. Greutz, CPA is the engagement partner on the audit. If at any point of the audit you or any member of the governing body desire to communicate with us personally, please feel free to call our office at (906) 225-1166 and we would be happy to respond to any questions or comments you have or to coordinate a mutually acceptable time to meet in person or via teleconference.

We appreciate the opportunity to service North Star Public School Academy.

This communication is intended solely for the information and use of the Board of Education, management, and others within the School District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

Kathryn Pelton

Kathryn Pelton
Senior Accountant

