

MID-MICHIGAN LEADERSHIP ACADEMY

**REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)**

YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mid-Michigan Leadership Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mid-Michigan Leadership Academy, 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, each major fund, and the aggregate remaining fund information of Mid-Michigan Leadership Academy as of June 30, 2016, and the respective changes in financial position thereof 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, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2016 on our consideration of Mid-Michigan Leadership Academy'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 Mid-Michigan Leadership Academy's internal control over financial reporting and compliance.

Maney Costeiron PC

September 9, 2016

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Mid-Michigan Leadership Academy’s (Academy) annual financial report presents our discussion and analysis of the public school Academy’s financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the Academy’s financial statements, which immediately follow this section.

Financial Highlights

- The Academy continued their management contract with Cincinnati Education Management, LLC in 2015-16.
- The Academy’s general fund balance at the beginning of the year was \$630,673 and increased by \$5,802 to \$636,475 at the end of the 2015-2016 year.
- The Academy retired \$87,609 in long-term debt during the year.
- The Academy and the Academy’s Charter School Authorizer, Central Michigan University, have a signed Charter Agreement through June 2019 - contingent on academic performance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy’s operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy’s budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-2 summarized the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Academy-wide and Fund Financial Statements

	Academy-wide statements	Governmental funds
Scope	Entire Academy (except fiduciary funds)	All activities of the Academy that are not fiduciary
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Academy-wide statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Academy’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy’s net position and how they have changed. Net position - the difference between the Academy’s assets and liabilities, are one way to measure the Academy’s financial health or position.

- Over time, increases or decreases in the Academy’s net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy’s enrollment, the condition of school buildings and other facilities, and the Academy’s ability to be competitive with other public school academies and area school districts.

Governmental activities - The Academy’s basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

Fund financial statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs. The Academy has a general fund and special revenue fund.

- Some funds are required by State law and by debt agreements.
- The Academy establishes other funds to control and manage money for particular purposes (like its food service program).

All of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Financial analysis of the Academy as a whole

Net position - the Academy's combined net position of \$1,475,655 increased by \$102,918 during the year. See Figures A-3 and A-4.

The total revenues increased by 11.3% to \$3,172,452 primarily due to the 21% enrollment increase during the year and increases to state aid revenue.

The total cost of instruction increased by 14.0%, or \$141,499 to \$1,152,615 due to the increase in enrollment at the academy during the year. Total support service increased by 8.7%, or \$127,546 to \$1,597,029. Support service increases are also attributable to the enrollment increase.

Figure A-3
Mid-Michigan Leadership Academy's Net Position

	2016	2015
Current and other assets	\$ 962,731	\$ 899,924
Capital assets	882,431	860,949
Total assets	<u>1,845,162</u>	<u>1,760,873</u>
Other liabilities	323,645	254,665
Long-term liabilities	45,862	133,471
Total liabilities	<u>369,507</u>	<u>388,136</u>
Net position:		
Net investment in capital assets	836,569	727,478
Restricted for (special revenue) food service	2,611	6,056
Unrestricted	636,475	639,203
Total net position	<u>\$ 1,475,655</u>	<u>\$ 1,372,737</u>

Figure A-4
Changes in Mid-Michigan Leadership Academy's Net Position

	2016	2015
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 713,804	\$ 761,807
Charges for services	69	-
General revenues:		
State aid - unrestricted	2,243,144	1,875,542
Incoming transfer from Ingham ISD	182,755	183,695
Other	32,680	29,262
Total revenues	<u>3,172,452</u>	<u>2,850,306</u>
Expenses:		
Instruction	1,152,615	1,011,116
Support services	1,597,029	1,469,483
Community service	1,246	4,658
Food service	245,866	183,543
Interest on long-term debt	5,769	10,956
Unallocated depreciation	67,009	64,394
Total expenses	<u>3,069,534</u>	<u>2,744,150</u>
Change in net position	<u>\$ 102,918</u>	<u>\$ 106,156</u>

Financial analysis of the Academy's funds

The Academy's fund balance in the general fund increased by \$5,802 to \$636,475. The fund balance as a percentage of 2016 total general fund expenditures is approximately 21.8%.

General fund budgetary highlights

Over the course of the year, the Academy revised the general fund annual operating budget when necessary. Changes were made in both revenue and expenditures which reflected anticipated changes in state aid grants and actual salary costs for staff.

The Academy's final budget for the general fund anticipated expenditures would exceed revenues and other financing sources by \$33,392, the actual results for the year showed revenues and other financing sources over expenditures of \$5,802.

Actual revenues were \$146,836 less than budgeted, primarily due to unspent federal grants.

Actual expenditures were \$184,522 less than budgeted, primarily due to unspent federal and state grants.

Capital asset and debt administration

Capital assets

By the end of the year ended June 30, 2016, the Academy had invested \$882,431 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents an increase of \$21,482 from the beginning of the year. Total depreciation expense for the year was \$67,009. More detailed information about capital assets can be found in Note 3 to the financial statements.

The Academy's capital assets are as follows:

	2016			2015
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 211,000	\$ -	\$ 211,000	\$ 211,000
Building and improvements	776,212	287,443	488,769	441,679
Technology and equipment	189,321	132,659	56,662	69,783
Furniture and fixtures	275,428	149,428	126,000	138,487
Total	<u>\$ 1,451,961</u>	<u>\$ 569,530</u>	<u>\$ 882,431</u>	<u>\$ 860,949</u>

Long-term debt

The Academy repaid principal on long-term debt of \$87,609 during 2016. See Note 6 for more information.

Factors bearing on the Academy's future

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

- The Academy has adopted a general fund budget for the 2016-2017 year in which expenditures exceed revenues by approximately \$3,410.
- Enrollment for 2016-17 has exceeded the anticipated level by the start of the school year.
- The Academy's final debt payment is scheduled to be paid in December 2016.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents 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 information, contact the Academy at 730 W. Maple, Lansing, Michigan, 48906, phone (517) 485-5379.

BASIC FINANCIAL STATEMENTS

**MID-MICHIGAN LEADERSHIP ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2016**

	<u>Governmental activities</u>
ASSETS:	
Cash and cash equivalents	\$ 372,574
Intergovernmental receivable	584,638
Inventory	5,519
Capital assets not being depreciated	211,000
Capital assets, net of accumulated depreciation	<u>671,431</u>
TOTAL ASSETS	<u>1,845,162</u>
LIABILITIES:	
Accounts payable	130,592
Accrued personnel costs and related items	151,049
Unearned revenues	29,295
State aid notes payable	12,709
Noncurrent liabilities:	
Due within one year	<u>45,862</u>
TOTAL LIABILITIES	<u>369,507</u>
NET POSITION:	
Net investment in capital assets	836,569
Restricted for special revenue (food service)	2,611
Unrestricted	<u>636,475</u>
TOTAL NET POSITION	<u><u>\$ 1,475,655</u></u>

**MID-MICHIGAN LEADERSHIP ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for	Operating	Net (expense)
		services	grants	revenue and
				changes in
				net position
Governmental activities:				
Instruction	\$ 1,152,615	\$ -	\$ 258,821	\$ (893,794)
Support services	1,597,029	-	212,053	(1,384,976)
Community service	1,246	-	-	(1,246)
Food service	245,866	69	242,930	(2,867)
Interest and fees	5,769	-	-	(5,769)
Depreciation (unallocated)	67,009	-	-	(67,009)
Total governmental activities	<u>\$ 3,069,534</u>	<u>\$ 69</u>	<u>\$ 713,804</u>	<u>(2,355,661)</u>
General revenues:				
State sources - unrestricted				2,243,144
Incoming transfer from Ingham ISD				182,755
Other				<u>32,680</u>
Total general revenues				<u>2,458,579</u>
CHANGE IN NET POSITION				102,918
NET POSITION, beginning of year				<u>1,372,737</u>
NET POSITION, end of year				<u>\$ 1,475,655</u>

**MID-MICHIGAN LEADERSHIP ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General fund	Non-major (special revenue) fund	Total governmental funds
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 372,574	\$ -	\$ 372,574
Receivables:			
Intergovernmental	582,027	2,611	584,638
Inventory	5,519	-	5,519
TOTAL ASSETS	\$ 960,120	\$ 2,611	\$ 962,731
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 130,592	\$ -	\$ 130,592
Accrued personnel costs and related items	151,049	-	151,049
Unearned revenue	29,295	-	29,295
State aid note payables	12,709	-	12,709
TOTAL LIABILITIES	323,645	-	323,645
FUND BALANCES:			
Nonspendable:			
Inventories	5,519	-	5,519
Restricted for food service	-	2,611	2,611
Committed for combined sewer overflow project	44,148	-	44,148
Assigned for subsequent year expenditures	3,410	-	3,410
Unassigned	583,398	-	583,398
TOTAL FUND BALANCES	636,475	2,611	639,086
TOTAL LIABILITIES AND FUND BALANCES	\$ 960,120	\$ 2,611	\$ 962,731
Total governmental fund balances			\$ 639,086
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		\$ 1,451,961	
Accumulated depreciation is		(569,530)	882,431
Long-term liabilities are not due and payable in the current period and are not reported in the funds:			
Bonds payable			(45,862)
Net position of governmental activities			\$ 1,475,655

See notes to financial statements.

MID-MICHIGAN LEADERSHIP ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	<u>General fund</u>	<u>Non-major (special revenue) fund</u>	<u>Total governmental funds</u>
REVENUES:			
Local sources:			
Food sales	\$ -	\$ 69	\$ 69
Other local revenue	32,680	-	32,680
Total local sources	32,680	69	32,749
State sources	2,478,365	5,378	2,483,743
Federal sources	235,653	237,552	473,205
Incoming transfers	182,755	-	182,755
Total revenues	2,929,453	242,999	3,172,452
EXPENDITURES:			
Current:			
Instruction:			
Basic programs	806,597	-	806,597
Added needs	346,018	-	346,018
Total instruction	1,152,615	-	1,152,615
Support services:			
Pupil	224,496	-	224,496
Instructional staff	140,349	-	140,349
General administration	458,016	-	458,016
School administration	117,772	-	117,772
Business services	119,294	-	119,294
Operation and maintenance	253,944	-	253,944
Pupil transportation	118,547	-	118,547
Central support services	167,698	-	167,698
Other	729	-	729
Total support services	1,600,845	-	1,600,845
Community service	1,246	-	1,246
Food service	-	243,667	243,667
Capital outlay	84,675	2,199	86,874

See notes to financial statements.

**MID-MICHIGAN LEADERSHIP ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

	<u>General fund</u>	<u>Non-major (special revenue) fund</u>	<u>Total governmental funds</u>
EXPENDITURES (Concluded):			
Debt service:			
Principal repayment	\$ 87,609	\$ -	\$ 87,609
Interest	5,769	-	5,769
Total debt service	<u>93,378</u>	<u>-</u>	<u>93,378</u>
Total expenditures	<u>2,932,759</u>	<u>245,866</u>	<u>3,178,625</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(3,306)</u>	<u>(2,867)</u>	<u>(6,173)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	9,108	-	9,108
Transfers out	-	(9,108)	(9,108)
Total other financing sources (uses)	<u>9,108</u>	<u>(9,108)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	5,802	(11,975)	(6,173)
FUND BALANCES:			
Beginning of year	<u>630,673</u>	<u>14,586</u>	<u>645,259</u>
End of year	<u>\$ 636,475</u>	<u>\$ 2,611</u>	<u>\$ 639,086</u>

**MID-MICHIGAN LEADERSHIP ACADEMY
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	\$ (6,173)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(67,009)
Capital outlay	88,491
Proceeds and repayments of principal on long-term debts are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities):	
Principal repayment	87,609
Change in net position of governmental activities	\$ 102,918

**MID-MICHIGAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Academy. The Academy currently does not have fiduciary activities. *Governmental activities* normally are supported by intergovernmental revenues.

B. Reporting Entity

The Mid-Michigan Leadership Academy (the “Academy”) is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Central Michigan University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 2019. Board members are approved by the authorizing governing body and have decision making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The Academy receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. In addition, the Academy’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements.

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.

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

D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the Academy’s funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds. 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.

**MID-MICHIGAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Concluded)

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, except those required to be accounted for in another fund.

The Academy reports the following non-major governmental fund:

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service activity in the special revenue fund.

During the course of operations the Academy has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

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 process of preparing 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 expenses. 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.

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 the 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.

**MID-MICHIGAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

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 Academy considers revenues to be available if they are generally 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. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amounts are received during the period or within the availability period for this revenue source (within 60 days of year-end).

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. The Foundation is funded from state and local sources. 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 public school academies based on information supplied by the academies. For the current year ended, the foundation allowance was based on pupil membership counts.

The state portion of the Foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

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 and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the Academy.

**MID-MICHIGAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund.

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

1. The Superintendent submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). 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 financing 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. Violations, if any, in the general fund are noted in the required supplementary information section.
3. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
4. The budget was amended during the year with supplemental appropriations, the last one approved prior to year end June 30, 2016. The Academy does not consider these amendments to be significant.

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

1. Cash and cash equivalents

The Academy's cash and cash equivalents are considered to be cash on hand and demand deposit accounts.

**MID-MICHIGAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. 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, 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 a 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. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

3. Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments 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.

4. Capital assets

Capital assets, as summarized below, are reported in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than \$1,000 and a useful life in excess of one year. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated fair value at the date of donation.

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.

**MID-MICHIGAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

4. Capital assets (Concluded)

Land and construction in progress, if any, are not depreciated. Capital assets of the Academy are depreciated using the straight line method over the following estimated useful lives:

<u>Capital asset classes</u>	<u>Lives</u>
Buildings and improvements	20
Technology and equipment	5 - 20
Furniture and fixtures	5 - 20

5. Deferred outflows/inflows of resources

In addition to assets, the statement of net 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 has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Academy has no items that qualify for reporting in this category.

6. 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.

**MID-MICHIGAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

7. Fund balance flow assumptions

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.

8. 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 board of directors is the highest level of decision-making authority for the Academy that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) 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. Intent can be expressed by the board of directors or by an official or body to which the board of directors delegates authority. The board of directors 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.

**MID-MICHIGAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses

1. Program revenues

Amounts reported as *program revenues* 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 requirements of a particular function or segment. Unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the 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. Bond issuance costs are reported as expenditures in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs 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 issuances 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 - CASH DEPOSITS - CREDIT RISK

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2016, \$197,042 of the Academy's bank balance of \$447,042 was exposed to custodial credit risk because it was not fully covered by federal depository insurance. These deposits have a carrying value of \$372,574.

**MID-MICHIGAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - CASH DEPOSITS - CREDIT RISK (Concluded)

Fair value measurement. The District 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 Academy'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.

**MID-MICHIGAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - 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 not being depreciated - land	\$ 211,000	\$ -	\$ -	\$ 211,000
Capital assets, being depreciated:				
Buildings and improvements	693,255	82,957	-	776,212
Technology and equipment	184,847	4,474	-	189,321
Furniture and fixtures	274,368	1,060	-	275,428
Depreciable capital assets	<u>1,152,470</u>	<u>88,491</u>	<u>-</u>	<u>1,240,961</u>
Accumulated depreciation:				
Buildings and improvements	251,576	35,867	-	287,443
Technology and equipment	115,064	17,595	-	132,659
Furniture and fixtures	135,881	13,547	-	149,428
Total accumulated depreciation	<u>502,521</u>	<u>67,009</u>	<u>-</u>	<u>569,530</u>
Net assets being depreciated	<u>649,949</u>	<u>21,482</u>	<u>-</u>	<u>671,431</u>
Net capital assets	<u>\$ 860,949</u>	<u>\$ 21,482</u>	<u>\$ -</u>	<u>\$ 882,431</u>

Depreciation for the fiscal year ended June 30, 2016 amounted to \$67,009. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Receivables due from intergovernmental receivable at June 30, 2016 consist of the following:

State aid	\$ 443,645
Federal and state grants	124,656
Payments from ISD	16,337
	<u>\$ 584,638</u>

Receivables due from intergovernmental receivable include amounts due from federal, state and local sources for various projects and programs.

**MID-MICHIGAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - NOTES PAYABLE

As of June 30, 2016, the Academy has \$12,709 outstanding from a state aid anticipation note dated in August 2015. The note, which has an interest rate of 4.25%, matures August 2016. The note is secured by future state school aid payments.

Balance June 30, 2015	Additions	Payments	Balance June 30, 2016
\$ 24,965	\$ 71,000	\$ 83,256	\$ 12,709

NOTE 6 - LONG-TERM DEBT

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2016.

Long-term debt, July 1, 2015	\$ 133,471
Deductions:	
Principal payments on bonds payable	(87,609)
Balance, June 30, 2016	45,862
Due within one year	(45,862)
	\$ -

Long-term obligations at June 30, 2016 consist of the following:

Bonds payable with monthly installments of \$7,781 with interest at 6.05% through December 2016. The bonds are secured by a mortgage on the related property.	\$ 45,862
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The annual requirements to amortize long-term debts outstanding are as follows:

Year ending June 30,	Principal	Interest	Total
2017	\$ 45,862	\$ 827	\$ 46,689

**MID-MICHIGAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - TRANSFERS

Transfers between the governmental funds were as follows:

<u>Transfers out</u>		<u>Transfers in</u>	
Special revenue fund	<u>\$ 9,108</u>	General fund	<u>\$ 9,108</u>

The transfers to the general fund from the special revenue fund were to reimburse the general fund for costs incurred.

NOTE 8 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid to Central Michigan University, as set forth by contract, to reimburse the University Board 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 expense of approximately \$67,000 for oversight fees.

NOTE 9 - LEASED EMPLOYEES

The Academy leases all of its employees from a professional employment organization (PEO). Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of the PEO. Salaried employees are generally eligible to make retirement contributions after one year of service. The plan does not cover hourly employees or employees covered by another retirement plan. The Academy matches 20% of the first 6% of employee contribution resulting in contributions of approximately \$700 in 2016.

NOTE 11 - MANAGEMENT AGREEMENT

The Academy currently has a management agreement with Cincinnati Education Management LLC (CEM) for operations of the Academy through June 2019. Under the terms of the management agreement, CEM's compensation for operating the Academy was \$314,064 for the fiscal year 2016.

**MID-MICHIGAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 12 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. To minimize the risk, the Academy carries commercial insurance.

NOTE 13 - CONTINGENCY

In August 2015, Michigan's Superintendent of Public Instruction notified Mid-Michigan Leadership Academy that it was listed as a Priority School for the third consecutive year. Due to continued identification as a Priority School, the Academy was in material breach of its charter contract with Central Michigan University (CMU). In September 2014, the Academy entered into a contract amendment with CMU which required the Academy to demonstrate improvement by meeting certain expectations and performance targets through the 2016 – 2017 school year. Failure to meet expectations and performance targets according to the timelines established in the amendment could result in revocation or termination of the charter contract.

As of the report date, management feels it is making adequate progress to attain the academic improvement goals established in the charter contract, as amended, and does not believe its designation as a Priority School will have a significant impact on the charter contract which expires June 30, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

**MID-MICHIGAN LEADERSHIP ACADEMY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	\$ 15,895	\$ 32,128	\$ 32,680	\$ 552
State sources	2,173,794	2,494,983	2,478,365	(16,618)
Federal sources	331,797	373,959	235,653	(138,306)
Incoming transfers	184,847	175,219	182,755	7,536
Total revenues	<u>2,706,333</u>	<u>3,076,289</u>	<u>2,929,453</u>	<u>(146,836)</u>
EXPENDITURES:				
Instruction:				
Basic programs	730,187	885,768	806,597	79,171
Added needs	423,831	392,367	346,018	46,349
Total instruction	<u>1,154,018</u>	<u>1,278,135</u>	<u>1,152,615</u>	<u>125,520</u>
Support services:				
Pupil	211,611	236,714	224,496	12,218
Instructional staff	175,640	165,775	140,349	25,426
General administration	391,353	452,254	458,016	(5,762)
School administration	117,187	114,893	117,772	(2,879)
Business services	123,365	118,494	119,294	(800)
Operation and maintenance	307,158	259,712	253,944	5,768
Pupil transportation	73,366	137,966	118,547	19,419
Central support services	174,245	170,334	167,698	2,636
Other	-	1,545	729	816
Total support services	<u>1,573,925</u>	<u>1,657,687</u>	<u>1,600,845</u>	<u>56,842</u>
Community service activities	<u>3,600</u>	<u>4,509</u>	<u>1,246</u>	<u>3,263</u>
Capital outlay	<u>47,000</u>	<u>78,032</u>	<u>84,675</u>	<u>(6,643)</u>
Debt service:				
Principal	98,378	87,609	87,609	-
Interest	-	11,309	5,769	5,540
Total debt service	<u>98,378</u>	<u>98,918</u>	<u>93,378</u>	<u>5,540</u>
Total expenditures	<u>2,876,921</u>	<u>3,117,281</u>	<u>2,932,759</u>	<u>184,522</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(170,588)</u>	<u>(40,992)</u>	<u>(3,306)</u>	<u>37,686</u>
OTHER FINANCING SOURCES:				
Transfers in	<u>21,032</u>	<u>7,600</u>	<u>9,108</u>	<u>1,508</u>
NET CHANGE IN FUND BALANCE	<u>\$ (149,556)</u>	<u>\$ (33,392)</u>	<u>5,802</u>	<u>\$ 39,194</u>
FUND BALANCE:				
Beginning of year			<u>630,673</u>	
End of year			<u>\$ 636,475</u>	

**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 Directors
Mid-Michigan Leadership Academy

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mid-Michigan Leadership Academy as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Mid-Michigan Leadership Academy's basic financial statements and have issued our report thereon dated September 9, 2016.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mid-Michigan Leadership Academy'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*.

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.

Maney Costeiran PC

September 9, 2016