

CONCORD ACADEMY - BOYNE
REPORT ON FINANCIAL STATEMENTS
JUNE 30, 2016



Baird, Cotter & Bishop, P.C.
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CONCORD ACADEMY - BOYNE
BOYNE CITY, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2016

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August 16, 2016

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Concord Academy - Boyne
Boyne City, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Concord Academy - Boyne, Boyne City, Michigan as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Concord Academy - Boyne, Boyne City, Michigan as of June 30, 2016, 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 Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iii through viii and 21 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 August 16, 2016, on our consideration of Concord Academy - Boyne's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Concord Academy - Boyne's internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

CONCORD ACADEMY - BOYNE
BOYNE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

This section of Concord Academy - Boyne's (the "Academy") annual report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2016. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

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

A. Government-Wide Financial Statements

The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the Academy's assets, deferred inflows and outflows of resources and liabilities, with the difference 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 the information showing how the Academy's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future periods.

Both of the government-wide statements distinguish functions of the Academy that are principally supported by state aid and property taxes (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). The governmental activities of the Academy include instruction, supporting services, interest on long-term debt and unallocated depreciation.

B. 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. Concord Academy - Boyne, like other state and local governments, uses fund accounting to ensure compliance with finance-related legal requirements. All of the funds of the Academy can be divided into two categories, governmental funds and fiduciary funds.

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

CONCORD ACADEMY - BOYNE
BOYNE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

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

Fiduciary Funds The Academy is a trustee, or fiduciary, for assets that belong to other organizations. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The Academy's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the government-wide financial statements because the Academy cannot use these assets to finance its operations.

Notes to Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in both the government-wide and the fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

C. Summary of Net Position

The following schedule summarizes the net position at June 30,

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets	\$ 790,805	\$ 799,914
Non Current Assets		
Capital Assets	3,160,411	3,142,836
Less Accumulated Depreciation	<u>(1,361,886)</u>	<u>(1,277,203)</u>
Total Non Current Assets	<u>1,798,525</u>	<u>1,865,633</u>
Total Assets	2,589,330	2,665,547
Deferred Outflows of Resources	<u>84,664</u>	<u>101,554</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 2,673,994</u></u>	<u><u>\$ 2,767,101</u></u>

CONCORD ACADEMY - BOYNE
BOYNE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
Liabilities		
Current Liabilities	\$ 175,919	\$ 219,111
Non Current Liabilities	<u>2,375,000</u>	<u>2,435,000</u>
Total Liabilities	<u>2,550,919</u>	<u>2,654,111</u>
Net Position		
Net Investment in Capital Assets	(636,475)	(624,367)
Restricted for Specific Purposes	303,131	293,464
Unrestricted	<u>456,419</u>	<u>443,893</u>
Total Net Position	<u>123,075</u>	<u>112,990</u>
Total Liabilities and Net Position	<u>\$ 2,673,994</u>	<u>\$ 2,767,101</u>

D. Analysis of Financial Position

During the fiscal year ended June 30, 2016, the Academy's net position increased by \$10,085. A few of the more significant factors affecting net position during the year are discussed below:

1. Depreciation Expense

School academies are required to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net position.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2016, \$84,683 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the year ended June 30, 2016, \$17,575 of the Academy's expenditures were capitalized and recorded as assets of the Academy.

The net effect of the current year's depreciation, additions, and deletions is a decrease in capital assets in the amount of \$67,108 for the year ended June 30, 2016.

CONCORD ACADEMY - BOYNE
BOYNE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

E. Results of Operations

For the years ended June 30, the results of operations, on an academy-wide basis, were:

	2016	2015
General Revenues		
Investment Earnings	\$ 84	\$ 130
State Sources	1,375,808	1,308,058
Other	2,261	765
	1,378,153	1,308,953
Program Revenues		
Operating Grants	105,576	115,911
	1,483,729	1,424,864
Expenses		
Instruction	819,946	851,971
Supporting Services	411,485	436,577
Interest on Long Term Debt	157,530	159,510
Unallocated Depreciation	84,683	86,172
	1,473,644	1,534,230
Change in Net Position	\$ 10,085	\$ (109,366)

F. Financial Analysis of the Academy's Fund

The financial performance of the Academy as a whole is also reflected in its governmental fund. The following table shows the change in total fund balance of the Academy's governmental fund:

	2016	2015	Increase (Decrease)
Major Funds			
General Fund	\$ 697,493	\$ 658,909	\$ 38,584

General Fund – In 2015-2016, the General Fund's fund balance increased \$38,584. An increase in per pupil funding, coupled with an increased student count, caused revenues to increase. Expenditures also decreased, primarily to due to contracted teachers covering an additional 5% of employee benefits costs during the fiscal year.

CONCORD ACADEMY - BOYNE
BOYNE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

G. General Fund Budgetary Highlights

The Uniform Accounting and Budgeting Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2015-2016 fiscal year, the Academy amended the General Fund throughout the year, with the Board adopting the changes as summarized below. The following schedule shows a comparison of the original General Fund budget, the final amended General Fund budget, and actual totals from operations:

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Total Revenues	<u>\$ 1,414,880</u>	<u>\$ 1,416,280</u>	<u>\$ 1,483,729</u>
<u>EXPENDITURES</u>			
Instruction	\$ 794,000	\$ 848,500	\$ 819,946
Supporting Services	395,850	419,350	429,060
Debt Service	<u>192,800</u>	<u>192,800</u>	<u>196,139</u>
Total Expenditures	<u>\$ 1,382,650</u>	<u>\$ 1,460,650</u>	<u>\$ 1,445,145</u>

The changes from original budgeted revenues and final budget revenues was minimal. The change from original budgeted expenditures and final budgeted expenditures resulted from expenditures related to instruction and supporting services becoming clearer as the year progressed. The variances between the final budgeted revenues and actual results was a result of more state funding received than anticipated. The variance between final budgeted expenditures and actual expenditures was minimal.

H. Capital Asset and Debt Administration

1. Capital Assets

At the end of the 2015-2016 fiscal year, the Academy had invested \$1,798,525 net of depreciation, in a broad range of capital assets, including school buildings and facilities and various types of equipment. This represents a net decrease of \$67,108 from the prior fiscal year. Depreciation expense for the year amounted to \$84,683 bringing the accumulation to \$1,361,886 as of June 30, 2016. During the year, the Academy purchased windows costing \$9,595 and projectors for use throughout the Academy at a cost of \$7,980.

2. Long-Term Debt

The Academy's long-term debt decreased during the fiscal year by \$55,000, bringing the total debt to \$2,435,000.

CONCORD ACADEMY - BOYNE
BOYNE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

I. Factors Bearing on the Academy's Future

At the time that these financial statements were prepared and audited, the Academy was aware of the following items that could significantly affect its financial health in the future:

- State aid funding from the State of Michigan represents the majority of the Academy's revenue. Due to uncertainty from year to year related to state funding, the Academy continues to monitor current legislature in order to get a better idea of funding levels for the upcoming 2016-2017 school year.
- Because per pupil state aid funding is the driving force behind the majority of the Academy's revenue, student enrollment strongly effects the budget. The Academy continues to take measures to try and increase enrollment and reach the buildings capacity of 260 students.
- The Academy continues to try and improve its facilities to keep up with other schools in order to attract students to the Academy.

J. Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Academy at 401 East Deitz Road, Boyne City, MI 49712.

CONCORD ACADEMY - BOYNE
BOYNE CITY, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2016

ASSETS

CURRENT ASSETS

Cash	\$ 203,429
Due from Other Governments	261,638
Investments	<u>325,738</u>
Total Current Assets	<u>790,805</u>

NON CURRENT ASSETS

Capital Assets	3,160,411
Less Accumulated Depreciation	<u>(1,361,886)</u>
Total Non Current Assets	<u>1,798,525</u>
Total Assets	<u>2,589,330</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Charges on Refunding	<u>84,664</u>
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LIABILITIES

CURRENT LIABILITIES

Accrued Expenses	93,312
Accrued Interest Payable	22,607
Current Portion of Non Current Liabilities	<u>60,000</u>
Total Current Liabilities	<u>175,919</u>

NON CURRENT LIABILITIES

Bonds Payable	2,435,000
Less Current Portion of Non Current Liabilities	<u>(60,000)</u>
Total Non Current Liabilities	<u>2,375,000</u>
Total Liabilities	<u>2,550,919</u>

NET POSITION

Net Investment in Capital Assets	(636,475)
Restricted for Debt Service	260,755
Restricted for Facility Maintenance	42,376
Unrestricted	<u>456,419</u>
TOTAL NET POSITION	<u>\$ 123,075</u>

The notes to the financial statements are an integral part of this statement.

CONCORD ACADEMY - BOYNE
BOYNE CITY, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL ACTIVITIES NET (EXPENSES) REVENUES AND CHANGE IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS	
<u>GOVERNMENTAL ACTIVITIES</u>				
Instruction	\$ 819,946	\$ 0	\$ 94,065	\$ (725,881)
Supporting Services	411,485	0	11,511	(399,974)
Interest on Long Term Debt	157,530	0	0	(157,530)
Unallocated Depreciation	84,683	0	0	(84,683)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 1,473,644	\$ 0	\$ 105,576	(1,368,068)
 <u>GENERAL REVENUES</u>				
Investment Earnings				84
State Sources				1,375,808
Other				2,261
Total General Revenues				1,378,153
Change in Net Position				10,085
<u>NET POSITION</u> - Beginning of Year				112,990
<u>NET POSITION</u> - End of Year				\$ 123,075

The notes to the financial statements are an integral part of this statement.

CONCORD ACADEMY - BOYNE
BOYNE CITY, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2016

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 203,429
Due from Other Governments	261,638
Investments	<u>325,738</u>
 TOTAL ASSETS	 <u>\$ 790,805</u>
 <u>LIABILITIES AND FUND BALANCES</u>	
<u>LIABILITIES</u>	
Accrued Expenditures	<u>\$ 93,312</u>
 <u>FUND BALANCES</u>	
Restricted for:	
Debt Service	283,362
Facility Maintenance	42,376
Unassigned	<u>371,755</u>
 Total Fund Balances	 <u>697,493</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 790,805</u>

The notes to the financial statements are an integral part of this statement.

CONCORD ACADEMY - BOYNE
BOYNE CITY, MICHIGAN

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION

JUNE 30, 2016

Total Governmental Fund Balances	\$ 697,493
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 are not reported in the funds.	
The cost of the capital assets is	\$ 3,160,411
Accumulated depreciation is	<u>(1,361,886)</u> 1,798,525
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. These assets consist of:	
Deferred Loss on Refunding	84,664
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	
Bonds Payable	(2,435,000)
Accrued interest is not included as a liability in government funds, it is recorded when paid.	<u>(22,607)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 123,075</u></u>

The notes to the financial statements are an integral part of this statement.

CONCORD ACADEMY - BOYNE
BOYNE CITY, MICHIGAN

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

YEAR ENDED JUNE 30, 2016

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
Local Sources	\$ 2,503
State Sources	1,425,247
Federal Sources	40,117
Other Transactions	<u>15,862</u>
Total Revenues	<u>1,483,729</u>
<u>EXPENDITURES</u>	
Instruction	
Basic Programs	710,577
Added Needs	109,369
Supporting Services	
General Administration	253,228
Business Services	81,348
Operation and Maintenance	94,484
Debt Service	
Principal	55,000
Interest	137,139
Escrow Agent Fees	<u>4,000</u>
Total Expenditures	<u>1,445,145</u>
Excess (Deficiency) of Revenues Over Expenditures	38,584
<u>FUND BALANCE</u> - Beginning of Year	<u>658,909</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 697,493</u>

The notes to the financial statements are an integral part of this statement.

CONCORD ACADEMY - BOYNE
BOYNE CITY, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

Net Change in Fund Balances Total Governmental Funds \$ 38,584

Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures. In the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(84,683)
Capital Outlay	17,575

Accrued interest on bonds is recorded in the Statement of Activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued Interest Payable - Beginning of Year	23,106
Accrued Interest Payable - End of Year	(22,607)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the premiums, discounts and similar items when debt is first issued, these amounts are deferred and amortized in the Statement of Activities:

Repayments of Principal on Long-Term Debt	55,000
Amortization of Deferred Charges	<u>(16,890)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 10,085</u></u>
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The notes to the financial statements are an integral part of this statement.

CONCORD ACADEMY - BOYNE
BOYNE CITY, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

JUNE 30, 2016

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 25,544
<u>LIABILITIES</u>	
Due to Groups and Organizations	<u>25,544</u>
<u>NET POSITION</u>	<u>\$ 0</u>

The notes to the financial statements are an integral part of this statement.

CONCORD ACADEMY - BOYNE
BOYNE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Concord Academy - Boyne have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

A. Reporting Entity

Public School Academies were formed pursuant to the Michigan School Code of 1976 as amended by Act 362 of the Public Acts of 1993 and Act Number 416 of the Public Acts of 1994; Act Number 416 became effective March 30, 1995. The Academy filed Articles of Incorporation as a non-profit corporation September 1, 1995.

The Academy has an agreement through June 30, 2017, with Lake Superior State University (LSSU) to organize and administer the academy. The agreement 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 Lake Superior State Board of Control is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Lake Superior State Board of Control 3 percent of state aid foundation funds as administrative fees. The total administrative fees for the year ended June 30, 2016 to the Lake Superior State Board of Control were approximately \$42,000.

B. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The Academy does not have any business-type activities or component units.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

CONCORD ACADEMY - BOYNE
BOYNE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Academy reports the following major governmental fund:

The *General Fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy.

Fiduciary funds account for assets held by the Academy in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the Academy under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the Academy holds for others in an agency capacity (primarily student activities).

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

In the government-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated

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with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, interest income and other revenues).

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net position resulting from the current year's activities.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

F. Budgetary Information

1. Budgetary Basis of Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. While all appropriations and encumbrances lapse at year-end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

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The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

- a) In June, the superintendent submits to the school board a proposed operating budget for the fiscal year commencing on July 1.
- b) A public hearing is conducted during June to obtain taxpayer comments.
- c) Prior to June 30, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.
- d) The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
- e) For purposes of meeting emergency needs of the school Academy, transfer of appropriations may be made by the authorization of the superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- f) During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
- g) Budgeted amounts are as originally adopted on June 22, 2015, or as amended by the School Board of Education throughout the year.

2. *Excess of Expenditures Over Appropriations*

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Supporting Services		
General Administration	\$ 246,200	\$ 253,228
Operation and Maintenance	85,150	94,484
Debt Service		
Escrow Agent Fees	0	4,000

These overages were covered by additional revenues and fund balance.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. *Cash and Investments*

Cash includes amounts in demand deposits.

Investments are carried at market value.

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The Academy complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the Academy to invest as follows:

- a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States.
- b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d) Securities issued or guaranteed by agencies or instrumentalities of the United States.

The Academy's deposits and investments are held separately by several of the Academy's funds.

2. *Inventory and Prepaid Items*

Inventory is valued at cost. The Academy did not have any inventory as of the end of the fiscal year.

Certain payments made to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

The nonspendable fund balance at the governmental fund level is equal to the amount of inventories and prepaid items at year-end to indicate the portion of the governmental fund balances that are nonspendable. At the end of the fiscal year, the Academy did not have any prepaid expenditures.

3. *Capital Assets*

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings	40 years
Building Improvements	5-40 years
Machinery and Equipment	5-20 years

The Academy's capitalization policy is to capitalize individual amounts exceeding \$5,000.

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4. *Deferred Outflows/Inflows 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 so will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or funding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The 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 Academy does not have any items that qualify for reporting under this criteria.

5. *Net Position Flow Assumption*

Sometimes the Academy will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

6. *Fund Balance Flow Assumption*

Sometimes the Academy will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

7. *Fund Balance Policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Academy itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Academy's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Academy for specific purposes but do not meet the criteria to be classified as committed. The governing board has by resolution authorized the superintendent to assign fund balance. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

8. *Use of Estimates*

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

H. Revenues and Expenditures/Expenses

1. *State Revenue*

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to Academies based on information supplied by the Academies. For the year ended June 30, 2016 the foundation allowance was based on pupil membership counts taken in October 2015 and February 2015. For fiscal year ended June 30, 2016, the per pupil foundation allowance was \$7,391 for Concord Academy - Boyne.

The State revenue is recognized during the foundation period and is funded through payments from October 2015 to August 2016. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

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2. Program Revenues

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, state foundation aid, certain revenue from the intermediate school Academy and other unrestricted items are not included as program revenue but instead as *general revenues*.

3. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums, discounts, and the deferred gain or loss on refunding are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Violations of Legal or Contractual Provisions

Note 1.F.2, on the Excess of Expenditures Over Appropriations, describes a budgetary violation that occurred for the year ended June 30, 2016.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Academy's deposits and investments are all on deposit with Chase Bank and Wells Fargo.

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

Credit Risk. The Academy will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Academy's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Academy will do business in accordance with the Academy's investment policy.

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Concentration of Credit Risk. The Academy will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2016, the Academy's bank balance was \$245,250 and none of that amount was exposed to custodial credit risk because it was all insured and collateralized. Although the Academy's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the deposits.

Foreign Currency Risk. The Academy is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy's investments are categorized to give an indication of the level of risk assumed by the Academy at year-end. Category 1 includes investments that are insured or registered, or securities held by the Academy or the Academy's agent in the Academy's name. Although the Academy's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the investments.

Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Academy's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Academy's name. At year-end all of the Academy's investments were uncategorized as to risk.

At year-end, the only investments were investment trust funds.

Investments not subject to categorization:

Investment Trust Funds	<u><u>\$ 325,738</u></u>
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The Academy invests certain funds in various investment accounts at Wells Fargo. Wells Fargo reports that as of June 30, 2016, the fair value of the Academy's investments is the same as the value of each fund's shares.

Balance sheet classifications:

	Deposits	Investments	Fiduciary Assets	Total
Cash	\$ 203,429	\$ 0	\$ 25,544	\$ 228,973
Investments	0	325,738	0	325,738
TOTAL	<u><u>\$ 203,429</u></u>	<u><u>\$ 325,738</u></u>	<u><u>\$ 25,544</u></u>	<u><u>\$ 554,711</u></u>

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B. Receivables/Unearned Revenue

The Academy's receivables, shown as due from other governments, as of June 30, 2016, were \$261,638, which represents the amount due from the State of Michigan for state aid and federal grants.

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the Academy did not have any unearned revenue.

C. Capital Assets

A summary of changes in the Academy's capital assets follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets being depreciated				
Buildings	\$ 2,590,199	\$ 0	\$ 0	\$ 2,590,199
Building Improvements	408,841	9,595	0	418,436
Machinery and Equipment	143,796	7,980	0	151,776
Subtotal	<u>3,142,836</u>	<u>17,575</u>	<u>0</u>	<u>3,160,411</u>
Less accumulated depreciation for:				
Buildings	996,540	63,955	0	1,060,495
Building Improvements	147,891	13,808	0	161,699
Machinery and Equipment	132,772	6,920	0	139,692
Accumulated depreciation	<u>1,277,203</u>	<u>84,683</u>	<u>0</u>	<u>1,361,886</u>
Net Capital assets being depreciated	<u>\$ 1,865,633</u>	<u>\$ (67,108)</u>	<u>\$ 0</u>	<u>\$ 1,798,525</u>

Depreciation for the fiscal year ended June 30, 2016, amounted to \$84,683. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

D. 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 Academy carries commercial insurance to minimize the risks of loss. There have been no significant reductions in insurance coverage during the fiscal year and claims have not exceeded covered loss retained risk deductible amounts since inception.

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JUNE 30, 2016

E. Long-Term Debt

The Academy issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Academy. The following is a summary of the long-term debt transactions for the Academy for the year ended June 30, 2016:

	SERIES 2007 BONDS PAYABLE	SERIES 2007 BONDS PAYABLE
Balance, July 1, 2015	\$ 185,000	\$ 2,305,000
Additions	0	0
Deletions	(5,000)	(50,000)
Balance, June 30, 2016	180,000	2,255,000
Less current portion	(5,000)	(55,000)
Total due after one year	\$ 175,000	\$ 2,200,000

Long-term debt at June 30, 2016, was comprised of the following:

Bonds Payable (Series 2007), payable in annual installments of \$55,000 to \$345,000 through November, 2022, with semi-annual interest at 5.45% to 5.60%	\$ 2,255,000
Bonds Payable (Series 2007), payable in annual installments of \$5,000 to \$30,000 through November 2036, with semi-annual interest at 5.45% to 5.60%	180,000
	\$ 2,435,000

The annual requirements to amortize all debt outstanding as of June 30, 2016, including interest payments of \$1,789,758 are as follows:

YEAR ENDING JUNE 30,	Principal	Interest	Amounts Payable
2017	\$ 60,000	\$ 134,005	\$ 194,005
2018	60,000	130,735	190,735
2019	65,000	127,329	192,329
2020	70,000	123,650	193,650
2021	70,000	119,835	189,835
2022-2026	425,000	533,864	958,864
2027-2031	565,000	396,340	961,340
2032-2036	745,000	213,500	958,500
2037	375,000	10,500	385,500
TOTAL	\$ 2,435,000	\$ 1,789,758	\$ 4,224,758

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BOYNE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

F. Leases

The rental expense for the year ended June 30, 2016, totaled \$4,002.

The rental expense consists of lease agreements on copiers. The future minimum lease payments for these leases are as follows:

<u>YEAR ENDING</u>	
2017	\$ 4,186
2018	4,186
2019	4,186
2020	4,186
2021	<u>1,046</u>
	<u>\$ 17,790</u>

G. Oversight Fees

The Academy pays an administrative oversight fee of 3 percent of its state school aid to Lake Superior State University, as set forth by contract, to reimburse the Board of Control for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2016, the Academy incurred approximately \$42,000 of expenses for oversight fees.

H. Contracted Services

The Academy contracted with Lakeshore Educational Management, Inc. (Lakeshore) to provide teaching, administrative and various other services for the Academy. The payments made to Lakeshore cover expenses associated with the teachers, administrative, and other services, including wages, payroll taxes, and various employee benefits. In addition, Lakeshore charged the Academy a semi-monthly administration fee. The total amount paid to Lakeshore for the year ended June 30, 2016 was \$1,025,871, which included \$21,875 in administration fees.

I. Commitments and Contingencies

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the Academy.

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J. GASB 72 – Fair Market Value Disclosure

The Academy is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Academy does not have any investments subject to the fair value measurement.

CONCORD ACADEMY - BOYNE
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REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS BUDGETARY BASIS
<u>REVENUES</u>			
Local Sources	\$ 0	\$ 0	\$ 2,503
State Sources	1,361,380	1,361,380	1,425,247
Federal Sources	40,000	40,000	40,117
Other Transactions	13,500	14,900	15,862
 Total Revenues	 1,414,880	 1,416,280	 1,483,729
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	684,000	738,500	710,577
Added Needs	110,000	110,000	109,369
Supporting Services			
General Administration	231,700	246,200	253,228
Business Services	79,000	88,000	81,348
Operation and Maintenance	85,150	85,150	94,484
Debt Service			
Principal	55,000	55,000	55,000
Interest	137,800	137,800	137,139
Escrow Agent Fees	0	0	4,000
 Total Expenditures	 1,382,650	 1,460,650	 1,445,145
 Excess (Deficiency) of Revenues Over Expenditures	 32,230	 (44,370)	 38,584
<u>FUND BALANCE</u> - Beginning of Year	669,254	669,254	658,909
<u>FUND BALANCE</u> - End of Year	\$ 701,484	\$ 624,884	\$ 697,493



CERTIFIED PUBLIC ACCOUNTANTS

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August 16, 2016

INDEPENDENT AUDITOR'S 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 Education
Concord Academy - Boyne
Boyne City, Michigan

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, the major fund, and the aggregate remaining fund information of Concord Academy - Boyne, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Concord Academy - Boyne's basic financial statements and have issued our report thereon dated August 16, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Concord Academy - Boyne's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Concord Academy - Boyne's internal control. Accordingly, we do not express an opinion on the effectiveness of Concord Academy - Boyne's internal control.

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

Our consideration of internal control was for the limited purpose described in the preceding and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control that we consider to be material weaknesses, described below.

2016-001 – *Segregation of Incompatible Duties and Documented Independent Review*

Material Weakness:

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the Academy. A key element of internal control is the segregation of incompatible duties.

Condition: The Academy has several accounting functions that are performed by the same individual.

Cause: This condition is primarily the result of staffing constraints typical of smaller academies and the current financial position of the Academy.

Effect: As a result of this condition, the Academy is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected by management on a timely basis.

Recommendation: There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the Academy to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials: With the financial status of the Academy, the Academy is unable to hire additional employees at this time to improve the segregation of duties within the accounting function. We realize that segregation of duties is important in order to increase internal control. Management oversight has been an alternative means of monitoring internal control along with continuing to try and reassign some duties within the accounting department to other staff members. We still are exploring ways to spread some of the day-to-day accounting responsibilities. The Academy and Superintendent will continue to monitor the situation and explore cost effective ways to improve this internal control limitation.

2016-002 - *Preparation of Financial Statements in Accordance with GAAP*

Material Weakness:

Criteria: All Michigan academies are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the academy's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized entities, the Academy has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Academy's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Academy's internal controls.

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

Effect: As a result of this condition, the Academy's internal controls over the preparation of financial statements in accordance with GAAP are incomplete. Instead, the Academy relies, in part, on its external auditors for assistance with this task.

Recommendation: Based on the staffing constraints the Academy faces, we recommend the Academy continue to rely on its external auditors to prepare financial statements that are in conformity with GAAP.

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

COMPLIANCE AND OTHER MATTERS

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

CONCORD ACADEMY - BOYNE'S RESPONSE TO FINDINGS

Concord Academy - Boyne's response to the findings identified in our audit is described in a separate letter. Concord Academy - Boyne's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BAIRD, COTTER AND BISHOP, P.C.

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Concord Academy Boyne

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Boyne City, MI 49712

CORRECTIVE ACTION PLAN

JUNE 30, 2016

Finding 2016-001: Material Weakness Financial Statement Finding

Condition: The Academy has several accounting functions that are performed by the same individual, causing a lack of proper segregation of duties pertaining to accounting functions.

Corrective Steps Taken: At this time, no steps have been taken as the Academy management has determined that the cost of eliminating this weakness outweighs the benefit to the Academy.

Corrective Steps to be Taken: There are no plans to hire additional staff to eliminate this material weakness in internal control. If ever funding allows, additional staffing related to the accounting functions may be considered in the future.

Monitoring: The Academy will continue to monitor its financial situation and consider adding additional staff if it is determined that the benefits outweigh the costs. In the meantime, the Academy will continue to explore ways to implement proper segregation of duties.

Reasons Corrective Action Not Necessary: As mentioned above, the Academy does not believe it is financially prudent to take on more staff to segregate accounting functions at this time. The Academy is a small Academy and the accounting staff currently have no issues performing the duties in a satisfactory manner.

Name of Responsible Person for Further Information: Rebecca Leist, Superintendent

Questioned Costs Related to this Finding: None.

Finding 2016-002: Material Weakness Financial Statement Finding

Condition: The Academy does not have the ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP).

Corrective Steps Taken: At this time, no steps have been taken as the Academy management has determined that the cost of eliminating this weakness outweighs the benefit to the Academy.

Corrective Steps to be Taken: There are no plans to hire additional staff or expend any financial resources to eliminate this material weakness in internal control. If ever funding allows, additional staffing and training related to the preparation of GAAP financial statements will be considered.



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Monitoring: The Academy will continue to monitor its financial situation and consider adding additional staff or expending resources if it is determined that the benefits outweigh the costs. In the meantime, the Academy will continue to explore ways to eliminate this material weakness.

Reasons Corrective Action Not Necessary: As mentioned above, the Academy does not believe it is financially prudent to take on more staff or expend resources on training at this time.

Name of Responsible Person for Further Information: Rebecca Leist, Superintendent

Questioned Costs Related to this Finding: None.

