

**Audited Financial Statements**

# **East Shore Leadership Academy**

Port Huron, Michigan

**June 30, 2016**

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## INDEPENDENT AUDITOR'S REPORT

### To the Board of Directors of East Shore Leadership Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Shore Leadership Academy as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the East Shore Leadership 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 judgement, 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 East Shore Leadership Academy as of June 30, 2016, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages v-x and 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 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 the 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 the East Shore Leadership Academy's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedules of revenues and expenditures are the responsibility of management and were derived from and relate 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 combining and individual nonmajor fund financial statements and the schedules of revenues and expenditures are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2016, on our consideration of East Shore Leadership Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Shore Leadership Academy's internal control over financial reporting and compliance.



Croskey Lanni, PC

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

### To the Board of Directors of East Shore Leadership 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 the East Shore Leadership Academy, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the East Shore Leadership Academy's basic financial statements, and have issued our report thereon dated October 14, 2016.

### Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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



Croskey Lanni, PC

Rochester, Michigan  
October 14, 2016

## **MANAGEMENT’S DISCUSSION AND ANALYSIS**

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

### **FINANCIAL HIGHLIGHTS**

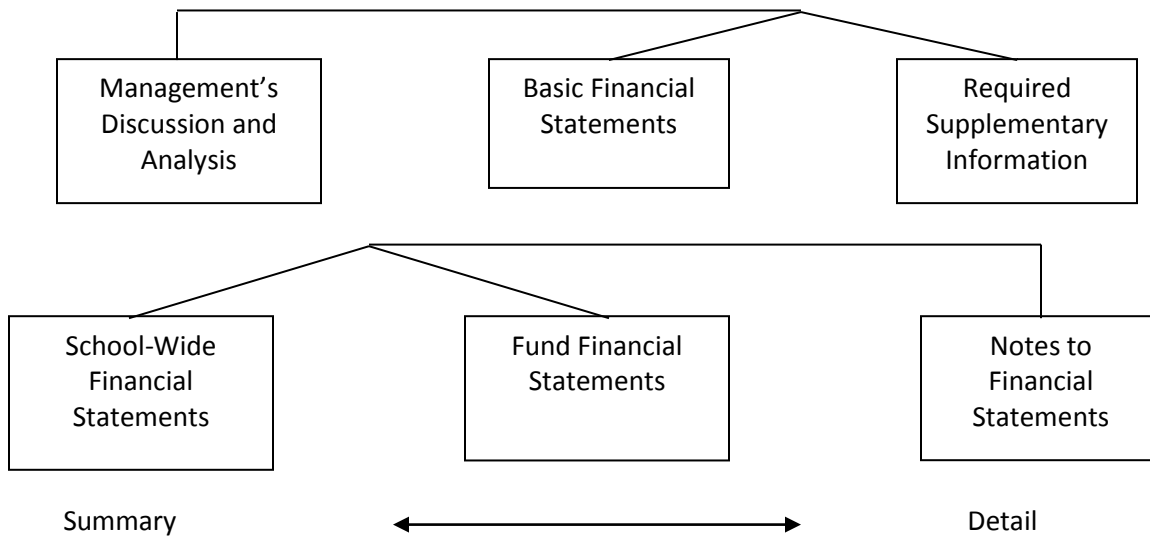
- ❖ The total cost of basic programs was \$448,904.
- ❖ Revenues were at \$1,534,481 while expenditures were \$1,397,919 in the General Fund.
  - Blended enrollment used for state aid purposes was 145.48 compared to 83.84 for the fiscal year that ended June 30, 2015.
- ❖ The school incurred no additional long-term debt.
- ❖ The school has a positive General Fund balance of \$153,095. This is equal to 10.95% of the General Fund expenditures for the year.

### **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 school:

- The first two statements are school-wide financial statements that provide both short-term and long-term information about the school’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the school, reporting the schools operations in more detail.
- The governmental fund statements tell how basic services like regular and special education were financed.
- Fiduciary funds statements provide information about the financial relationships in which the school acts solely as a trustee or agent for the benefit of others. These consist of student activity funds held by the school on behalf of the student group.

**Figure A-1  
Organization of East Shore’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 school’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-2  
Major Features of School-Wide and Fund Financial Statements**

	School-Wide Statements	Government Funds	Fiduciary Funds
Scope	Entire school (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the school administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	*Statement of net position *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of fiduciary net position *Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid



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

## **SCHOOL-WIDE STATEMENTS**

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

The two school-wide statements report the school's net position and how it has changed. Net position – the difference between the school's assets and liabilities – are one way to measure the school's financial health or position.

- ❖ Over time, increases or decreases in the school's assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- ❖ To assess the overall health of the school, you need to consider additional non-financial factors such as changes in the school's enrollment and the condition of school buildings and other facilities.

## **FUND FINANCIAL STATEMENTS**

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

- ❖ *Governmental activities* – Most of the school's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.
- ❖ The school establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues.

The school has one kind of fund:

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

## **FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**

The school's financial position is the product of many factors.

### **General Fund Budgetary Analysis**

Over the course of the year, the school reviewed and amended the annual operating budget several times.

### **Financial Outlook**

The East Shore Leadership Academy's financial forecast continues to be optimistic heading into the 2016/2017 school year.

- ❖ Enrollment is anticipated to grow for the 2016-2017 school year with an expected enrollment of 183 up from 151 for the 2015-2016 school year.
- ❖ The Academy made the first payment of long-term debt in the amount of \$60,460 in August, 2016.

**Table A-3**  
**East Shore Leadership Academy Net Position**

	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 489,544	\$ 275,825
Capital assets	<u>106,519</u>	<u>124,816</u>
Total assets	<u>596,063</u>	<u>400,641</u>
Long-term debt outstanding	241,839	241,839
Other liabilities	<u>336,071</u>	<u>259,292</u>
Total liabilities	577,910	501,131
Net position:		
Restricted	(135,319)	(117,023)
Unrestricted	<u>153,472</u>	<u>16,533</u>
Total net position	<u>\$ 18,153</u>	<u>\$ (100,490)</u>

**Table A-4**  
**Changes in East Shore Leadership Academy Net Position**

	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,092	\$ 1,735
Federal and state operating grants	566,280	205,499
General revenues:		
State aid - unrestricted	1,059,439	607,923
Miscellaneous	6,190	1,036
Total revenues	<u>1,633,001</u>	<u>816,193</u>
Expenses:		
Instruction	726,534	405,193
Support services	769,528	497,334
Interest on long-term debt	-	-
Unallocated depreciation	18,296	14,156
Total expenses	<u>1,514,358</u>	<u>916,683</u>
Increase (decrease) in net position	<u>\$ 118,643</u>	<u>\$ (100,490)</u>

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2016, the school had invested \$138,972 in capital assets, including computers and software. See table A-5 below for a listing of capital assets, and the accumulated depreciation.

**Table A-5**  
**East Shore Leadership Academy's Capital Assets**

	<u>Balance</u> <u>June 30, 2016</u>	<u>Balance</u> <u>June 30, 2015</u>
Equipment	\$ 61,509	\$ 61,509
Furniture	52,595	52,595
Computer and software	24,868	24,868
Subtotal	138,972	138,972
Accumulated depreciation	32,453	14,157
Net book value	<u>\$ 106,519</u>	<u>\$ 124,815</u>

## **FACTORS BEARING ON THE SCHOOL'S FUTURE**

- Continuation of positive enrollment trends
- State aid foundation grant stabilization

## **CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our students, parents and creditors with a general overview of the school's finances and to demonstrate the school's accountability for the money it receives. If you have questions about this report or need additional information, contact the management office at:

Bold Education Connections, LLC, 1403 7<sup>th</sup> Street, Port Huron, MI 48060

# EAST SHORE LEADERSHIP ACADEMY

STATEMENT OF NET POSITION  
JUNE 30, 2016  
See Independent Auditor's Report

## ASSETS AND DEFERRED OUTFLOWS

### Current Assets

Cash and cash equivalents	\$	63,926
Due from other governmental units		421,407
Prepaid expenses		4,211
		<hr/>
Total current assets		489,544

### Capital Assets - Net of Accumulated Depreciation

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106,519

Total assets and deferred outflows \$ 596,063

## LIABILITIES, DEFERRED INFLOWS AND NET POSITION

### Current Liabilities

Accounts payable	\$	204,336
Other accrued expenses		131,736
Long-term debt - current portion		60,460
		<hr/>
Total current liabilities		396,532

### Long-Term Debt - Long-Term Portion

181,378

### Net Position

Net investment in capital assets		(135,319)
Unrestricted		153,472
		<hr/>
Total net position		18,153
		<hr/>
Total liabilities, deferred inflows and net position	\$	<u><u>596,063</u></u>

See accompanying notes to financial statements

## EAST SHORE LEADERSHIP ACADEMY

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016  
See Independent Auditor's Report

		Program Revenues		Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	Government Type Activities
<b>Functions</b>				
Instruction				
Basic programs	\$ 448,904	\$ -	\$ 223,544	\$ (225,360)
Added needs	277,630	-	215,241	(62,389)
Support services				
Instructional staff support services	41,892	-	24,241	(17,651)
General administration	215,671	-	-	(215,671)
School administration	138,979	-	-	(138,979)
Business support services	19,913	-	-	(19,913)
Operations and maintenance	230,008	-	-	(230,008)
Pupil transportation services	425	-	425	-
Central support services	19,096	-	-	(19,096)
Food services	98,143	1,092	97,428	377
Community services	5,401	-	5,401	-
Unallocated depreciation	18,296	-	-	(18,296)
Total primary government	\$ 1,514,358	\$ 1,092	\$ 566,280	(946,986)
<b>General Purpose Revenues</b>				
State school aid - unrestricted				1,059,439
Miscellaneous revenues				6,190
Total general purpose revenues				1,065,629
Change in net position				118,643
Net position - July 1, 2015				(100,490)
Net position - June 30, 2016				\$ 18,153

See accompanying notes to financial statements

## EAST SHORE LEADERSHIP ACADEMY

### COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS

JUNE 30, 2016

See Independent Auditor's Report

#### ASSETS

	General	Non-Major Special Revenue	Total
Cash and cash equivalents	\$ 63,926	\$ -	\$ 63,926
Due from other governmental units	421,407	-	421,407
Due from other funds	-	377	377
Prepaid expenses	4,211	-	4,211
 Total assets	 \$ 489,544	 \$ 377	 \$ 489,921

#### LIABILITIES AND FUND BALANCE

##### Liabilities

Accounts payable	\$ 204,336	\$ -	\$ 204,336
Due to other funds	377	-	377
Other accrued expenses	131,736	-	131,736
 Total liabilities	 336,449	 -	 336,449

##### Fund Balance

Nonspendable	4,211	-	4,211
Restricted	-	377	377
Unassigned	148,884	-	148,884
 Total fund balance	 153,095	 377	 153,472
 Total liabilities and fund balance	 \$ 489,544	 \$ 377	 \$ 489,921

See accompanying notes to financial statements

## EAST SHORE LEADERSHIP ACADEMY

### RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2016

See Independent Auditor's Report

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

<b>Total Governmental Fund Balances</b>	\$ 153,472
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$138,972 and the accumulated depreciation is \$32,453.	106,519
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(241,838)</u>
<b>Net Position of Governmental Activities</b>	<u>\$ 18,153</u>

See accompanying notes to financial statements



## EAST SHORE LEADERSHIP ACADEMY

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016  
See Independent Auditor's Report

	General	Non-Major Special Revenue	Total
<b>Revenues</b>			
Local sources	\$ 6,190	\$ 1,092	\$ 7,282
State sources	1,174,879	2,415	1,177,294
Federal sources	345,314	95,013	440,327
Interdistrict sources	8,098	-	8,098
	1,534,481	98,520	1,633,001
<b>Expenditures</b>			
Instruction			
Basic programs	448,904	-	448,904
Added needs	277,630	-	277,630
Support services			
Instructional staff support services	41,892	-	41,892
General administration	215,671	-	215,671
School administration	138,979	-	138,979
Business support services	19,913	-	19,913
Operations and maintenance	230,008	-	230,008
Pupil transportation services	425	-	425
Central support services	19,096	-	19,096
Food services	-	98,143	98,143
Community services	5,401	-	5,401
	1,397,919	98,143	1,496,062
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	136,562	377	136,939
Fund balance - July 1, 2015	16,533	-	16,533
Fund balance - June 30, 2016	\$ 153,095	\$ 377	\$ 153,472

See accompanying notes to financial statements

## EAST SHORE LEADERSHIP ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016  
See Independent Auditor's Report

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ 136,939
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which depreciation and amortization exceeded capital outlay in the current period

Depreciation and amortization expense	<u>(18,296)</u>
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<b>Change in Net Position of Governmental Activities</b>	<u><u>\$ 118,643</u></u>
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# EAST SHORE LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016  
See Independent Auditor's Report

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of East Shore Leadership Academy (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

### Reporting Entity

East Shore Leadership 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 May 21, 2014, and began operation in July 2014.

In June 2014, the Academy entered into a contract with Northern Michigan University's Board of Control to charter a public school academy. 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. The University's Board of Control is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Northern Michigan University's Board of Control three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2016 were approximately \$35,300.

In June 2014, the Academy entered into an agreement with Bold Educational Connections, LLC, "BEC" to run coterminous with the Contract issued between the Academy and Northern Michigan University's Board of Control. Under the terms of this agreement, BEC will provide a variety of services including financial management, educational programs and consulting, as well as teacher training. The Academy is obligated to pay BEC eleven percent of its state school aid revenue and all other governmental revenue sources. Total compensation for these services shall not be less than \$100,000 nor exceed \$800,000 in any one fiscal year of the Academy. Management fees for the year ended June 30, 2016 were approximately \$154,600.

The accompanying 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 public school Academy. Based on application of criteria, the Academy does not contain component units.

### Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

## EAST SHORE LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2016  
See Independent Auditor's Report

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

#### **Basis of Presentation – Fund Accounting**

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories.

**General Fund** - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

**Special Revenue Fund** - The special revenue fund is used to account for the food service program operations. The special revenue fund is a subsidiary operation and is an obligation of the general fund. Therefore any shortfall in the special revenue fund will be covered by an operating transfer from the general fund.

**Debt Service Fund** - The debt service fund, which the Academy does not currently maintain, is used to record certain revenue and the payment of interest, principal and other expenditures on long-term debt.

**Capital Projects Fund** - The capital projects fund, which the Academy does not currently maintain, accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities.

**Fiduciary Fund** - The fiduciary fund, which the Academy does not currently maintain, is used to account for assets held by the Academy in a trustee capacity or as an agent. The agency fund is custodial in nature and does not involve the measurement of results of operations.

Governmental and agency funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.

## **EAST SHORE LEADERSHIP ACADEMY**

NOTES TO FINANCIAL STATEMENTS - Continued

FOR THE YEAR ENDED JUNE 30, 2016

See Independent Auditor's Report

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

#### **Government-Wide Financial Statements**

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self-financing or draws from the general revenues of the Academy. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first.

Net position should be reported as restricted when constraints placed on net position use is either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government - wide financial statements.

## **EAST SHORE LEADERSHIP ACADEMY**

NOTES TO FINANCIAL STATEMENTS - Continued

FOR THE YEAR ENDED JUNE 30, 2016

See Independent Auditor's Report

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

#### **Cash and Cash Equivalents**

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. The Academy held no investments during the year ended June 30, 2016. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Corporation or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or Federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments.

#### **Receivables**

Receivables at June 30, 2016 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2016 and are considered current for the purposes of these financial statements.

#### **Prepaid Assets**

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

#### **Capital Assets and Depreciation**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

## **EAST SHORE LEADERSHIP ACADEMY**

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2016  
See Independent Auditor's Report

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 – 50 years
Furniture and equipment	5 – 15 years
Computers and software	3 – 10 years

#### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

#### **Net Position**

Net position represent the difference between assets, deferred outflows, liabilities, and deferred inflows. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

#### **Fund Equity**

The Academy has adopted GASB 54 as part of its fiscal year reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Academy's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. This category typically includes prepaid items and inventories.

## EAST SHORE LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued

FOR THE YEAR ENDED JUNE 30, 2016

See Independent Auditor's Report

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

In addition to nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- a. *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.
- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

The Academy follows the policy that restricted, committed, or assigned amounts will be considered to have been spent when an expenditure is incurred for purposes for which both unassigned and restricted, committed, or assigned fund balances are available.

#### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt general and special revenue fund budgets. During the year ended June 30, 2016 the budget was amended in a legally permissible manner. The Academy incurred expenditures in certain budgetary functions which were insignificantly in excess of the amounts appropriated for the year ended June 30, 2016 as detailed on page 17 of these financial statements.



## **EAST SHORE LEADERSHIP ACADEMY**

NOTES TO FINANCIAL STATEMENTS - Continued

FOR THE YEAR ENDED JUNE 30, 2016

See Independent Auditor's Report

### **NOTE 3 - DEPOSITS AND INVESTMENTS**

#### **Interest Rate Risk**

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

#### **Credit Risk**

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2016, the Academy did not hold any investments where a rating of AAAM by Standards & Poor's and Aaa by Moody's Investors Service would be required.

#### **Concentration of Credit Risk**

The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. As of June 30, 2016, the Academy did not hold any investments in pooled investment accounts.

#### **Custodial Credit Risk - Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2016, none of the Academy's cash was exposed to custodial credit risk because it was uninsured. All cash balances were uncollateralized as of June 30, 2016.

#### **Custodial Credit Risk - Investments**

For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

#### **Foreign Currency Risk**

The Academy is not authorized to invest in investments which have this type of risk.

## EAST SHORE LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued  
 FOR THE YEAR ENDED JUNE 30, 2016  
 See Independent Auditor's Report

### NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

State sources	\$	213,492
Federal sources		207,915
		<u>207,915</u>
Total	\$	<u>421,407</u>

### NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Academy's governmental activities was as follows:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital assets subject to depreciation				
Equipment	\$ 61,509	\$ -	\$ -	\$ 61,509
Furniture	52,595	-	-	52,595
Computer & software	24,868	-	-	24,868
	<u>138,972</u>	<u>-</u>	<u>-</u>	<u>138,972</u>
Sub-total	138,972	-	-	138,972
Accumulated depreciation				
Equipment	5,379	7,740	-	13,119
Furniture	4,366	5,260	-	9,626
Computer & software	4,412	5,296	-	9,708
	<u>14,157</u>	<u>18,296</u>	<u>-</u>	<u>32,453</u>
Sub-total	14,157	18,296	-	32,453
Total net capital assets	<u>\$ 124,815</u>	<u>\$ (18,296)</u>	<u>\$ -</u>	<u>\$ 106,519</u>

Depreciation and amortization expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

## EAST SHORE LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued  
 FOR THE YEAR ENDED JUNE 30, 2016  
 See Independent Auditor's Report

### NOTE 6 – ACCRUED EXPENSES

Accrued expenses may be summarized as follows:

Purchased services - payroll and benefits	\$	39,994
Rent		27,370
University oversight fee		6,405
Management fee		43,092
Other		14,875
		<hr/>
Total accrued expenses	\$	<u>131,736</u>

### NOTE 7 - LONG-TERM OBLIGATIONS PAYABLE

The following is a summary of long-term obligations for the Academy during the year ended June 30, 2016:

<u>Loan Information</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Other</u>
Promissory note	0.00%	August, 2019	Unsecured, annual principal payments of \$60,460 commencing August 30, 2016.

#### Loan Activity

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
Promissory note	\$ 241,838	\$ -	\$ -	\$ 241,838	\$ 60,460

Following are maturities of long-term obligations for principal and interest for the next four years and in total:

	<u>Principal</u>	<u>Interest</u>
2017	\$ 60,460	\$ -
2018	60,460	-
2019	60,460	-
2020	60,458	-

## EAST SHORE LEADERSHIP ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2016  
See Independent Auditor's Report

### NOTE 8 – OPERATING LEASES

Lease obligations can be summarized as follows:

#### Lease Information

	<u>Maturity Date</u>	<u>Approximate Payment</u>	<u>Other</u>
School Facility	June, 2019	Varies	\$100,000 base rent or 14% of funds received from State school aid, whichever is greater, in years 1 and 2, 13% in years 3 thru 5 not to exceed \$360,000.

Total lease expense included in the statement of activities for the year ended June 30, 2016 amounted to approximately \$128,120.

The approximate amount of lease obligations coming due during the next three years are as follows:

2017		\$	150,000
2018			150,000
2019			150,000

### NOTE 9 - RETIREMENT PLAN

All employees leased by the Academy are eligible to participate in a retirement plan which qualifies under the provisions of Section 401(k) of the Internal Revenue Code. The employer under this plan will contribute 4% of salaries regardless of the amount of the employee contribution. The employer will additionally match up to 4% of employee contributed funds. Eligible employees may contribute up to 15% of their salaries under the terms of this plan.

### NOTE 10 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's 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 in the past fiscal year.

# SUPPLEMENTAL INFORMATION

## EAST SHORE LEADERSHIP ACADEMY

REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016  
See Independent Auditor’s Report

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues</b>				
Local sources	\$ 1,000	\$ 5,912	\$ 6,190	\$ 278
State sources	1,040,176	1,174,921	1,174,879	(42)
Federal sources	177,962	373,427	345,314	(28,113)
Interdistrict sources	-	1,323	8,098	6,775
<b>Total governmental fund revenues</b>	<b>1,219,138</b>	<b>1,555,583</b>	<b>1,534,481</b>	<b>(21,102)</b>
<b>Expenditures</b>				
Instruction				
Basic programs	488,626	473,775	448,904	(24,871)
Added needs	136,615	308,155	277,630	(30,525)
Support services				
Instructional staff support services	9,200	54,483	41,892	(12,591)
General administration	113,299	226,716	215,671	(11,045)
School administration	148,861	144,500	138,979	(5,521)
Business support services	21,500	24,000	19,913	(4,087)
Operations and maintenance	289,725	250,451	230,008	(20,443)
Pupil transportation services	-	1,500	425	(1,075)
Central support services	-	22,750	19,096	(3,654)
Community services	2,000	7,500	5,401	(2,099)
<b>Total governmental fund expenditures</b>	<b>1,209,826</b>	<b>1,513,830</b>	<b>1,397,919</b>	<b>(115,911)</b>
Excess (deficiency) of revenues over expenditures	9,312	41,753	136,562	94,809
<b>Other Financing Sources (Uses)</b>				
Operating transfers out	(3,300)	(8,000)	-	8,000
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	6,012	33,753	136,562	102,809
Fund balance - July 1, 2015	16,533	16,533	16,533	-
Fund balance - June 30, 2016	<u>\$ 22,545</u>	<u>\$ 50,286</u>	<u>\$ 153,095</u>	<u>\$ 102,809</u>

## EAST SHORE LEADERSHIP ACADEMY

### SCHEDULE OF REVENUES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2016 See Independent Auditor’s Report

#### Local Sources

Earnings on investments	\$ 114
Other local revenues	<u>6,076</u>
Total local sources	6,190

#### State Sources

At risk	85,552
Special education	29,888
State aid	<u>1,059,439</u>
Total state sources	1,174,879

#### Federal Sources

IDEA	11,592
Title I	220,578
Title II A	10,144
Other program revenue	<u>103,000</u>
Total federal sources	345,314

#### Interdistrict Sources

	<u>8,098</u>
Total general fund revenues	<u>\$ 1,534,481</u>

## EAST SHORE LEADERSHIP ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016  
See Independent Auditor’s Report

### Basic Programs

Purchased services	\$ 348,425
Supplies and materials	95,383
Other expenditures	<u>5,096</u>
Total basic programs	448,904

### Added Needs

Purchased services	110,289
Supplies and materials	<u>167,341</u>
Total added needs	277,630

### Instructional Staff Support Services

Purchased services	32,066
Supplies and materials	<u>9,826</u>
Total instructional staff support services	41,892

### General Administration

Purchased services	215,606
Other expenditures	<u>65</u>
Total general administration	215,671

### School Administration

Purchased services	131,508
Supplies and materials	5,877
Other expenditures	<u>1,594</u>
Total school administration	138,979

### Business Support Services

Purchased services	19,913
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## EAST SHORE LEADERSHIP ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND - Continued  
FOR THE YEAR ENDED JUNE 30, 2016  
See Independent Auditor’s Report

**Operations and Maintenance**

Purchased services	19,672
Repairs and maintenance	60,806
Rentals	128,119
Supplies and materials	<u>21,411</u>
Total operations and maintenance	230,008

**Pupil Transportation Services**

Supplies and materials	425
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**Central Support Services**

Repairs and maintenance	19,096
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**Community Services**

Supplies and materials	<u>5,401</u>
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Total general fund expenditures	<u><u>\$ 1,397,919</u></u>
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