

CONCORD ACADEMY-BOYNE
REPORT ON FINANCIAL STATEMENTS
JUNE 30, 2021



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

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2021

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August 23, 2021

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, 2021, 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, 2021, 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 schedule on pages iii through viii and 20 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 23, 2021, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Concord Academy-Boyne's 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, 2021

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, 2021. 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 are considered governmental 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, 2021

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.

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>2021</u>	<u>2020</u>
Assets		
Current Assets	\$ 997,931	\$ 869,359
Non Current Assets		
Capital Assets	3,266,455	3,266,455
Less Accumulated Depreciation	<u>(1,789,449)</u>	<u>(1,702,868)</u>
Total Non Current Assets	<u>1,477,006</u>	<u>1,563,587</u>
Total Assets	<u>\$ 2,474,937</u>	<u>\$ 2,432,946</u>

CONCORD ACADEMY-BOYNE
BOYNE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2021

	<u>2021</u>	<u>2020</u>
Liabilities		
Current Liabilities	\$ 236,475	\$ 241,249
Non Current Liabilities	<u>2,035,000</u>	<u>2,110,000</u>
Total Liabilities	<u>2,271,475</u>	<u>2,351,249</u>
Net Position		
Net Investment in Capital Assets	(632,994)	(616,413)
Restricted for Specific Purposes	299,207	289,881
Unrestricted	<u>537,249</u>	<u>408,229</u>
Total Net Position	<u>203,462</u>	<u>81,697</u>
Total Liabilities and Net Position	<u>\$ 2,474,937</u>	<u>\$ 2,432,946</u>

D. Analysis of Financial Position

During the fiscal year ended June 30, 2021, the Academy's net position increased by \$121,765. 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, 2021, \$86,581 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the year ended June 30, 2021, none 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 \$86,581 for the year ended June 30, 2021.

CONCORD ACADEMY-BOYNE
BOYNE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2021

E. Results of Operations

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

	2021	2020
General Revenues		
Investment Earnings	\$ 61	\$ 3,619
State Sources	1,330,624	1,216,000
Other	1,447	17,368
Total General Revenues	1,332,132	1,236,987
Program Revenues		
Operating Grants	249,958	150,978
Capital Grants	0	18,117
Total Program Revenues	249,958	169,095
Total Revenues	1,582,090	1,406,082
Expenses		
Instruction	784,646	731,098
Supporting Services	465,898	461,283
Interest on Long Term Debt	123,200	151,601
Unallocated Depreciation	86,581	87,683
Total Expenses	1,460,325	1,431,665
Change in Net Position	\$ 121,765	\$ (25,583)

F. Financial Analysis of the Academy's Funds

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

	2021	2020	Increase (Decrease)
Major Fund			
General Fund	\$ 814,700	\$ 679,983	\$ 134,717
Non-Major Fund			
Student Activities Fund	41,411	38,417	2,994

CONCORD ACADEMY-BOYNE
BOYNE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2021

General Fund – In 2020-2021, the General Fund's fund balance increased by \$134,717. There was a large increase in state and federal revenues this year which caused this increase in fund balance.

Student Activities Fund – In 2020-2021, the Student Activities Fund's fund balance increased by \$2,994. There were less expenditures this year due to the cancellation of many activities and school closures from COVID-19.

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 2020-2021 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>\$ 1,269,955</u>	<u>\$ 1,495,624</u>	<u>\$ 1,556,903</u>
<u>EXPENDITURES</u>			
Instruction	\$ 708,000	\$ 786,500	\$ 784,646
Supporting Services	368,600	409,800	443,705
Debt Service	<u>192,800</u>	<u>192,800</u>	<u>193,835</u>
Total Expenditures	<u>\$ 1,269,400</u>	<u>\$ 1,389,100</u>	<u>\$ 1,422,186</u>

The changes from original budgeted revenues and final budget revenues were a result of changes in state and federal revenues. 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 amounts and actual amounts of revenue resulted in the Academy receiving more state sources than budgeted for. The variances between the final budgeted amount and actual amounts of expenditures resulted in the Academy spending more on supporting services than budgeted for.

H. Capital Asset and Obligation Administration

1. Capital Assets

At the end of the 2020-2021 fiscal year, the Academy had invested \$1,477,006, 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 \$86,581 from the prior fiscal year. Depreciation

CONCORD ACADEMY-BOYNE
BOYNE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2021

expense for the year amounted to \$86,581 bringing the accumulation to \$1,789,449 as of June 30, 2021. More information can be found related to capital assets later in this report.

2. *Long-Term Obligations*

The Academy's long-term obligations decreased during the fiscal year by \$70,000, bringing the total obligations to \$2,110,000. More information on the long-term obligations of the Academy can be found later in this report.

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:

- 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 and programs offered 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, 2021

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 392,918
Restricted Cash and Cash Equivalents	318,862
Due from Other Governments	273,621
Prepaid Expenses	12,530
	<hr/>
Total Current Assets	997,931

NON CURRENT ASSETS

Capital Assets	3,266,455
Less Accumulated Depreciation	(1,789,449)
	<hr/>
Total Non Current Assets	1,477,006

TOTAL ASSETS

2,474,937

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	1,443
Accrued Expenses	76,633
Unearned Revenue	63,744
Accrued Interest Payable	19,655
Current Portion of Non Current Liabilities	75,000
	<hr/>
Total Current Liabilities	236,475

NON CURRENT LIABILITIES

Bonds Payable	2,110,000
Less Current Portion of Non Current Liabilities	(75,000)
	<hr/>
Total Non Current Liabilities	2,035,000

TOTAL LIABILITIES

2,271,475

NET POSITION

Net Investment in Capital Assets	(632,994)
Restricted for Debt Service	273,638
Restricted for Facility Maintenance	25,569
Unrestricted	537,249
	<hr/>
TOTAL NET POSITION	\$ <u>203,462</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, 2021

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL ACTIVITIES NET (EXPENSES) REVENUES AND CHANGE IN NET POSITION
		OPERATING GRANTS	CAPITAL GRANTS	
<u>GOVERNMENTAL ACTIVITIES</u>				
Instruction	\$ 784,646	\$ 164,729	\$ 0	\$ (619,917)
Supporting Services	465,898	85,229	0	(380,669)
Interest on Long Term Debt	123,200	0	0	(123,200)
Unallocated Depreciation	86,581	0	0	(86,581)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 1,460,325	\$ 249,958	\$ 0	(1,210,367)
 <u>GENERAL REVENUES</u>				
Investment Earnings				61
State Sources				1,330,624
Other				1,447
Total General Revenues				1,332,132
Change in Net Position				121,765
<u>NET POSITION</u> - Beginning of Year				81,697
<u>NET POSITION</u> - End of Year				\$ 203,462

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, 2021

	<u>GENERAL</u>	<u>NON-MAJOR</u> <u>STUDENT</u>	<u>TOTAL</u>
	<u>FUND</u>	<u>ACTIVITIES FUND</u>	
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 351,507	\$ 41,411	\$ 392,918
Restricted Cash and Cash Equivalents	318,862	0	318,862
Due from Other Governments	273,621	0	273,621
Prepaid Expenditures	12,530	0	12,530
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$ 956,520	\$ 41,411	\$ 997,931
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 1,443	\$ 0	\$ 1,443
Accrued Expenditures	76,633	0	76,633
Unearned Revenue	63,744	0	63,744
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	141,820	0	141,820
	<hr/>	<hr/>	<hr/>
<u>FUND BALANCES</u>			
Nonspendable for Prepaid Expenditures	12,530	0	12,530
Restricted for:			
Debt Service	293,293	0	293,293
Facility Maintenance	25,569	0	25,569
Assigned for Student Activities	0	41,411	41,411
Unassigned	483,308	0	483,308
	<hr/>	<hr/>	<hr/>
Total Fund Balances	814,700	41,411	856,111
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCES	\$ 956,520	\$ 41,411	\$ 997,931
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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, 2021

Total Governmental Fund Balances	\$ 856,111
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	\$ 3,266,455
Accumulated depreciation is	<u>(1,789,449)</u> 1,477,006
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	
Bonds Payable	(2,110,000)
Accrued interest is not included as a liability in government funds, it is recorded when paid.	<u>(19,655)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 203,462</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, 2021

	<u>GENERAL</u> <u>FUND</u>	<u>NON-MAJOR</u> <u>STUDENT</u> <u>ACTIVITIES FUND</u>	<u>TOTAL</u>
<u>REVENUES</u>			
Local Sources	\$ 10,048	\$ 25,187	\$ 35,235
State Sources	1,414,819	0	1,414,819
Federal Sources	111,923	0	111,923
Other Transactions	20,113	0	20,113
Total Revenues	1,556,903	25,187	1,582,090
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	630,605	0	630,605
Added Needs	154,041	0	154,041
Supporting Services			
General Administration	252,173	0	252,173
Business Services	101,929	0	101,929
Operation and Maintenance	89,603	0	89,603
Support Services - Other	0	22,193	22,193
Debt Service	193,835	0	193,835
Total Expenditures	1,422,186	22,193	1,444,379
Net Change in Fund Balance	134,717	2,994	137,711
<u>FUND BALANCE</u> - Beginning of Year	679,983	38,417	718,400
<u>FUND BALANCE</u> - End of Year	\$ 814,700	\$ 41,411	\$ 856,111

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, 2021

Net Change in Fund Balances Total Governmental Funds	\$ 137,711
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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	(86,581)
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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	20,290
Accrued Interest Payable - End of Year	(19,655)

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	<u>70,000</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 121,765</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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

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 operates under an agreement that covers the period through June 30, 2022 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, 2021 to the Lake Superior State Board of Control were approximately \$42,380. The agreement between the Academy and Lake Superior State University was signed effective July 1, 2017 and will run through June 30, 2022.

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.

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, 2021

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are 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.

Other non-major funds of the Academy include:

The *Student Activities Fund* accounts for revenue sources that are received and ultimately expended on student activities. This fund is considered a special revenue fund.

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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 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 obligations 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

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NOTES TO FINANCIAL STATEMENTS
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year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

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.

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 in June 2020, or as amended by the School Board of Education throughout the year.

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JUNE 30, 2021

2. Excess of Expenditures over Appropriations

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Instruction		
Basic Programs	\$ 626,500	\$ 630,605
Supporting Services		
General Administration	226,700	252,173
Business Services	95,000	101,929
Operation and Maintenance	88,100	89,603
Debt Service	192,800	193,835

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 Cash Equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments. The government considers all highly liquid investments (including certificates of deposit) to be cash equivalents.

2. Investments

Investments – Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration and the rate of return is fixed, and the Academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings, and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Academy or federal agency obligation repurchase agreements, banker's acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Investments in the U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest may be purchased in any dollar amount or up to 100 percent of the available reserves.

All investments must mature or be redeemable within two years of the date of purchase. The Academy's deposits and investments are held separately by several of the Academy's funds.

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NOTES TO FINANCIAL STATEMENTS
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3. *Inventory and Prepaid Items*

Inventory is valued at cost using the first in/first out (FIFO) method. 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, when applicable.

4. *Capital Assets*

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at the acquisition 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.

5. *Unearned Revenue*

Unearned revenue arises when resources are received by the Academy before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. The Academy recognizes unearned revenue related to funds received by the Academy from the State of Michigan related to At-Risk and other categorical programs.

6. *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 does not have any items that qualify for reporting under this criteria.

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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.

7. *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.

8. *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.

9. *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).

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

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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.

10. 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.

11. Restricted Assets

Certain cash resources are classified as restricted assets on the balance sheet because their use is limited by applicable debt covenants and they are maintained in separate bank accounts.

12. Long-Term Obligations

In the government-wide financial statements, long-term and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts 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 obligations issued is reported as other financing sources. Premiums received on obligations issuance are reported as other financing sources while discounts on obligations issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual obligations proceeds received, are reported as debt service expenditures.

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, 2021 the foundation allowance was based on a one time “super blend” to determine pupil membership based on counts taken in October 2020, February 2020, October 2019, and February 2019. For fiscal year ended June 30, 2021, the per pupil allowance was \$8,111 for Concord Academy-Boyne.

The State revenue is recognized during the foundation period and is funded through payments from October 2020 to August 2021. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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NOTES TO FINANCIAL STATEMENTS
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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.

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*.

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, 2021.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2021, the Academy's bank balance was \$767,652. \$230,626 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. 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. The risk resides in the Academy's General Fund and Student Activities Fund.

Interest rate risk. In accordance with its investment policy, 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 investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSOs).

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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.

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. 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.

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 reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices from similar activities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy. Securities that are categorized as Level 2 in the hierarchy include, but are not limited to, repurchase agreements, U.S. government agency securities, corporate securities, and commercial paper.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

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. There are two types of valuation techniques most commonly used and vary depending on the level of investment. These two techniques are the market approach and income approach. The market approach uses prices and other relevant information generated by the market transactions involving identical or similar assets and liabilities. The income approach discounts future amounts to a single current amount and the discount rate used in the process should reflect current market expectations about risks associated with those future cash flows.

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NOTES TO FINANCIAL STATEMENTS
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The Academy does not have any investments subject to the fair value measurement.

The carrying amount of deposits and investments is as follows:

Deposits	<u>Total</u>
	<u>\$ 711,780</u>

The above amounts are reported in the financial statements as follows:

Cash and Cash Equivalents - Academy-Wide	<u>Total</u>
	<u>\$ 392,918</u>
Cash and Cash Equivalents - Restricted - Academy-Wide	<u>318,862</u>
	<u>\$ 711,780</u>

B. Receivables

The Academy's receivables, shown as due from other governments, as of June 30, 2021, were \$273,621, which represents the amount due from the State of Michigan for state aid and federal grants.

C. Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, damage to and destruction of assets; errors and omissions; injuries to individuals working on the premises and natural disasters. The Academy continues to carry commercial insurance to for the various risks of loss, including general liability, property and casualty, and accident insurance. The Academy has experienced no settled claims resulting from these risks that have exceeded it commercial coverage in any of the past three fiscal years.

D. Capital Assets

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

	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021
Capital assets being depreciated				
Buildings	\$ 2,608,749	\$ 0	\$ 0	\$ 2,608,749
Building Improvements	490,177	0	0	490,177
Machinery and Equipment	167,529	0	0	167,529
Subtotal	<u>3,266,455</u>	<u>0</u>	<u>0</u>	<u>3,266,455</u>
Less accumulated depreciation for:				
Buildings	1,318,943	64,882	0	1,383,825
Building Improvements	232,557	17,750	0	250,307
Machinery and Equipment	151,368	3,949	0	155,317
Accumulated depreciation	<u>1,702,868</u>	<u>86,581</u>	<u>0</u>	<u>1,789,449</u>
Net Capital assets being depreciated	<u>\$ 1,563,587</u>	<u>\$ (86,581)</u>	<u>\$ 0</u>	<u>\$ 1,477,006</u>

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Depreciation for the fiscal year ended June 30, 2021, amounted to \$86,581. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

E. Leases

The rental expense for the year ended June 30, 2021, totaled \$4,165. The rental expense consists of lease agreements on copiers. The future minimum lease payments for these leases are as follows:

<u>YEAR ENDING</u>	
2022	\$ 4,165
2023	4,165
2024	4,165
2025	1,388
	<u>\$ 13,883</u>

F. Long-Term Obligations

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 obligation transactions for the Academy for the year ended June 30, 2021:

	<u>GENERAL OBLIGATION BONDS</u>		
	<u>SERIES 2007</u>	<u>SERIES 2007</u>	<u>TOTAL</u>
	<u>BONDS PAYABLE</u>	<u>BONDS PAYABLE</u>	
Balance, July 1, 2020	\$ 160,000	\$ 2,020,000	\$ 2,180,000
Additions	0	0	0
Deletions	(5,000)	(65,000)	(70,000)
Balance, June 30, 2021	155,000	1,955,000	2,110,000
Less current portion	(5,000)	(70,000)	(75,000)
Total due after one year	<u>\$ 150,000</u>	<u>\$ 1,885,000</u>	<u>\$ 2,035,000</u>

Long-term obligations at June 30, 2021, was comprised of the following:

General Obligations Bonds

Bonds Payable (Series 2007), payable in annual installments of \$65,000 to \$345,000 through November 2022, with semi-annual interest at 5.45% to 5.60%	\$ 1,955,000
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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%	<u>155,000</u>
	<u>\$ 2,110,000</u>

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JUNE 30, 2021

The annual requirements to amortize the General Obligation Bonds outstanding as of June 30, 2021, including interest payments of \$1,213,168 are as follows:

YEAR ENDING JUNE 30,	Principal	Interest	Amounts Payable
2022	\$ 75,000	\$ 117,928	\$ 192,928
2023	80,000	113,840	193,840
2024	85,000	109,480	194,480
2025	90,000	104,720	194,720
2026	95,000	99,680	194,680
2027-2031	565,000	412,160	977,160
2032-2036	745,000	234,360	979,360
2037	375,000	21,000	396,000
TOTAL	<u>\$ 2,110,000</u>	<u>\$ 1,213,168</u>	<u>\$ 3,323,168</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, 2021, the Academy incurred approximately \$42,380 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, 2021 was \$952,718, which included \$22,448 in administration fees.

I. 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.

CONCORD ACADEMY-BOYNE
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

J. Upcoming Accounting Pronouncements

The Academy is currently evaluating the impact these standards will have on the financial statements when adopted.

Governmental Account Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the Academy's 2021 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

In May 2020, the GASB issued Statement No. 96, Subscription-based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2022-2023 fiscal year.

K. Subsequent Events

Subsequent to June 30, 2021, the Academy purchased new doors in the amount of \$54,000. No adjustments have been made to the financial statements related to this event.

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REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2021

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL AMOUNTS</u>
<u>REVENUES</u>			
Local Sources	\$ 0	\$ 0	\$ 10,048
State Sources	1,208,455	1,342,427	1,414,819
Federal Sources	48,500	132,997	111,923
Other Transactions	13,000	20,200	20,113
	<hr/>		
Total Revenues	1,269,955	1,495,624	1,556,903
<hr/>			
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	613,000	626,500	630,605
Added Needs	95,000	160,000	154,041
Supporting Services			
General Administration	209,000	226,700	252,173
Business Services	86,000	95,000	101,929
Operation and Maintenance	73,600	88,100	89,603
Debt Service	192,800	192,800	193,835
	<hr/>		
Total Expenditures	1,269,400	1,389,100	1,422,186
	<hr/>		
Net Change in Fund Balance	555	106,524	134,717
	<hr/>		
<u>FUND BALANCE</u> - Beginning of Year	635,426	635,426	679,983
	<hr/>		
<u>FUND BALANCE</u> - End of Year	\$ 635,981	\$ 741,950	\$ 814,700
	<hr/>		

CERTIFIED PUBLIC ACCOUNTANTS
134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749
www.bcbcpa.com

August 23, 2021

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, 2021, 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 23, 2021.

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 first paragraph of this section 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.

2021-001 – 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.

2021-002 - 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described below.

2021-003 – *Unfavorable Budget Variance – Material Noncompliance*

Criteria: Michigan Public Act 621 of 1978, as amended, provides that the Academy adopt formal budgets for all applicable funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

Condition: The Academy adopted budget items that were exceeded by actual expenditures by a material amount.

Cause: The condition was caused by the Academy officials not monitoring the adopted budget against actual expenditures.

Effect: The Academy was not in compliance with the budgeting act.

Recommendation: The Academy should continue to monitor expenditures against adopted budgets to make appropriate amendments as needed.

View of Responsible Officials: The Academy will monitor expenditures against adopted budgets to make appropriate amendments as needed.

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.

Baird, Cotter & Bishop, P.C.



Concord Academy Boyne

CORRECTIVE ACTION PLAN **JUNE 30, 2021**

Finding 2021-001: *Segregation of Incompatible Duties and Documented Independent Review-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 2021-002: *Preparation of Financial Statements in Accordance with GAAP-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.



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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.

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.

2021-003 – *Unfavorable Budget Variance – Material Noncompliance*

Criteria: Michigan Public Act 621 of 1978, as amended, provides that the Academy adopt formal budgets for all applicable funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

Condition: The Academy adopted budget items that were exceeded by actual expenditures by a material amount.

Cause: The condition was caused by the Academy officials not monitoring the adopted budget against actual expenditures.

Effect: The Academy was not in compliance with the budgeting act.

Recommendation: The Academy should continue to monitor expenditures against adopted budgets to make appropriate amendments as needed.

View of Responsible Officials: The Academy will monitor expenditures against adopted budgets to make appropriate amendments as needed.

Name of Responsible Person for Further Information: Holly Theile, Business Manager and the Board of Education

