

Macomb Academy

**Financial Report
with Supplemental Information
June 30, 2014**

Macomb Academy

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Independent Auditor's Report

To the Board of Directors
Macomb 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 Macomb Academy as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise Macomb 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 Macomb Academy as of June 30, 2014 and the respective changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Macomb Academy

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the General Fund budgetary comparison schedule, as identified in the table of contents, be presented to supplemental the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 supplemental 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Macomb Academy's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014 on our consideration of Macomb Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Macomb Academy's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 31, 2014

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*

Independent Auditor's Report

To Management and the Board of Directors
Macomb Academy

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, each major fund, and the aggregate remaining fund information of Macomb Academy (the "Academy") as of and for the year ended June 30, 2014, and related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Macomb 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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 Macomb Academy's financial statements are free of 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*.

To Management and the Board of Directors
Macomb Academy

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.

Plante & Moran, PLLC

October 31, 2014

Macomb Academy

Management's Discussion and Analysis

This section of Macomb Academy's (the "Academy") annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2014. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Macomb Academy financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant funds - the General Fund and the Debt Service Fund, with all other funds presented in one column as nonmajor funds.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Academy-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

Macomb Academy

Management's Discussion and Analysis (Continued)

Reporting the Academy as a Whole - Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Academy's net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Academy. The statement of net position and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, and community services. State aid and state and federal grants finance most of these activities.

Reporting the Academy's Most Significant Funds - Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by State law and by bond covenants. However, the Academy establishes many other funds to show that it is meeting legal responsibilities for using certain grants and other money. The governmental funds of the Academy use the following accounting approach:

Governmental funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information 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. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.

Macomb Academy

Management's Discussion and Analysis (Continued)

The Academy as a Whole

Recall that the statement of net position provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net position as of June 30, 2014 and 2013:

	Governmental Activities	
	June 30	
	2014	2013
	(in thousands)	
Assets		
Current and other assets	\$ 1,112.2	\$ 963.7
Capital assets	<u>1,586.2</u>	<u>1,617.1</u>
Total assets	2,698.4	2,580.8
Liabilities		
Current liabilities	221.3	221.2
Long-term liabilities	<u>1,625.0</u>	<u>1,625.0</u>
Total liabilities	<u>1,846.3</u>	<u>1,846.2</u>
Net Position		
Net investment in capital assets	(38.8)	(38.0)
Restricted	195.0	195.6
Unrestricted	<u>695.9</u>	<u>577.0</u>
Total net position	<u>\$ 852.1</u>	<u>\$ 734.6</u>

The above analysis focuses on the net position (see Table I). The change in net position (see Table 2) of the Academy's governmental activities is discussed below. The Academy's total net position was \$852,087 at June 30, 2014. Net investment in capital assets, totaling (\$38,783), compares the original cost, less depreciation of the Academy's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from state aid payments received in the General Fund. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Academy's ability to use that net position for day-to-day operations. The remaining balance of net position, \$695,877, was unrestricted.

The \$695,877 in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

Macomb Academy

Management's Discussion and Analysis (Continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal years 2014 and 2013.

Table 2

	Governmental Activities	
	Year Ended June 30	
	2014	2013
	(in thousands)	
Revenue		
Program revenue - Grants	\$ 643.7	\$ 397.0
General revenue:		
State foundation allowance	1,100.5	1,245.9
Federal sources - Unrestricted	-	12.2
Interest and investment earnings	0.1	0.1
Other	44.2	49.7
Total revenue	1,788.5	1,704.9
Functions/Program Expenses		
Instruction	1,032.5	867.6
Support services	478.6	539.3
Community services	0.6	0.5
Interest on long-term debt	111.4	113.1
Depreciation (unallocated)	47.9	48.2
Total functions/program expenses	1,671.0	1,568.7
Increase in Net Position	117.5	136.2
Net Position - Beginning of year	734.6	598.4
Net Position - End of year	<u>\$ 852.1</u>	<u>\$ 734.6</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$1,670,994. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants (\$643,645). We paid for the remaining "public benefit" portion of our governmental activities with \$1,100,457 in State foundation allowance, \$44,249 in other revenues, and \$67 of interest and investment earnings.

The Academy experienced an increase in net position of \$117,424. The key reason for the change in net position was the decrease in the Academy's expenditures. The board of directors and administration must annually evaluate the needs of the Academy and balance those needs with state-prescribed available unrestricted resources.

Macomb Academy

Management's Discussion and Analysis (Continued)

The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of \$909,151, which is an increase of \$127,273 from last year. The primary reason for the increase is as follows:

In the General Fund, our principal operating fund, the fund balance increased \$107,219 to \$568,744. The change is mainly due to:

- In 2013, a litigation settlement was paid in the amount of \$239,648 as was provided for in the prior year assigned fund balance. This item was a one-time expenditure that did not recur in 2014. Expenditures for 2014 were budgeted to decrease to offset the prior year loss.

General Fund fund balance is available to fund costs related to allowable school operating purposes.

The debt service funds showed a fund balance of \$213,274, which is a decrease of \$949 from the previous year. The debt service funds fund balance is restricted as the trust indenture requires the resources be used to pay debt service obligations.

The capital projects funds fund balance increased as the Academy set aside funds for future capital items.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Macomb Academy

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2014, the Academy had \$1,882,201 invested in a broad range of capital assets, including buildings, vehicles, furniture, and equipment. This amount represents a net increase of \$17,000 from last year.

	2014	2013
Buildings and building improvements	\$ 1,782.5	\$ 1,782.5
Furniture and equipment	58.3	58.3
Vehicles	41.4	24.4
Total capital assets	<u>\$ 1,882.2</u>	<u>\$ 1,865.2</u>

In 2014, an additional vehicle was purchased. The purchase of a building took place in December 2007, which was financed with the sale of bonds. Significant building improvements have been made, including mechanical and electrical infrastructure upgrades and replacements. Additionally, HVAC, plumbing, and electrical upgrades and improvements were made. Building improvements also included selective demolition of existing interiors to provide new classrooms and additional new restrooms and upgrades to other instructional areas. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the Academy had \$1,625,000 in bonds outstanding versus \$1,655,000 in the previous year - a change of 1.8 percent. The outstanding debt was the result of the 2007 revenue bond issuance of \$1,800,000 used to finance the building purchase and renovation (see Note 7 for further explanation).

Economic Factors and Next Year's Budgets and Rates

Our board of directors and administration considered many factors when setting the Academy's 2014-2015 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2015 fiscal year is 90 percent and 10 percent of the October 2014 and February 2015 student counts, respectively. The fiscal year 2015 budget was adopted in June 2014, based on an estimate of students that will be enrolled in September 2014. Approximately 74 percent of total General Fund revenue is from the state funding. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2014-2015 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2014-2015 budget. Once the final student count and related per-pupil funding are validated, State law requires the Academy to amend the budget if actual district resources are not sufficient to fund original appropriations.

Macomb Academy

Management's Discussion and Analysis (Continued)

The Academy is impacted by the passage of the 2014-2015 School Aid Act which can affect the foundation allowance received. For 2014-2015, the amount is equal to the 2014 foundation allowance plus an increase of \$100 per pupil and a per pupil equity payment under Section 22c of \$125 per pupil, making the total per pupil funding of \$7,251 for fiscal year 2015.

Macomb Academy

Statement of Net Position June 30, 2014

Assets

Cash and investments (Note 3)	\$ 620,166
Receivables:	
Accounts receivable	5,922
Due from other governmental units	301,032
Prepaid costs and other assets	494
Restricted assets (Note 3)	184,537
Capital assets - Net (Note 5)	<u>1,586,217</u>
Total assets	2,698,368

Liabilities

Accounts payable	29,952
Accrued payroll-related liabilities	130,217
Other accrued liabilities	18,281
Due to other governmental units	27,655
Unearned revenue (Note 4)	15,176
Noncurrent liabilities (Note 7):	
Due within one year	30,000
Due in more than one year	<u>1,595,000</u>
Total liabilities	<u>1,846,281</u>

Net Position

Net investment in capital assets	(38,783)
Restricted - Debt service	194,993
Unrestricted	<u>695,877</u>
Total net position	<u>\$ 852,087</u>

Macomb Academy

Statement of Activities Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Governmental Activities Net (Expense) Revenue and Changes in Net Position
Primary government - Governmental activities:			
Instruction	\$ 1,032,552	\$ 643,645	\$ (388,907)
Support services	478,601	-	(478,601)
Community services	600	-	(600)
Interest on long-term debt	111,375	-	(111,375)
Depreciation expense (unallocated)	47,866	-	(47,866)
Total primary government	<u>\$ 1,670,994</u>	<u>\$ 643,645</u>	(1,027,349)
General revenues:			
State aid not restricted to specific purposes			1,100,457
Interest and investment earnings			67
Other			44,249
Total general revenues			<u>1,144,773</u>
Change in Net Position			117,424
Net Position - Beginning of year			<u>734,663</u>
Net Position - End of year			<u>\$ 852,087</u>

Macomb Academy

Governmental Funds Balance Sheet June 30, 2014

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 610,694	\$ -	\$ 9,472	\$ 620,166
Receivables:				
Accounts receivable	5,922	-	-	5,922
Due from other governmental units	301,032	-	-	301,032
Due from other funds (Note 6)	-	28,737	117,661	146,398
Prepaid costs and other assets	494	-	-	494
Restricted assets (Note 3)	-	184,537	-	184,537
	<u>\$ 918,142</u>	<u>\$ 213,274</u>	<u>\$ 127,133</u>	<u>\$ 1,258,549</u>
Total assets				
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 29,952	\$ -	\$ -	\$ 29,952
Accrued payroll-related liabilities	130,217	-	-	130,217
Due to other governmental units	27,655	-	-	27,655
Unearned revenue (Note 4)	15,176	-	-	15,176
Due to other funds (Note 6)	146,398	-	-	146,398
	<u>349,398</u>	<u>-</u>	<u>-</u>	<u>349,398</u>
Total liabilities				
Fund Balances				
Nonspendable - Prepaid assets	494	-	-	494
Restricted - Debt service	-	213,274	-	213,274
Assigned - Capital projects	-	-	127,133	127,133
Unassigned	568,250	-	-	568,250
	<u>568,744</u>	<u>213,274</u>	<u>127,133</u>	<u>909,151</u>
Total fund balances				
Total liabilities and fund balances	<u>\$ 918,142</u>	<u>\$ 213,274</u>	<u>\$ 127,133</u>	<u>\$ 1,258,549</u>

Macomb Academy

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2014

Fund Balance Reported in Governmental Funds	\$	909,151
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:		
Cost of capital assets	\$	1,882,201
Accumulated depreciation	<u>(295,984)</u>	1,586,217
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds - Bonds payable		(1,625,000)
Accrued interest payable is not included as a liability in governmental funds		<u>(18,281)</u>
Net Position of Governmental Activities	\$	<u>852,087</u>

Macomb Academy

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2014

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
Revenue				
Local sources	\$ 44,249	\$ 64	\$ 3	\$ 44,316
State sources	1,508,126	-	-	1,508,126
Federal sources	218,209	-	-	218,209
Interdistrict sources	27,088	-	-	27,088
Total revenue	1,797,672	64	3	1,797,739
Expenditures				
Current:				
Instruction	1,032,552	-	-	1,032,552
Support services	475,601	-	-	475,601
Community services	600	-	-	600
Debt service:				
Principal	-	30,000	-	30,000
Interest	-	111,713	-	111,713
Capital outlay	17,000	-	3,000	20,000
Total expenditures	1,525,753	141,713	3,000	1,670,466
Excess of Revenue Over (Under)				
Expenditures	271,919	(141,649)	(2,997)	127,273
Other Financing Sources (Uses) (Note 6)				
Transfers in	-	144,700	24,000	168,700
Transfers out	(164,700)	(4,000)	-	(168,700)
Total other financing (uses) sources	(164,700)	140,700	24,000	-
Net Change in Fund Balances	107,219	(949)	21,003	127,273
Fund Balances - Beginning of year	461,525	214,223	106,130	781,878
Fund Balances - End of year	<u>\$ 568,744</u>	<u>\$ 213,274</u>	<u>\$ 127,133</u>	<u>\$ 909,151</u>

Macomb Academy

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds \$ 127,273

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (47,866)	
Capitalized capital outlay	<u>17,000</u>	(30,866)

Revenue is reported in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	(9,321)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	30,000
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Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	<u>338</u>
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Change in Net Position of Governmental Activities \$ 117,424

Note I - Summary of Significant Accounting Policies

The accounting policies of Macomb Academy (the "Academy") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

Reporting Entity

The Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on July 28, 1995.

Macomb Academy has entered into a contract with Central Michigan University (CMU) to charter a public school academy through June 30, 2016. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. CMU is a limited fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays CMU 3 percent of its state aid revenue as administrative fees. The total administrative fee expense for the year ended June 30, 2014 paid to CMU was \$42,881.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the Academy. Based on application of the criteria, the Academy does not contain component units.

Academy-wide and Fund Financial Statements

The Academy-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. Governmental activities, which normally are supported by intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported individually in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Academy-wide Financial Statements - The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the Academy's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the Academy's policy to spend funds in this order: committed, assigned, and unassigned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted state and federal aid.

Note I - Summary of Significant Accounting Policies (Continued)

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the Academy considers revenue to be available if it is 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.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

The Academy reports the following major governmental funds:

General 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.

Debt Service Fund - The Debt Service Fund is used to record revenue and other financing sources and expenditures for the payment of interest, principal, and other expenditures for the 2007 bond issue.

The Academy reports the following nonmajor governmental funds:

Capital Projects Fund - The Capital Projects Fund is used to record revenue and other financing sources and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The fund operates until the purpose for which it was created is accomplished.

Building Reserve Fund - The Building Reserve Fund is a capital projects fund that is used to record revenue and the disbursement of invoices specifically designated for maintaining buildings and equipment. The fund operates until the purpose for which it was created is accomplished.

Assets, Liabilities, and Net Position or Equity

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Note I - Summary of Significant Accounting Policies (Continued)

Receivables - Accounts receivable are shown net of an allowance for uncollectible amounts. The Academy considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Restricted Assets - Restricted assets exist when their use is constrained for a particular purpose. At June 30, 2014, this includes amounts segregated for the payment of debt based on bond covenant requirements.

Capital Assets - Capital assets, which include a building, building improvements, furniture, equipment, and vehicles, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Buildings and improvements, furniture, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Building improvements	20 years
Furniture and equipment	5-20 years
Vehicles	7 years

Long-term Obligations - In the Academy-wide financial statements, long-term debt is reported as liabilities in the statement of net position. In the fund financial statements, the face amount of debt issued is reported as an other financing source.

Fund Balance - Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications are comprised of the following - nonspendable, restricted, committed, assigned, and unassigned.

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

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose

Note 1 - Summary of Significant Accounting Policies (Continued)

- Committed: Amounts that have been formally set aside by the board of directors for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board of directors.
- Assigned: Intent to spend resources on specific purposes expressed by the board of directors or superintendent, who is authorized by policy approved by the board of directors to make assignments.
- Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

Comparative Data - Comparative data is not included in the Academy's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund, except that capital outlay is budgeted in other expenditure categories. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function, which is a summarization of the Academy's line-item adopted budget. The legal level of budgetary control adopted by the board of directors (the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. The Academy amended budgeted amounts during the year in response to changes in funding sources, changes from anticipated pupil counts, and unanticipated expenditures.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Academy had significant variances of expenditures over appropriations as follows:

	<u>Budget</u>	<u>Actual</u>
Support services - Pupil	\$ -	\$ 13,578

Note 3 - Deposits and Investments

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

The Academy has designated two banks for the deposit of its funds.

The Academy's cash and investments are subject to risk as discussed in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a deposit policy for custodial credit risk. At year end, the Academy's deposit balance of \$823,915 had \$379,907 of bank deposits (checking accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned and unavailable revenue are as follows:

	Governmental Funds	
	Deferred Inflow - Unavailable	Liability - Unearned
Grant and categorical aid payment received prior to meeting all eligibility requirements	\$ -	\$ 15,176

Macomb Academy

Notes to Financial Statements June 30, 2014

Note 5 - Capital Assets

Capital asset activity of the Academy was as follows:

	Balance July 1, 2013	Additions	Disposals and Reclassifications	Balance June 30, 2014
Capital assets:				
Buildings and improvements	\$ 1,782,519	\$ -	\$ -	\$ 1,782,519
Furniture and equipment	58,320	-	-	58,320
Vehicles	24,362	17,000	-	41,362
Total capital assets	1,865,201	17,000	-	1,882,201
Accumulated depreciation:				
Buildings and improvements	194,076	44,277	-	238,353
Furniture and equipment	29,680	3,589	-	33,269
Vehicles	24,362	-	-	24,362
Total accumulated depreciation	248,118	47,866	-	295,984
Net capital assets	\$ 1,617,083	\$ (30,866)	\$ -	\$ 1,586,217

Depreciation expense totaling \$47,866 was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From General Fund
Debt Service Fund	\$ 28,737
Nonmajor governmental funds	117,661
Total	\$ 146,398

The above listed interfund balances result from time lags between the dates that transactions are recorded in the accounting system and payments between funds are made.

Transfers of \$144,700 from the General Fund to the Debt Service Fund were made to finance debt service commitments. Transfers of \$4,000 from the Debt Service Fund to the Capital Projects Fund were made to fund construction costs. Transfers of \$20,000 from the General Fund to the Building Reserve Fund were made to fund future needs.

Macomb Academy

Notes to Financial Statements June 30, 2014

Note 7 - Long-term Debt

The Academy issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. Revenue bonds are full faith and credit obligations of the Academy payable solely from the Academy's state school aid payments.

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
2007 revenue bond issue	\$ 1,655,000	\$ -	\$ 30,000	\$ 1,625,000	\$ 30,000

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2015	\$ 30,000	\$ 109,688	\$ 139,688
2016	35,000	107,663	142,663
2017	35,000	105,300	140,300
2018	40,000	102,937	142,937
2019	40,000	100,238	140,238
2020-2024	245,000	456,300	701,300
2025-2029	350,000	361,125	711,125
2030-2034	480,000	226,125	706,125
2035-2037	370,000	50,962	420,962
Total	<u>\$ 1,625,000</u>	<u>\$ 1,620,338</u>	<u>\$ 3,245,338</u>

Revenue bonds consist of \$1,800,000 2007 serial bonds due in annual installments of \$30,000 to \$130,000 through May 1, 2037 with fixed interest at 6.75 percent.

In conjunction with the above revenue bonds, the Academy has agreed to maintain certain covenants, including a debt service coverage ratio and a minimum fund balance covenant. At June 30, 2014, the Academy has complied with all required covenants.

Note 8 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The Academy participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the Academy. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment health care benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement Services at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. For the period from July 1, 2013 through September 30, 2013, employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension contributions	15.21 %	15.02 %	15.02 %	12.78 %	12.78 %	12.78 %	15.21 %
Health contributions	9.11 %	9.11 %	8.18 %	8.18 %	9.11 %	8.18 %	8.18 %
Defined contribution Plan employer contributions:							
DC employer contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

For the period from October 1, 2013 through June 30, 2014, employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension contributions	18.34 %	18.11 %	18.11 %	15.44 %	15.44 %	15.44 %	18.34 %
Health contributions	6.45 %	6.45 %	5.52 %	5.52 %	6.45 %	5.52 %	5.52 %
Defined contribution Plan employer contributions:							
DC employer contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %

* First worked September 4, 2012 or later

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The Academy's required and actual contributions to the plan for the years ended June 30, 2014, 2013, and 2012 were \$189,334, \$140,263, and \$93,261, respectively.

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you go basis. Participating employers are required to contribute at that rate. The employer contribution rate ranged from 8.18 percent to 9.11 percent of covered payroll for the period from July 1, 2013 through September 30, 2013, and from 5.52 percent to 6.45 percent of covered payroll for the period from October 1, 2013 through June 30, 2014 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit, or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 401(k) account.

The Academy's required and actual contributions to the plan for retiree health care benefits for the years ended June 30, 2014, 2013, and 2012 were \$60,796, \$76,667, and \$52,812, respectively.

Note 10 - Upcoming Accounting Pronouncements

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The Academy is currently evaluating the impact this standard will have on the financial statements when adopted; however, the impact is expected to be material. The provisions of this Statement are effective for financial statements for the year ending June 30, 2015.

Required Supplemental Information

Macomb Academy

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 43,020	\$ 43,020	\$ 44,249	\$ 1,229
State sources	1,475,991	1,536,420	1,508,126	(28,294)
Federal sources	173,240	187,464	218,209	30,745
Interdistrict sources	37,031	39,088	27,088	(12,000)
Total revenue	1,729,282	1,805,992	1,797,672	(8,320)
Expenditures - Current				
Instruction	1,022,787	1,030,445	1,032,552	2,107
Support services:				
Pupil	-	-	13,578	13,578
Instructional staff	2,625	3,625	2,757	(868)
General administration	314,783	345,133	312,474	(32,659)
Business	10,000	10,000	-	(10,000)
Operations and maintenance	129,922	93,422	78,531	(14,891)
Pupil transportation services	69,505	86,505	85,261	(1,244)
Total support services	526,835	538,685	492,601	(46,084)
Community services	14,000	14,000	600	(13,400)
Total expenditures	1,563,622	1,583,130	1,525,753	(57,377)
Excess of Revenue Over Expenditures	165,660	222,862	271,919	49,057
Other Financing Uses - Transfers out	(162,400)	(162,400)	(164,700)	(2,300)
Net Change in Fund Balance	3,260	60,462	107,219	46,757
Fund Balance - Beginning of year	461,525	461,525	461,525	-
Fund Balance - End of year	\$ 464,785	\$ 521,987	\$ 568,744	\$ 46,757

Other Supplemental Information

Macomb Academy

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2014

	Capital Projects Funds		Total Nonmajor Governmental Funds
	Capital Projects Fund	Building Reserve Fund	
Assets			
Cash and investments	\$ 9,472	\$ -	\$ 9,472
Due from other funds	<u>37,661</u>	<u>80,000</u>	<u>117,661</u>
Total assets	<u>\$ 47,133</u>	<u>\$ 80,000</u>	<u>\$ 127,133</u>
Fund Balances - Assigned capital projects	<u>\$ 47,133</u>	<u>\$ 80,000</u>	<u>\$ 127,133</u>

Macomb Academy

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2014

	<u>Capital Projects Funds</u>		Total Nonmajor Governmental Funds
	Capital Projects Fund	Building Reserve Fund	
Revenue - Local sources	\$ 3	\$ -	\$ 3
Expenditures - Current - Capital outlay	3,000	-	3,000
Excess of Expenditures Over Revenue	(2,997)	-	(2,997)
Other Financing Sources - Transfers in	4,000	20,000	24,000
Net Change in Fund Balances	1,003	20,000	21,003
Fund Balances - Beginning of year	46,130	60,000	106,130
Fund Balances - End of year	<u>\$ 47,133</u>	<u>\$ 80,000</u>	<u>\$ 127,133</u>

Macomb Academy

Other Supplemental Information Schedule of Bonded Indebtedness June 30, 2014

Years Ending June 30	Principal
2015	\$ 30,000
2016	35,000
2017	35,000
2018	40,000
2019	40,000
2020	45,000
2021	45,000
2022	50,000
2023	50,000
2024	55,000
2025	60,000
2026	65,000
2027	70,000
2028	75,000
2029	80,000
2030	85,000
2031	90,000
2032	95,000
2033	100,000
2034	110,000
2035	115,000
2036	125,000
2037	130,000
Total principal	<u>\$ 1,625,000</u>
Principal payments due	May 1
Interest payments due	May 1 and November 1
Interest rate	6.75%
Original issue	<u>\$ 1,800,000</u>