

CASMAN Alternative Academy

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2016

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MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of CASMAN Alternative Academy’s (the “Academy”) annual financial report presents a discussion and analysis of the 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

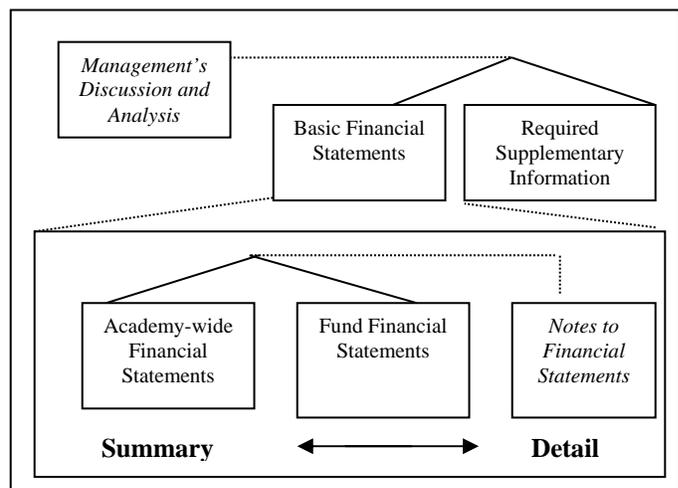
- The Academy’s financial position increased during the year due to a stable student count and control of expenditures.
- The State of Michigan foundation grant increased by \$265 from \$7,126 to \$7,391.

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 the *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.

Figure A-1
CASMAN Alternative Academy’s
Annual Financial Report



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 this annual report are arranged and related to one another.

ACADEMY-WIDE 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 about the Academy as a whole and its activities in a way that helps 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 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 non-financial 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 the Academy’s services, including instruction and supporting services. State foundation allowance and grant revenues finance most of these activities.

FUND FINANCIAL STATEMENTS

The Academy’s fund financial statements provide detailed information about the fund – not the Academy as a whole. Some funds are required to be established by state law. The governmental fund of the Academy uses the following accounting approach:

- All of the Academy’s services are reported in one governmental fund. 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 the governmental funds in a reconciliation.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

The Academy’s *combined* net position was more on June 30, 2016 than they were the year before – increasing by \$32,393.

The Academy’s financial position for the year is the product of a stable student count and control on expenditures.

Table A-2
CASMAN Alternative Academy's Net Position

	2015	2016
Current and other assets	\$ 198,002	\$ 240,731
Capital assets	187,632	161,231
Total assets	385,634	401,962
Long-term debt outstanding	16,480	-
Other liabilities	44,393	44,808
Total liabilities	60,873	44,808
Net position		
Invested in property and equipment, net of related debt	153,602	144,751
Unrestricted	171,159	212,403
Total net position	\$ 324,761	\$ 357,154

Table A-3
Changes in CASMAN Alternative Academy's Net Position

	2015	2016
Revenues		
Operating grants and contributions	\$ 126,939	\$ 106,536
State aid unrestricted	440,629	455,429
Other	14,728	11,091
Total revenues	582,296	573,056
Expenses		
Instruction	227,520	243,962
Supporting services	259,677	255,359
Other	9,975	13,771
Interest on long-term debt	2,049	1,170
Unallocated depreciation	31,998	26,401
Total expenses	531,219	540,663
Increase in Net Position	51,077	32,393
Net Position - Beginning of year	273,684	324,761
Net Position - End of year	\$ 324,761	\$ 357,154

FINANCIAL ANALYSIS OF THE ACADEMY’S FUNDS

The financial performance of the Academy as a whole is reflected in its governmental funds as well. As the Academy completed the year, its governmental funds reported a fund balance of \$212,403, \$41,244 more than last year’s ending fund balance of \$171,159.

General Fund Budgetary Highlights

Over the course of the year, the Academy revised its annual operating budget several times. These budget amendments are as follows:

- Changes made during the year to accurately reflect the student count and staffing changes throughout the year.
- While the final budget for the general fund anticipated that revenues and expenditures would reflect a surplus of \$14,152, the actual results for the year show a surplus of \$41,244.
- The difference in the actual results verses the final budget is primarily due to conservative budgeting and final adjustments to grant expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Depreciable assets for the 2015/2016 school year totaled \$471,524.

Table A-4				
CASMAN Alternative Academy's Capital Assets				
	2015	Additions	Retirements	2016
Capital assets not being depreciated:				
Land	\$ 37,833	\$ -	\$ -	\$ 37,833
Capital assets being depreciated:				
Building and building improvements	187,193	-	-	187,193
Furniture and equipment	284,331	-	-	284,331
Gross capital assests	509,357	-	-	509,357
Accumulated depreciation:	(321,725)	(26,401)	-	(348,126)
Net governmental capital assets	\$ 187,632	\$ (26,401)	\$ -	\$ 161,231

Long-term Debt

More detailed information about the Academy's long-term liabilities is presented in Note F to the financial statements. Following is a summary of debt transactions for the year.

	2015	Additions	Payments/ Refinancing	2016
Mortgage note payable	\$ 34,030	\$ -	\$ 17,550	\$ 16,480

FACTORS BEARING ON THE ACADEMY'S FUTURE

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

- The 2016-17 foundation allowance is expected to increase by \$120 per student. The foundation allowance represents 75% of total Academy revenue. Student enrollment is always fluctuating and a concern and the Academy is working to maintain it constant for the upcoming year.

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, 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 CASMAN Alternative Academy Business Office at 772 East Parkdale Avenue, Manistee, MI, 49660.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
CASMAN Alternative Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of *CASMAN Alternative Academy* (the "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 Academy'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 Academy'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 and the major fund of CASMAN Alternative 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 on pages *i* through *v*, and budgetary comparison information on page 17, 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 inquires 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 19, 2016, on our consideration of the 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 the Academy's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

September 19, 2016

CASMAN Alternative Academy

STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 138,833
Due from other governmental units	97,536
Prepaid expenses	<u>4,362</u>
Total current assets	240,731
Capital assets, net of accumulated depreciation	<u>161,231</u>
Total assets	<u><u>\$ 401,962</u></u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Current liabilities	
Accounts payable	\$ 1,115
Accrued payroll expenses	21,677
Unearned revenue	5,536
Current portion of long-term debt	<u>16,480</u>
Total current liabilities	<u>44,808</u>
NET POSITION	
Invested in capital assets, net of related debt	144,751
Unrestricted	<u>212,403</u>
Total net position	<u>357,154</u>
Total liabilities and net position	<u><u>\$ 401,962</u></u>

The accompanying notes are an integral part of these financial statements.

CASMAN Alternative Academy

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

Functions/Program	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges For Services	Operating Grants and Contributions	Governmental Activities
Governmental activities				
Instruction	\$ 243,962	\$ -	\$ 89,659	\$ (154,303)
Support services	255,359	-	16,877	(238,482)
Other	13,771	-	-	(13,771)
Interest on long-term debt	1,170	-	-	(1,170)
Depreciation-unallocated	26,401	-	-	(26,401)
Total governmental activities	\$ 540,663	\$ -	\$ 106,536	(434,127)
General purpose revenues				
State school aid - unrestricted				455,429
Investment and other				11,091
Total general purpose revenue				466,520
Change in net position				32,393
Net position, beginning of year				324,761
Net position, end of year				\$ 357,154

CASMAN Alternative Academy

BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2016

	General Fund
ASSETS	
Cash and cash equivalents	\$ 138,833
Due from other governmental units	97,536
Prepaid expenditures	4,362
Total assets	\$ 240,731
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 1,115
Unearned revenue	5,536
Accrued payroll and related liabilities	21,677
Total liabilities	28,328
FUND BALANCE	
Nonspendable - prepaids	4,362
Committed for subsequent year expenditures	33,307
Unassigned	174,734
Total fund balance	212,403
Reconciliation of Governmental Fund Balances to Academy-Wide Government Activities Net Position	
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, therefore, are not reported as assets in governmental funds. The cost of the assets is \$509,357 and the accumulated depreciation is \$348,126.	161,231
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Mortgage note payable	(16,480)
Total net position - governmental activities	\$ 357,154

CASMAN Alternative Academy

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE - GOVERNMENTAL FUND

Year Ended June 30, 2016

	<u>General Fund</u>
Revenues	
Local revenues	\$ 10,904
State revenues	503,998
Federal revenues	57,968
Other	<u>186</u>
Total revenues	<u>573,056</u>
Expenditures	
Instruction	243,962
Support services	255,359
Other	13,771
Debt service	
Principal	17,550
Interest	<u>1,170</u>
Total expenditures	<u>531,812</u>
REVENUES OVER EXPENDITURES	41,244
Fund balance, beginning of year	<u>171,159</u>
Fund balance, end of year	<u><u>\$ 212,403</u></u>

The accompanying notes are an integral part of these financial statements.

CASMAN Alternative Academy

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE WITH THE ACADEMY-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

Total Net Change in Fund Balances - Governmental Funds	\$	41,244
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	\$ -	
Depreciation expense	<u>(26,401)</u>	(26,401)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.

17,550

Change in Net Position of Governmental Activities

\$ 32,393

CASMAN Alternative Academy

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

CASMAN Alternative Academy (the "Academy") primarily serves the Manistee community. As of June 30, 2016, the Academy contracted 7 professional staff and 6 non-professional, and had 64 students enrolled at the Academy.

The accounting policies of the Academy conform to generally accepted accounting principles as applicable to governments. The Academy is considered to be a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the Academy are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the Academy's financial activities for the fiscal year ended June 30, 2016.

The Financial Reporting Entity

The Academy is a Michigan non-profit corporation which operates as a Public School Academy in Manistee County, Michigan, pursuant to Part 6B of the Michigan School Code of 1976, Act No. 451 of the Public Acts of 1976, as amended, being Sections 380.501 to 380.519 of the Michigan Compiled Laws.

State law requires that a public school academy be authorized and monitored by a local oversight agency. The oversight agency can be a public university, a community college, an intermediate school district or a local school district. In fulfillment of this requirement, the Academy entered into a contract to charter a public academy on July 10, 1997, with the Manistee Area Public Schools Board of Education ("MAPS Board"), a local school district. Effective July 1, 2001, a new charter was approved, and Manistee Intermediate School District became the oversight agency for the Academy.

The Academy is governed by a Board of Education (the "Board") of five to nine members. In compliance with Michigan law, the initial Board was appointed by resolution of the MAPS Board, the original authorizing body for the Academy. Subsequent members of the Board are appointed by the current authorizing body from a list of nominees submitted by the Academy's Board of Education. The Board receives funding from local, State and Federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity," as defined in Governmental Accounting Standards Board ("GASB") Statement #61, since Board members have the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncement, student, parent and teacher organizations are not included, except to the extent that the Academy holds assets in the capacity of an agent.

NOTES TO FINANCIAL STATEMENTS - Continued

Academy-Wide and Fund Financial Statements

Academy-Wide Financial Statements

The statement of net position and statement of activities display information about the Academy as a whole, except for its fiduciary activities. Individual funds are not displayed.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Academy; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and change in fund balance (i.e., fund financial statements) for the Academy's governmental fund are presented after the Academy-wide statements. These statements display information about major funds individually for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures. The Academy's only fund is the General fund.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Academy are prepared in accordance with generally accepted accounting principles ("GAAP"). The Academy's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements.

The Academy-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Academy considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for long-term debt principal and interest, which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

Fund Types and Major Funds

Activities in Major Funds

The General Fund is the general operating fund of the Academy. It is used to account for all financial resources and is the Academy's only fund.

Cash and Equivalents

The Academy's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 5 to 50 years. The Academy generally capitalizes assets with costs of \$2,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years

Long-Term Debt

In the Academy-wide financial statements, outstanding debt is reported as a liability. The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period.

Fund Equity

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors, or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the Board through approval of resolutions. Assigned fund balance is a limitation imposed by a designee of the Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories.

NOTES TO FINANCIAL STATEMENTS - Continued

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the Academy's general revenues.

The Academy's most significant program revenues are Title I and At-risk, which are reported as operating grants and contributions.

Spending Policy

When both restricted and unrestricted fund balances are available for use, it is the Academy's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Encumbrance Accounting

The Academy formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which goods or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

Allocation of Expenses

The Academy reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The Academy has elected to not allocate indirect expenses.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE B - BUDGETARY POLICY AND PRACTICE

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2016, the Academy was not in compliance with the Act as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Instruction			
Added needs	<u>\$ 90,071</u>	<u>\$ 90,951</u>	<u>\$ (880)</u>

NOTE C - CASH AND CASH EQUIVALENTS

At June 30, 2016, the Academy's cash and cash equivalents included the following:

Cash on hand	\$ 200
Bank deposits	<u>138,633</u>
	<u>\$ 138,833</u>

Bank Deposits

All cash of the Academy is on deposit with financial institutions which provide FDIC insurance coverage or in highly liquid pooled money funds.

Custodial Credit Risk - Deposits

As of June 30, 2016, none of the Academy's bank balance of \$139,154 was exposed to custodial credit risk due to being uninsured or uncollateralized.

NOTE D - INTERGOVERNMENTAL RECEIVABLES AND UNEARNED REVENUE

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Unearned revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governmental units at June 30, 2016 are as follows:

Due from the State of Michigan - State aid	\$ 90,961
Due from Federal Grants	<u>6,575</u>
	<u>\$ 97,536</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - CAPITAL ASSETS

Investments in capital assets consisted of the following:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2016</u>
Buildings and improvements	\$ 187,193	\$ -	\$ -	\$ 187,193
Furniture and equipment	<u>284,331</u>	<u>-</u>	<u>-</u>	<u>284,331</u>
Total depreciable assets	471,524	-	-	471,524
Less accumulated depreciation	(321,725)	(26,401)	-	(348,126)
Land	<u>37,833</u>	<u>-</u>	<u>-</u>	<u>37,833</u>
Total capital assets, net	<u>\$ 187,632</u>	<u>\$ (26,401)</u>	<u>\$ -</u>	<u>\$ 161,231</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$ 26,401</u>
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NOTE F - LONG-TERM DEBT

Changes in long-term debt during the year ended June 30, 2016 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Mortgage note payable	<u>\$ 34,030</u>	<u>\$ -</u>	<u>\$ 17,550</u>	<u>\$ 16,480</u>	<u>\$ 16,480</u>

At June 30, 2016, the Academy's long-term debt consisted of the following:

Mortgage payable to a bank, refinanced in January 2015, with interest at 4.00%, payable in six monthly installments of \$1,560 including interest, with a final balloon payment of \$1,213 due on June 1, 2017. Secured by real property of the Academy.	<u>\$ 16,480</u>
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Interest expense for the year ended June 30, 2016 was \$1,170.

NOTE G - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The Academy manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

NOTES TO FINANCIAL STATEMENTS - Continued

The Academy pays unemployment claims on a reimbursement basis through the Bureau of Workers' and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipients benefits, this amount is billed to CASMAN Alternative Academy. At June 30, 2016, there were no significant unbilled claims.

The Academy participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review, and processing services for all member governments pursuant to its charter.

The Academy makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the Academy's General Fund.

NOTE H - PENSION PLAN

The Academy participates in a defined contribution pension plan (the "Plan") in conjunction with the employment agreement with Advance Staff Leasing, Inc., the company that leases employees to the Academy. The Plan covers substantially all contracted employees. The amount of covered payroll for the year ended June 30, 2016 was \$313,884; total payroll for the year ended June 30, 2016 was \$319,033. Employer contributions are based upon 3% of annual payroll for eligible employees. Employer contributions for the year ended June 30, 2016, 2015, and 2014 were \$5,743, \$9,411, and \$9,792, respectively. Employees are eligible to participate in the Plan after 250 hours of service during the six month period ending June 30th or December 31st, unless they were employed at October 1, 2011, the Plan's effective date. Employees vest 50% in employer contributions after one year of service and 100% after two years.

NOTE I - COMMITMENTS

Employment Agreement

The teachers and support personnel of the Academy are contracted employees of Advance Educational Services, Inc. The renewed contract covers the period beginning September 1, 2014 through August 31, 2017 and can be cancelled with 90 days written notice after two years.

REQUIRED SUPPLEMENTARY INFORMATION

CASMAN Alternative Academy

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2016

	Budgeted Amounts		Actual (Budget Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
	Revenues				
Local revenues	\$ 5,525	\$ 9,984	\$ 10,904	\$ 4,459	\$ 920
State revenues	508,898	510,731	503,998	1,833	(6,733)
Federal revenues	53,120	58,834	57,968	5,714	(866)
Other	-	-	186	-	186
Total revenues	<u>567,543</u>	<u>579,549</u>	<u>573,056</u>	<u>12,006</u>	<u>(6,493)</u>
Expenditures					
Instruction					
Basic program	131,297	171,807	153,011	(40,510)	18,796
Added needs	87,074	90,071	90,951	(2,997)	(880)
Total instruction	<u>218,371</u>	<u>261,878</u>	<u>243,962</u>	<u>(43,507)</u>	<u>17,916</u>
Support Services					
Pupil support	8,015	4,400	3,765	3,615	635
Instructional staff support	3,675	767	767	2,908	-
General administration	149,071	151,933	146,083	(2,862)	5,850
Operations and maintenance	72,553	63,946	59,902	8,607	4,044
Business services	25,642	25,200	24,353	442	847
Community Services	-	4,808	3,571	(4,808)	1,237
Transportation	18,000	10,700	9,716	7,300	984
Other central support	15,678	12,665	10,773	3,013	1,892
Total support services	<u>292,634</u>	<u>274,419</u>	<u>258,930</u>	<u>18,215</u>	<u>15,489</u>
Other	<u>30,725</u>	<u>29,100</u>	<u>28,920</u>	<u>1,625</u>	<u>180</u>
Total expenditures	<u>541,730</u>	<u>565,397</u>	<u>531,812</u>	<u>(23,667)</u>	<u>33,585</u>
REVENUES OVER (UNDER) EXPENDITURES	25,813	14,152	41,244	(11,661)	27,092
Fund balance, beginning of year	<u>132,388</u>	<u>171,159</u>	<u>171,159</u>	<u>38,771</u>	<u>-</u>
Fund balance, end of year	<u>\$ 158,201</u>	<u>\$ 185,311</u>	<u>\$ 212,403</u>	<u>\$ 27,110</u>	<u>\$ 27,092</u>



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**INDEPENDENT AUDITORS' 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**

Board of Education
CASMAN Alternative 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 and the major fund of **CASMAN Alternative Academy** (the "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, and have issued our report thereon dated September 19, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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

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

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

Effect: As a result of this condition, the Academy lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Academy's Response to Findings

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

Purpose of this Report

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

Dennis, Gartland & Niergarth